BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

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In the Matter of the Application of San Diego Gas & Electric Company (U 902 G) and Southern California Gas Company (U 904 G) for Authority to Revise Their Rates Effective January 1, 2009, in Their Biennial Cost Allocation Proceeding.	Application 08-02-001 (Filed February 4, 2008)

JOINT MOTION OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902 G), SOUTHERN CALIFORNIA GAS COMPANY (U 904 G), THE DIVISION OF RATEPAYER ADVOCATES, SOUTHERN CALIFORNIA EDISON COMPANY(U 338 E), THE INDICATED PRODUCERS, THE SOUTHERN CALIFORNIA GENERATION COALITION, THE CITY OF LONG BEACH, SOUTHWEST GAS CORPORATION (U 095 G), WATSON COGENERATION COMPANY AND THE CALIFORNIA COGENERATION COUNCIL, AND THE CALIFORNIA MANUFACTURERS AND TECHNOLOGY ASSOCIATION FOR ADOPTION OF SETTLEMENT AGREEMENT AND IMMEDIATE SUSPENSION OF BRIEFING SCHEDULE FOR PHASE ONE ISSUES

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In accordance with Article 12 of the Commission's Rules of Practice and Procedure ("Rules"), San Diego Gas & Electric Company ("SDG&E") Southern California Gas Company ("SoCalGas") (jointly "SDG&E/SoCalGas" or "Applicants"), the Division of Ratepayer Advocates ("DRA"), Southern California Edison Company ("SCE"), the Indicated Producers ("IP"), the Southern California Generation Coalition ("SCGC"), the City of Long Beach ("Long Beach"), Southwest Gas Corporation ("SWG"), Watson Cogeneration Company and the California Cogeneration Council ("Watson/CCC"), and the California Manufacturers and Technology Association ("CMTA") (collectively "Joint Parties") hereby move the Commission

to adopt the Settlement Agreement ("SA") attached hereto in Appendix A, which resolves the issues set for Phase One of this Biennial Cost Allocation Proceeding ("BCAP"), and to immediately suspend the briefing schedule in Phase One of this proceeding.[1/] As discussed below in more detail, the SA represents agreement among all but one of the parties submitting testimony in this proceeding (with agreement of several parties that have actively participated without submitting testimony) and resolves the issues set forth in the "Scoping Memo"[2/] issued in this proceeding. The Joint Parties urge adoption of the SA by not later than the final Commission business meeting of 2008, so that the reduction in customer transportation rates resulting from adoption of the SA will be reflected in the Applicants' annual transportation rate adjustment to be effective January 1, 2009.

I.

BACKGROUND

The BCAP application was filed in response to Ordering Paragraph 10 in Decision ("D.")06-12-031. In accordance with that decision, as extended by the November 9, 2007 letter from the Commission's Executive Director, Applicants filed their BCAP application on February 4, 2008. In support of the BCAP application, prepared testimony was attached to the application.

Timely protests and responses to the BCAP application were filed by Long Beach, Coral Energy Resources, L.P.,[3/] DRA, IP, Pacific Gas & Electric Company, SCE, SCGC, The Utility

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1/ As permitted by Rule 1.8(d), Counsel for Applicants has been authorized to sign this motion on behalf of each of the Joint Parties.

2/ *See* "Scoping Memo and Ruling of the Assigned Commissioner and Administrative Law Judge" ("Scoping Memo") issued April 17, 2008, in this proceeding.

3/ Coral Energy Resources, L.P., was later replaced by Shell Energy North America L.P.

Reform Network, Watson/CCC, and the Western Manufactured Housing Community Association. A reply to the protests and responses was filed by SDG&E/SoCalGas on March 17, 2008.

A prehearing conference ("PHC") was noticed and held on April 3, 2008 to discuss the issues raised by the application and by the parties, to determine whether the proceeding should be bifurcated, the need for evidentiary hearings, and the schedule for resolving the issues. The Applicants filed and served a PHC statement on April 2, 2008, reflecting agreement of the active parties to bifurcate this proceeding into two phases and on the procedural schedule for each phase. In the Scoping Memo, the bifurcation and procedural schedule proposed by the active parties was adopted. The following five issues were identified for "Phase One" of this proceeding:

1. Reservation of storage assets for the core (including wholesale core parity).
2. Obligation of SoCalGas to maximize the availability of storage for the unbundled storage program and the Hub service program.
3. Allocation of unbundled storage revenues between shareholders and ratepayers.
4. Treatment of cost and revenues associated with storage expansion.
5. Interrelationship of cost-revenue treatment for existing unbundled storage and expanded storage.[4/]

In addition, the parties agreed that certain "contextual" issues could be used in Phase One " . . . solely for the purposes of advising the Commission of the potential alternatives that the Commission might consider on these issues when they are addressed and resolved on the merits in Phase Two."[5/]

[4/] Scoping Memo, p. 5.
[5/] *Id*. at 6.

To comply with the Phase One scope of issues identified in the Scoping Memo, Applicants served revised Phase One testimony on April 24, 2008. Intervenor prepared testimony was served on June 18, 2008, and rebuttal testimony was served on July 11, 2008. In addition to the testimony of the Applicants, testimony was submitted by DRA, SCE, Long Beach, SWG, SCGC, and Shell Energy North America L.P. ("Shell"). Five days of evidentiary hearings were held on Phase One issues from July 22–28, 2008. Following the close of hearings, Administrative Law Judge ("ALJ") Wong established that opening briefs would be due August 26, 2008, with reply briefs due September 17, 2008.[6]

II.

THE SA IS REASONABLE IN LIGHT OF THE WHOLE RECORD, CONSISTENT WITH LAW, AND IN THE PUBLIC INTEREST

Rule 12.1(d) states that the Commission will not approve a settlement "unless the settlement is reasonable in light of the whole record, is consistent with law, and in the public interest." As discussed below in more detail, the SA fully meets these criteria.

A. The SA is Reasonable in Light of the Whole Record.

The SA represents agreement among all but one of the parties that submitted testimony in Phase One of this proceeding,[7] along with several of the parties that have participated without submitting testimony. As discussed below in more detail, the SA resolves each and every issue identified in the Scoping Memo in a manner that reflects a compromise among the litigation positions taken by the Joint Parties in this proceeding. The SA is therefore reasonable in light of the whole record.

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[6] *See*, "Administrative Law Judge's Ruling Confirming the Revised Briefing Schedule and Admitting Exhibits 27 and 28" issued August 8, 2008, in this proceeding.

[7] Shell is not a signatory to the SA.

The first issue identified in the Scoping Memo was: "Reservation of storage assets for the core (including wholesale core parity)." In their testimony, SDG&E/SoCalGas and SCE supported a core reservation of 70 Bcf of storage inventory, 327 MMcf/d of storage injection capacity, and 2,225 MMcf/d of storage withdrawal capacity.[8/] DRA proposed a core reservation of 90 Bcf of storage inventory capacity, 420 MMcf/d of storage injection capacity, and 2,225 MMcf/d of storage withdrawal capacity.[9/] SCGC proposed a core reservation of 78 Bcf of storage inventory capacity, 350 MMcf/d of storage injection capacity, and 2,007 MMcf/d of storage withdrawal capacity.[10/] The SA resolves this issue (Paragraph 5) by initially reserving for the core 79 Bcf of storage inventory capacity, 369 MMcf/d of storage injection capacity, and 2,225 MMcf/d of storage withdrawal capacity, with the inventory and injection capacities increasing with the storage expansions discussed below. It is noteworthy that the initial combined core reservation as set forth in the SA is consistent with the combined core reservation recently adopted by the Commission in D.07-12-019,[11/] Since this represents a compromise of the parties' litigation positions, and each of the parties addressing this issue supported its litigation position with testimony and exhibits received into evidence in this proceeding, there is no question that the resolution of this issue in the SA is supported by the whole record in this proceeding.

On the issue of core parity, testimony was submitted by SDG&E/SoCalGas, Long Beach, SWG, DRA, and SCE. SDG&E/SoCalGas, DRA, and SCE all recommended that, if the Commission extends core capacity parity to core price parity, wholesale customers should be

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8/ Emmrich/SDG&E/SoCalGas, Ex. 3, p. 2; Alexander/SCE, Ex. 37, p. 15.
9/ Greig/DRA, Ex. 38, p. 2.
10/ Yap/SCGC, Ex. 8, p. 3.
11/ D.07-12-019, *mimeo*, Ordering Paragraph 4.

required to accept a fixed proportion of storage capacities and costs allocated to the combined SDG&E/SoCalGas core, for the same period of time as the core, *i.e.*, for the entire BCAP period.[12/] Long Beach and SWG argued for a certain amount of flexibility in connection with their allocations of capacity under core parity.[13/] The SA resolves this issue (Paragraphs 13 and 14) by establishing specific storage capacity and cost allocations for Long Beach and SWG, but providing them an option to reduce these allocations at the start of each BCAP (or "TCAP" if the Commission adopts the SDG&E/SoCalGas proposal in this regard in Phase Two of this proceeding).[14/] Thus, there is no question that the SA resolves this issue in the Scoping Memo consistent with the whole record in this proceeding.

The second issue identified in the Scoping Memo was: "Obligation of SoCalGas to maximize the availability of storage for the unbundled storage program and the Hub service program." SDG&E/SoCalGas proposed in their testimony a revenue sharing mechanism intended to provide the incentive for SoCalGas to maintain the existing storage capacities of 131.1 Bcf of storage inventory, 850 MMcf/d of storage injection capacity, and 3,195 MMcf/d of storage withdrawal capacity that, minus the capacities reserved for core customers, would be used for the unbundled storage program, balancing service and the "Operator Hub" approved by the Commission in D.07-12-019.[15/] SCGC and Shell proposed that the Commission find that SoCalGas has an affirmative obligation to maintain these overall storage capacities.[16/] The SA resolved this issue by requiring SoCalGas to use commercially reasonable efforts to maintain

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12/ Watson/SDG&E/SoCalGas, Ex. 4, pp. 18-19, Ex. 5, p. 42; Alexander/SCE, Ex. 37, p. 12; Ramchandani/DRA, Ex. 43, pp. 17-18.

13/ Garner/Long Beach, Ex. 6; Burkholder/Long Beach, Ex. 20; Williams/SWG, Ex. 32.

14/ The SA would adjust SWG's allocation should a portion of its core load be served by Pacific Gas and Electric Company.

15/ Watson/SDG&E/SoCalGas, Ex. 4, pp. 2-7; D.07-12-019, *mimeo*, p. 115, Ordering Paragraph 10.

16/ Yap/SCGC, Ex. 8, pp. 13-14; Dyer/Shell, Ex. 34, pp. 5-7.

these storage capacities (Paragraph 4) and to expand storage capacities further, as discussed below. Thus, there is no question that the SA resolves this issue and does so in a manner that is consistent with the whole record.

The third issue identified in the Scoping Memo was: "Allocation of unbundled storage revenues between shareholders and ratepayers." SDG&E/SoCalGas and SCE proposed that net revenues from the unbundled storage program (gross revenues minus embedded costs) be shared equally between ratepayers and shareholders consistent with the settlement approved by the Commission in D.00-04-060.[17/] Shell submitted testimony recommending that both existing and expanded unbundled storage be priced at cost, resulting in no net revenues to share between ratepayers and shareholders.[18/] SCGC proposed that net revenues be shared on an 85/15 ratepayer/shareholder basis.[19/] DRA proposed a graduated approach with a $15 million annual shareholder earnings cap that provided ratepayers with 90 percent of net revenues at lower revenue levels and allowed for shareholders to obtain a higher percentage of net revenues at higher revenue levels.[20/] The SA resolves this issue by accepting DRA's litigation position with respect to unbundled storage revenues beginning January, 2009, and by including revenues from "Hub" services within this graduated sharing mechanism, subject to a $20 million total annual

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17/ Morrow/SDG&E/SoCalGas, Ex. 1, pp. 3-5; Watson/SDG&E/SoCalGas, Ex. 4, pp. 2-7; Alexander/SCE, Ex. 36, pp 14-15.

18/ Shell argued that SoCalGas should be required to charge cost-based, rather than market-based, rates for unbundled storage service. (Dyer/Shell, Ex. 34, p. 25 [". . . SoCalGas' sale of storage expansion should be at cost-of-service rates. Furthermore, the rate treatment for existing storage and expanded storage should be the same."]; *see also* p. 28.) This would produce zero net revenues for sharing purposes.

19/ Yap/SCGC, Ex. 8, p. 3

20/ Ramchandani/DRA, Ex. 43, pp. 4-9. Under DRA's proposal, the first $15 million of net unbundled storage revenues would be shared on a 90/10 ratepayer/shareholder basis, the second $15 million of net revenues would be shared on a 75/25 ratepayer/shareholder basis, and additional net revenues would be shared equally between ratepayers and shareholders.

cap on shareholder earnings (Paragraphs 15 and 19).[21] Thus, it is clear that this sharing mechanism is supported by the whole record.

The fourth issue identified in the Scoping Memo was: "Treatment of cost and revenues associated with storage expansion." SDG&E/SoCalGas and SCE supported allocating 100% of storage expansion costs and revenues to SDG&E/SoCalGas shareholders.[22] DRA agreed with this approach, with certain conditions regarding the volume of such expansions.[23] SCGC proposed that the cost of storage expansion be rate-based and that net revenues be allocated on an 85/15 ratepayer/shareholder basis.[24] Shell recommended that storage expansions be priced at cost, eliminating any "net" storage expansion revenues insofar as there would be no revenues exceeding cost.[25] The SA resolves this issue by rate-basing storage expansions – beyond those specifically identified in the SA (Paragraph 18). The costs and revenues from those expansions would then be included in the overall sharing mechanism for existing unbundled storage capacities – the graduated sharing mechanism proposed by DRA. Under this approach, all net revenues from the unbundled storage program, the Hub program, and unbundled storage expansions would be consolidated and shared under the graduated sharing mechanism advocated

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21/ While the sharing of Hub revenues was not identified as an issue for Phase One of this proceeding, testimony was received into evidence in Phase One that Hub revenues should be subject to the same sharing percentage as unbundled storage revenues since the Hub program and unbundled storage program use the same storage assets and therefore different sharing percentages could provide SoCalGas with the incentive to favor transactions in one program over the other. (*See*, *e.g.*, Dyer/Shell, Ex. 34, pp. 23-24; Yap/SCGC, Ex. 8, p. 25.) The SA resolves this concern by including both Hub revenues and unbundled storage revenues within the same sharing mechanism. As discussed below, unbundled storage costs and revenues for 2008 are addressed separately, but will use the same sharing mechanism as unbundled storage costs and revenue beginning January 1, 2009.

22/ Watson/SDG&E/SoCalGas, Ex. 4, pp. 7-12; Alexander/SCE, Ex. 37, p. 21.

23/ Ramchandani/DRA, Ex. 43, pp. 11-15.

24/ Yap/SCGC, Ex. 8, p. 22.

25/ Dyer/Shell, Ex. 34, pp. 25-28.

by DRA in its testimony except that, as noted above, these revenues would also be subject to a $20 million annual shareholder earnings cap rather than the $15 million proposed by DRA in its testimony. In addition, the Joint Parties have agreed that SoCalGas must seek prior Commission approval should its storage expansion projects, other than those specifically identified in the SA, exceed $50 million in the aggregate.[26/] This will permit timely expansions of SoCalGas' storage capacity at existing storage fields based on market demand for such expansions without allowing SoCalGas to undertake expansions in amounts aggregating more than $50 million absent Commission approval. Since the approach set forth in the SA is a compromise position resting between the ranges of proposals made by the parties in this proceeding, it is clearly supported by the whole record developed in this proceeding.

The fifth issue identified in the Scoping Memo was: "Interrelationship of cost-revenue treatment for existing unbundled storage and expanded storage." SDG&E/SoCalGas proposed in their testimony that a revenue-crediting mechanism be adopted by the Commission to address the fact that SDG&E/SoCalGas were proposing different sharing percentages for the existing unbundled storage program as compared to storage expansions.[27/] DRA generally supported this proposal[28/] while SCE proposed certain revisions to it.[29/] SCGC urged that the sharing percentages for storage expansions should be the same as for existing storage capacity.[30/] Shell also argued that the existing unbundled program and storage expansions should receive the same revenue treatment.[31/] The SA resolves this issue by adopting the same revenue sharing

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26/ SoCalGas would not otherwise need to obtain Commission approval for such projects, even if they should exceed $50 million. *See* D.07-01-014, 2007 Cal. PUC LEXIS 7, *8-9.

27/ Watson/SDG&E/SoCalGas, Ex. 4, pp. 9-12.

28/ Ramchandani/DRA, Ex. 43, pp. 14-15.

29/ Alexander/SCE, Ex. 37, pp. 23-25.

30/ Yap/SCGC, Ex. 8, p. 22.

31/ Dyer/Shell, Ex. 34, p. 25.

mechanism for the existing unbundled storage program and for storage expansion projects, thus eliminating any need for a specific crediting mechanism between the existing program and storage expansions (Paragraph 18).

Other provisions of the SA related to the issues set forth in the Scoping Memo were also supported by the whole record. In Paragraphs 6 and 8, the SA commits SoCalGas to use commercially reasonable efforts to make specifically-identified expansions to storage capacities over the settlement period. This will allow core storage inventory capacity to grow from 79 Bcf to 83 Bcf over the settlement period, while also increasing inventory capacity allocated to the unbundled storage program from 48 Bcf to 51 Bcf. Injection capacity for the core would increase from 369 MMcfd to 388 MMcfd while injection capacity allocated to the unbundled storage program would increase from 281 MMcfd to 407 MMcfd. Given the wide range of storage capacities proposed by the parties in this proceeding for core customers and for the unbundled storage program as noted above, this provision of the SA addresses the desire of some parties for more core storage capacity and by other parties for more unbundled storage capacity by increasing overall storage capacities. Thus, this provision is clearly consistent with the whole record developed in this proceeding.

The SA also provides in Paragraphs 6 and 8 that the cost of these specific storage expansion projects will be included in SoCalGas' storage rate base in an appropriate Commission proceeding and reflected in storage unit costs and rates once the facilities are "used and useful." These costs of additional inventory capacity will be allocated to the core, the unbundled storage program, and balancing services in the same proportion as the overall allocation of storage inventory to these functions. The cost of inventory expansion was included

in the record in this proceeding.[32/] More specifically, the record reflects that the estimated cost of expanding inventory is approximately $6 million per Bcf. However, higher drilling costs and higher gas prices for cushion gas could increase that estimate to $8 million per Bcf. Thus, SoCalGas estimates that a 7 Bcf inventory expansion will total approximately $56 million. Similarly, the cost of injection expansion was also included in the record in this proceeding.[33/] An injection expansion of approximately 145 MMcfd is estimated to cost approximately $48 million. The cost of additional injection capacity will be allocated to the core, the unbundled storage program, and balancing services in the same proportion as the overall allocation of storage injection to these functions. The SA is not seeking Commission authority to include any costs in rate base or rates at this time, but only to establish that such costs will be treated in the same fashion as other embedded storage costs for cost allocation purposes in future cost allocation proceedings during the settlement period.[34/] This is an important provision to resolve the Phase One issues because it will have a material effect on the cost of storage allocated to core customers, the cost of storage allocated to the unbundled storage program (and thus the "net revenues" shared between ratepayers and shareholders), and the cost of storage allocated to balancing services. Adoption of this provision of the SA will not affect the embedded unit costs allocated to the storage functions (injection, withdrawal, and inventory) to be addressed in Phase Two of this proceeding because the expansion costs will not be established until after the close of the record in Phase Two.

As noted in Paragraph 2, the SA is for a six-year term (2009-2014), thereby providing SDG&E/SoCalGas management with a clear understanding of the storage incentive mechanism

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32/ *See* Watson/SDG&E/SoCalGas, Tr. Vol. 4, p. 485; Yap/SCGC, Ex. 8, Attachment B, p. 13.

33/ *See* Watson/SDG&E/SoCalGas, Tr. Vol. 4, p. 483; Yap/SCGC, Ex. 8, Attachment B, p. 13.

for the existing unbundled storage program and for storage expansion projects (beyond those specific expansions addressed by the SA) for a time period long enough to allow for prudent planning of both ongoing storage operations and storage expansions. This approach will thereby increase the chances of additional major storage expansions by SoCalGas and will avoid the need to relitigate the storage revenue-sharing mechanisms and other related issues in each and every cost allocation proceeding during the settlement period. This approach is consistent with the testimony of parties such as SDG&E/SoCalGas recognizing that shareholder storage incentives must be in place for a significant period of time given long lead times for storage expansion.[35/] To avoid the need to re-litigate all of the issues in the SA for only a fraction of a BCAP or TCAP period should the SA expire within such a period, the SA would extend the term of the agreement to match the end of any pending BCAP or TCAP cycle in which the SA otherwise would terminate. This will avoid the potential for significant expenditures of resources by the parties and the Commission for potentially short time periods.

The SA also provides in Paragraphs 5, 9 and 15 that storage costs allocated to core customers, the unbundled storage program and the balancing function will be calculated on an embedded unit cost basis, regardless of how the Commission determines the method to allocate overall transmission and distribution costs in Phase Two of this proceeding. This provision is consistent with the testimony of SDG&E/SoCalGas, SCE and SCGC, which recognized that embedded unit costs should be used for purposes of allocating storage costs between core

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34/ The actual inclusion of such costs in utility rate base and rates would typically occur either in a general rate proceeding or an application seeking specific Commission approval of a particular project, such as an application seeking a certificate of public convenience and necessity.

35/ Morrow/SDG&E/SoCalGas, Ex. 1, p. 5 (noting the "long lead time for storage expansion"); *see also* Ramchandani/DRA, Ex. 43 (proposing a conditional 10-year term for storage expansion risk/reward). In addition, in supporting SoCalGas' proposed expansion incentive framework, SCE did not recommend an end-date for the incentive framework, recognizing the need to ensure that the incentive was in place for the duration of expansion projects.

customers and the unbundled storage program.[36] While the authorized level of embedded storage costs will be determined in Phase Two of this proceeding, there was agreement that embedded costs should be used for purposes of unbundled storage revenue-sharing. No party argued that storage costs should be allocated between core customers and the unbundled storage program on any basis other than embedded costs. Thus, this provision is also supported by the whole record.

The SA also provides in Paragraph 9 for a specific allocation of storage capacity to the balancing service. Paragraph 11 of the SA requires SDG&E/SoCalGas to withdraw their proposal in Phase Two of this proceeding to reduce the monthly balancing tolerance from ten percent to five percent, and to instead maintain the existing balancing tolerances over the life of the settlement. This provision of the SA also precludes SDG&E/SoCalGas from proposing a "low OFO" procedure and requires SDG&E/SoCalGas to withdraw their proposal for such a procedure in Phase Two.[37] The allocation of storage capacities to the balancing function is necessary to allow the parties and the Commission to understand how total storage capacities will be allocated among the three storage functions: core reservation, unbundled program, and balancing.[38] By agreeing to a specific allocation of storage capacities to the balancing function, the Commission will be able to give full effect to the allocation of storage capacities to the core and to the unbundled program discussed above.

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[36] Watson/SDG&E/SoCalGas, Ex. 5, p. 19; Alexander/SCE, Ex. 36, p. 14; Yap/SCGC, Ex. 8, p. 19. Shell's proposal to price both existing and expansion storage at cost-of-service rates also seems to assume that embedded costs would be used for this purpose. *See*, Dyer/Shell, Ex. 34, pp. 22-24.

[37] The SA also requires the parties to meet and confer regarding the potential for an optional enhanced balancing service for noncore customers in Phase Two of this proceeding, but precludes any party from proposing this service in Phase Two absent mutual agreement (Paragraph 10). Optional enhanced balancing involves the allocation of unbundled storage assets to help noncore customers balance.

[38] Alexander/SCE, Ex. 36, p. 7.

Stated differently, resolving this issue in the Phase One SA eliminates the possibility that storage capacity would need to be re-allocated to core customers and to the unbundled storage program as a result of a monthly balancing tolerance reduction from ten percent to five percent in Phase Two. As such, this provision of the SA is consistent with the whole record developed in this proceeding.

Paragraph 11 provides for SoCalGas/SDG&E to withdraw their Phase Two proposal to institute a low OFO condition and precludes parties from proposing such a condition over the life of the settlement agreement. The low OFO condition was similar to the current high OFO condition. As proposed by SoCalGas/SDG&E, the low OFO condition would be triggered when system operations requires customers to deliver 90% of their burn. Institution of a low OFO condition in Phase Two could have impacted an individual's need for storage withdrawal capacity. Therefore, the agreement of SDG&E/SoCalGas to withdraw their low OFO proposal eliminates additional daily balancing requirement uncertainty for customers on a going-forward basis and any resulting demand for further unbundled storage withdrawal capacity. By agreeing not to institute a low OFO condition for the life of the settlement, the Commission, along with customers and SoCalGas, will have assurance that the allocation of storage capacities to the core, balancing function and unbundled program is appropriate for the life of the settlement. The SA provisions related to balancing, the optional enhanced balancing service and treatment of the low OFO proposal are integrally related and are provided as a package intended to provide enhanced certainty to customers.

As such, this provision of the SA is consistent with the whole record developed in this proceeding. Likewise, the agreement of SDG&E/SoCalGas to withdraw their proposal to reduce monthly balancing tolerances and to institute "low OFO" rules will eliminate the possibility that,

in Phase Two of this proceeding, a different level of storage capacities would need to be allocated to core customers and to the unbundled storage program due to a need for a different allocation of storage capacity percentage to the balancing function.

In Paragraph 16, in connection with the unbundled storage revenue-sharing provision of the SA, the Joint Parties have agreed that storage price caps for individual storage products (injection, inventory and withdrawal) will be set initially at current levels, then adjusted in subsequent BCAPs or TCAPs during the settlement period based on changes to the storage embedded unit costs adopted by the Commission in these subsequent BCAPs/TCAPs. While the question of pricing of unbundled storage was identified in the Scoping Memo as a "contextual" issue to which the parties could refer in Phase One but that would be resolved in Phase Two,[39/] the merits of the issue were nonetheless debated in Phase I. Specifically, the question of whether SoCalGas should be required to offer unbundled storage at cost-based versus market-based rates was raised.[40/] Issues related to the storage pricing question were covered extensively in prepared testimony and during the hearing.[41/]

Moreover, the Joint Parties have recognized that agreement cannot be reached on the unbundled storage revenue-sharing provisions of the SA without establishing in Phase One of this proceeding that there will in fact be "net" revenues to share between ratepayers and

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39/ Scoping Memo, p. 6.

40/ *See, e.g.* Dyer/Shell, Ex. 34. Section V of Mr. Dyer's prepared direct testimony is entitled "Storage Expansion Capacity Should be Priced on a Cost-of-Service Basis." In this section, he argues that ". . . SoCalGas' sale of storage expansion should be at cost-of-service rates. Furthermore, the rate treatment for existing storage and expanded storage should be the same." (Ex. 34, p. 25; *see also* p. 28.); Alexander/SCE, Ex. 36, p. 13, Ex. 37, p. 22; Watson/SDG&E/SoCalGas, Ex. 5, pp. 12-13.

41/ *See, e.g.* Dyer/Shell, Ex. 34, pp. 12-22; Watson/SDG&E/SoCalGas, Ex. 5, pp. 7-9; Alexander/SCE, Ex. 36, p. 13, Ex. 37, p. 19-22; Watson/SDG&E/SoCalGas, Tr. Vol. 2., pp. 194-226, 228-272; Watson/SDG&E/SoCalGas, Tr. Vol. 3, pp. 297-322, 330-360; Watson/SDG&E/SoCalGas, Tr. Vol. 4, pp. 576-581; Watson/SDG&E/SoCalGas, Tr. Vol. 5, pp. 587-663; Monsen/Long Beach, Tr. Vol. 3, pp. 423-430; Alexander/SCE, Tr. Vol. 5, pp. 671-694, 697-698, 700-704; Greig/DRA, Tr. Vol. 5, 708-712.

shareholders. Under the "cost-of-service" pricing proposal, there would be no unbundled storage revenues in excess of costs, so any revenue-sharing mechanism would be rendered meaningless. It is therefore necessary to resolve unbundled storage pricing now in Phase One in order to give effect to the SA's unbundled storage revenue-sharing provisions.

In D.07-12-019, the Commission required SoCalGas to track storage costs and revenues to allow for a determination in this BCAP of how net storage revenues for 2008 would be shared between ratepayers and shareholders.[42/] SDG&E/SoCalGas proposed in testimony that these net revenues, recorded in the "Noncore Storage Memorandum Account" ("NSMA"), be shared equally between ratepayers and shareholders, consistent with their proposed equal sharing of unbundled storage revenues generally, and further proposed that the cost to be used to calculate net revenues (gross revenues minus costs) be $21 million, which was the unbundled storage cost adopted in D.00-04-060.[43/] DRA and SCGC proposed in their respective testimony that ratepayers should receive a greater share of net revenues from the NSMA than proposed by SDG&E/SoCalGas and that the cost used to calculate net revenues should be $36 million, representing the allocation of scaled long-run marginal costs from the 1999 BCAP.[44/] The SA resolves this issue by allocating revenues recorded in the NSMA for 2008 using the graduated mechanism proposed by DRA in this proceeding, consistent with the SA's recommended allocation of net revenues for the unbundled storage program, for Hub revenues, and for additional unbundled storage expansions (Paragraph 17). The SA adopts a negotiated storage cost for this purpose of $31.5 million, which is between the $21 million proposed by

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[42/] D.07-12-019, *mimeo*, p. 78.
[43/] Watson/SDG&E/SoCalGas, Ex. 4, pp. 12-13.
[44/] Yap/SCGC, Ex. 8, pp. 18-20; Ramchandani/DRA, Ex. 43, pp. 9-10.

SDG&E/SoCalGas and the $36 million proposed by DRA and SCGC.[45] Thus, it is clear that this provision of the SA is consistent with the whole record.

In Paragraph 20, the SA also closes the "Storage Memorandum Account" established by the Commission in Resolution G-3378 to track the difference between the price paid by SDG&E for unbundled storage service and the cost allocated to SoCalGas core customers. In this proceeding, SDG&E/SoCalGas and SCGC all proposed that the SMA be closed.[46] DRA proposed that SDG&E receive a transportation rate reduction based on the amounts tracked in the SMA.[47] Accordingly, this provision of the SA is consistent with the whole record developed in this proceeding.

As discussed above, the provisions of the SA were all addressed by the active parties to this proceeding through their testimony and exhibits received into evidence. While the provisions of the SA may differ from what was proposed by individual parties to this proceeding, they fall well within the range of proposals made in this proceeding and therefore are clearly supported by the whole record.

It bears emphasis that the SA represents a compromise of disputed litigation positions. None of the Joint Parties would advocate the adoption of the compromises made in the SA if this proceeding were instead to continue to a litigated outcome. Each party has agreed to the SA in recognition of the uncertain possible outcomes associated with further litigation.

Thus, there can be no question that the SA is reasonable in light of the whole record in this proceeding.

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[45] The SA further provides that 2009 storage revenues will be allocated between ratepayers and shareholders using DRA's graduated sharing mechanism and that the cost of storage for purposes of calculating net revenues will be established in Phase Two of this proceeding.

[46] Watson/SDG&E/SoCalGas, Ex. 4, pp. 16-18; Yap/SCGC, Ex. 8, p. 30.

[47] Ramchandani/DRA, Ex. 43, pp. 15-16.

B. The SA is Consistent With Law.

Since the issues resolved by the SA are issues clearly of a "ratesetting" nature, there is no question that they are well within the legal authority of the Commission. Accordingly, the SA is fully consistent with law.

C. Adoption of the SA Will Clearly Promote the Public Interest.

Adoption of the SA will clearly promote the public interest in several respects.

1. The Term of the SA Promotes the Public Interest.

The SA is for a time period sufficiently long to allow for the specific expansions required under the SA.[48/] The duration of the SA is matched to future BCAP or TCAP periods to help avoid litigating the issues addressed in the SA for only a brief time within a BCAP or TCAP period. Yet, the period is short enough to allow the Commission and the parties to review the results obtained under the SA in order to make adjustments as necessary for the period beginning after the SA terminates.

2. The SA's Revenue-Sharing Provisions Promote the Public Interest.

The SA establishes a revenue-sharing percentage that will provide sufficient incentive for utility management to maintain storage capacities and to maximize storage net revenues, while reducing customer transportation rates by allocating a significant percentage of net unbundled storage revenues to ratepayers. The SA's revenue-sharing mechanism will allocate significantly more revenues to ratepayers than the existing 50/50 sharing percentage for unbundled storage revenues.[49/] Furthermore, including Hub revenues in this same mechanism will provide SoCalGas with the same shareholder incentives with respect to Hub services as with respect to

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[48/] The SA only applies to additional expansions at existing storage fields and does not address any future development by SDG&E or SoCalGas of a new storage field.

the unbundled storage program, thereby addressing concerns raised by some parties that SoCalGas might have an incentive to favor one program over the other under different sharing percentages.[50] In addition, the SA provides a total annual shareholder earnings cap of $20 million for the unbundled storage program, Hub services, and any revenues obtained from an unbundled storage expansion beyond the expansions specifically identified in the SA. This will provide a cap on SDG&E/SoCalGas shareholder earnings from unbundled storage services during times of high demand and prices for storage and Hub services. It is clear that revenue-sharing arrangement established in the SA confers benefit upon transportation customers of SDG&E/SoCalGas as well as shareholders and promotes the public interest.[51]

3. The SA's Storage Price Caps Promote the Public Interest.

The SA, in Paragraph 16, also establishes the level of storage price caps as an integral part of resolving the sharing of net unbundled storage revenues. The SA would keep the current price caps approved by the Commission recently in D.07-12-019 until the next BCAP or TCAP after this one, at which time the caps would escalate in proportion to the change in costs allocated to each unbundled storage service (injection, inventory, and withdrawal). The level of storage price caps affects the level of unbundled storage revenue that SoCalGas can negotiate with storage customers and therefore affects the amount of net unbundled storage revenues shared with ratepayers. While this was not identified in the Scoping Memo as a Phase One

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49/ As noted above, the first $15 million of net revenues will be allocated 90% to ratepayers, the next $15 million will be allocated 75% to ratepayers, and only net revenues in excess of $30 million will be shared equally between ratepayers and shareholders.

50/ Shell, for example, argued that different sharing percentages for the Hub and the unbundled storage program would create inappropriate "competing incentives" (Dyer/Shell, Ex. 34, p. 23).

51/ While SDG&E/SoCalGas transportation customers realize significant benefit under the SA, such benefit would be lost under Shell's cost-of-service/zero net revenues proposal. As noted above, Shell proposed that SoCalGas' shareholders receive *no* revenues from the sale of unbundled storage service and that the price of unbundled storage service should be set at cost rather than market values, which would as a practical matter result in zero net revenues to be shared between transportation ratepayers and shareholders.

issue, it is reasonable to resolve this matter now in order to provide meaning to the SA's unbundled storage revenue-sharing provision. Moreover, the question of applicable price caps is integrally related to the issue of unbundled storage pricing, which, as noted above, was a central issue of Phase I.

4. The Storage Expansions Required by the SA Promote the Public Interest.

The SA in Paragraphs 6 and 8 requires certain specific and significant storage expansions, thus increasing the overall SoCalGas storage capacities that will be available for ratepayers, which will benefit core customers, noncore customers and parties that utilize the unbundled storage program. Core customers will benefit from additional storage capacities beyond those established in D.07-12-019, as recommended by DRA in this proceeding.[52/] Customers of the unbundled storage program will benefit from increased capacities as well during times of high storage demand, while all end-use customer transportation rates will be reduced by the ratepayer share of revenues generated by the increased capacity available to the unbundled storage program. In addition, greater storage injection capacity will significantly reduce the incidence of "OFO" events on the SDG&E/SoCalGas system that require customers to maintain tighter balancing tolerances.[53/] More generally, these increases in storage capacities will provide California with additional natural gas storage infrastructure to help dampen price volatility in gas markets as they might occur in the future.

[52/] DRA proposed that SDG&E/SoCalGas core customers be allocated 90 Bcf of storage inventory capacity. (Greig/DRA, Ex. 38, pp. 20-22.) DRA witness Ramchandani testified that "Southern California needs more storage across the board for both core and noncore." (Ramchandani/DRA, Ex. 43, p. 12.)

[53/] An "OFO" is an "Operational Flow Order" called by the System Operator to address pressure fluctuations on the system. A "high" OFO is called to prevent overpressurizing the system. Greater injection capacity allows more gas to be injected into storage, thereby reducing the pressure on the system.

5. The SA's Resolution of the NSMA Promotes the Public Interest.

By resolving the method of sharing net revenues recorded in the NSMA, the SA will allow SDG&E/SoCalGas to reduce core and noncore transportation rates by the amount allocated to ratepayers for net storage revenues recorded to the NSMA in 2008. By using the graduated sharing mechanism proposed by DRA in this proceeding, the disposition of NSMA revenues will reduce customer transportation rates by a significantly greater amount than the equal sharing percentage adopted in D.00-04-060. Also, by using a negotiated cost figure of $31.5 million to calculate "net" revenues, the SA will result in a greater reduction in customer transportation rates than using the storage cost figure adopted by the Commission in D.00-04-060. Under the SA, core and noncore transportation rates are estimated to be reduced by $29.5 million.[54/]

6. The SA's Treatment of "Core Parity" Promotes the Public Interest.

The SA also resolves the "core parity" issue by providing SWG an allocation of storage capacities that is proportional to those allocated to the combined core customers of SDG&E/SoCalGas (Paragraph 13). It provides Long Beach allocations of inventory capacity and injection capacity that are less than proportional to those allocated to the combined core customers of SDG&E/SoCalGas and withdrawal capacity that is more than proportional to that allocated to the combined core (Paragraph 14). The additional inventory capacity and injection capacity that would have been allocated to Long Beach under a proportional allocation of all capacities will be made available to other noncore customers through the unbundled storage

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[54/] The amount currently estimated for 2008 gross unbundled storage revenues is $71 million. Under the sharing mechanism adopted in the SA, and using the negotiated cost figure in the SA of $31.5 million, this produces an allocation of revenues to ratepayers of $29.5 million. By contrast, under 50/50 net revenue sharing, and using the negotiated $31.5 million cost figure, the transportation rate reduction would be $19.75 million.

program, while the additional withdrawal capacity granted to Long Beach under this SA would otherwise have resided in the unbundled storage program for the benefit of all other customers. The SA will price the capacities allocated to SWG and Long Beach at the same per-unit cost allocated to the combined SDG&E/SoCalGas core. However, it allows both SWG and Long Beach to accept lesser amounts of storage capacity in future BCAP periods should their core storage needs so dictate. By requiring Long Beach and SWG to make their elections for each BCAP or TCAP cycle, the core customers of these wholesale customers will be making a commitment similar to that of the combined core customers of SDG&E/SoCalGas.

7. The SA's Balancing Provisions Promote the Public Interest.

Paragraph 9 of the SA establishes the storage capacities allocated to the balancing function. As noted above, this allows the Commission and the parties to know what the storage capacities will be for the two other storage functions of core reservation and unbundled storage. This certainty promotes the public interest, as does the certainty associated with establishing how the cost of these balancing capacities will be allocated among customers.

This provision of the SA also requires maintenance of existing daily and monthly balancing tolerances during the term of the SA. The SA also requires the parties to meet to discuss the feasibility of an "enhanced optional balancing service," but precludes the parties from proposing this service during the term of the SA unless mutually agreed upon by the parties. These provisions give natural gas shippers certainty regarding balancing tolerances during the SA's term and allow the parties to avoid litigation in Phase Two of this proceeding regarding changes to balancing tolerances. It is also reasonable for the parties to meet to discuss the feasibility of an enhanced balancing service, but to avoid the need to litigate this issue if agreement on it cannot be reached.

8. The SA's Treatment of the Low OFO Proposal Promotes Public Interest

Paragraph 11 of the SA precludes SDG&E/SoCalGas from proposing a "low OFO" procedure during the settlement term and specifically requires SDG&E/SoCalGas to withdraw their proposal for such a procedure in Phase Two of this proceeding. As discussed above, institution of a low OFO condition in Phase Two would have impacted the demand and need for storage withdrawal capacity. While the low OFO condition is designated as a Phase Two issue, the resolution of this issue now in Phase One is required to conclusively establish the allocation of storage withdrawal capacity between the core reservation, balancing function and the unbundled storage program. The inclusion of this provision provides certainty with respect to the allocation of storage capacities and the cost of these balancing capacities among customers.

As noted above, the SA provisions related to balancing, the optional enhanced balancing service and treatment of the low OFO proposal are integrally related and are provided as a package intended to provide enhanced certainty to customers. These provisions are therefore in the public interest.

Thus, it is clear that the SA promotes the overall public interest. The SA therefore is reasonable in light of the whole record in this proceeding, is consistent with law, and promotes the public interest. The SA clearly meets the requirements of Rule 12.1(d) and should be approved in its entirety.

III.

THE COMMISSION SHOULD IMMEDIATLEY SUSPEND THE BRIEFING SCHEUDLE IN THIS PROCEEDING AND CONSIDER THE SA INSTEAD OF PROCEEDING FURTHER TOWARD A LITIGATED OUTCOME

The SA represents agreement of all but one of the parties submitting testimony in this proceeding,[55/] as well as several other parties such as IP, CMTA, and Watson/CCC that participated without submitting testimony.[56/] Proceeding further toward a litigated outcome would only serve to consume the resources of the Commission and the parties. The Commission instead should focus squarely on approving the SA so that the reduction in customer transportation rates resulting from adoption of the SA can be reflected in the annual SDG&E/SoCalGas adjustment to transportation rates that will occur on January 1, 2009, and also allow the storage expansions contemplated in the SA to move forward.[57/] The Commission, therefore, should immediately suspend the briefing schedule in Phase One of this proceeding. Should the Commission reject the SA, the briefing schedule should be reinstituted, with opening briefs due three weeks after any Commission order rejecting the SA, and reply briefs due two weeks thereafter.

There is certainly no need for additional hearings in Phase One. All of the issues addressed in the SA were addressed during the evidentiary hearings in this proceeding and the SA is itself fully supported by the whole record as shown above. Should a party contest the SA, it may cite to the evidentiary record as necessary to support its comments on the SA. The

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55/ As noted above, Shell is not a signatory to the SA.

56/ IP, CMTA, and Watson/CCC all filed protests or responses to the Application in this proceeding.

57/ Rule 12.1(c) states that settlements should not ordinarily include deadlines for Commission approval. The Joint Parties are mindful of this requirement, but submit that it would serve the public interest to have a single transportation rate adjustment on January 1, 2009, rather than two separate adjustments.

Commission should not, however, divert its own resources and those of the parties to additional hearings since they are unnecessary given the extensive record already developed in this proceeding.

IV.

CONCLUSION

As shown herein, the SA is reasonable in light of the whole record, is consistent with law, and clearly promotes the public interest. The Commission therefore should approve the SA and immediately suspend the current procedural schedule while the SA is pending Commission approval. The Commission should approve the SA by not later than its last business meeting of 2008, if possible, so that the reduction in core and noncore customer transportation rates resulting from adoption of the SA can be reflected in the annual SDG&E/SoCalGas transportation rate adjustment to become effective January 1, 2009.

Respectfully submitted,

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August 22, 2008

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

In the Matter of the Application of San Diego Gas & Electric Company (U 902 G) and Southern California Gas Company (U 904 G) for Authority to Revise Their Rates Effective January 1, 2009, in Their Biennial Cost Allocation Proceeding.	Application 08-02-001 (Filed February 4, 2008)

APPENDIX A

SETTLEMENT AGREEMENT

August 22, 2008

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

In the Matter of the Application of San Diego Gas & Electric Company (U 902 G) and Southern California Gas Company (U 904 G) for Authority to Revise Their Rates Effective January 1, 2009, in Their Biennial Cost Allocation Proceeding.	Application 08-02-001 (Filed February 4, 2008)

SETTLEMENT AGREEMENT

Pursuant to Article 12 of the Commission's Rules of Practice and Procedure ("Rules"), San Diego Gas & Electric Company ("SDG&E"), Southern California Gas Company, ("SoCalGas")(jointly "SDG&E/SoCalGas" or "Applicants"), the Division of Ratepayer Advocates, Southern California Edison Company (U338 E), the Indicated Producers, the Southern California Generation Coalition, the City of Long Beach,[1/] Southwest Gas Corporation, Watson Cogeneration Company and the California Cogeneration Council, and the California Manufacturers and Technology Association (collectively referred to hereafter as "Joint Parties") respectfully submit to the Commission this Settlement Agreement ("SA"). In this SA, the Joint Parties provide to the Commission a recommended resolution of the issues reserved for Phase One of this proceeding by the "Scoping Memo."[2/]

1/ The Settlement Agreement requires approval by the City of Long Beach City Council which approval is pending.

2/ "Scoping Memo and Ruling of the Assigned Commissioner and Administrative Law Judge" dated April 17, 2008.

I.

REASONABLENESS OF THE PHASE ONE SETTLEMENT

As discussed in more detail in the motion to which this SA is attached, the Joint Parties submit that the SA fully complies with the Commission's requirements that settlements be reasonable, consistent with law, and in the public interest. The Joint Parties have recognized that there is risk involved in litigation, and that a party's filed position may not prevail, in whole or in part, in the Commission's final determination. The Joint Parties have vigorously argued their positions in this matter, and have reached compromise positions that they believe are appropriate in light of the litigation risks. This SA reflects the Joint Parties' best judgments as to the totality of their positions and risks, and their agreement herein is explicitly based on the overall results achieved.

II.

SPECIFIC PHASE ONE SETTLEMENT TERMS AND CONDITIONS

1. Definitions

- "BCAP" means "Biennial Cost Allocation Proceeding."
- "TCAP" means "Triennial Cost Allocation Proceeding" should the Commission decide to adopt a TCAP cycle in lieu of BCAP cycle in Phase Two of this proceeding.
- "Bcf" means "billion cubic feet."
- "MMcf/d" means "million cubic feet per day."
- "SA" means "Settlement Agreement."
- "NSMA" means the "Noncore Storage Memorandum Account" authorized by the Commission in D.07-12-019 to track unbundled storage costs and revenues.
- "CPCN" means "Certificate of Public Convenience and Necessity."

- The "SDG&E SMA" refers to the memorandum account established by the Commission in Resolution G-3378.

2. The effective date of this SA is the later of January 1, 2009 or the date the Commission approves this SA. This SA shall be in effect for six years (2009 – 2014 inclusive), and shall terminate on December 31, 2014. However, the SA will be extended, if necessary, to coincide with implementation (tariff approval) of any then-current BCAP or TCAP pending before the Commission on December 31, 2014. If no BCAP or TCAP is pending before the Commission on December 31, 2014, this SA shall terminate on that date.

3. All references in this SA to expansion of SoCalGas storage fields apply only to SoCalGas' four storage fields operating at the time of this SA and do not apply to any SoCalGas storage field developed after August 22, 2008.

4. SoCalGas shall use commercially reasonable efforts to maintain 131.1 Bcf of total storage inventory capacity (as subsequently expanded as addressed below), 850 MMcfd of storage injection capacity as subsequently expanded, and 3,195 MMcfd of storage withdrawal capacity through December 31, 2014 or the termination of this SA, whichever is later.

5. The combined core customers of SDG&E/SoCalGas shall initially be allocated 79 Bcf of storage inventory capacity, 369 MMcfd of storage injection capacity with proportionate annual increases to match the growth in inventory capacity addressed below up to a total of 388 MMcfd of storage injection capacity, and 2225 MMcfd of storage withdrawal capacity. The annual cost of this storage allocation to SDG&E/SoCalGas core customers will be at the Commission-adopted storage embedded unit costs as established in Phase Two of this BCAP (A.08-02-001) and as revised in each subsequent BCAP or TCAP that is filed with the Commission during the settlement period.

6. SoCalGas shall make commercially reasonable efforts to expand storage inventory capacity by 7.0 Bcf over the period 2009 – 2014. Once the inventory expansion facilities are used and useful in providing storage service, the cost of such inventory expansion will be added to SoCalGas' storage rate base through a general rate case application before the Commission or through an application before the Commission seeking a CPCN to construct the facilities. The increase in the revenue requirement established in the general rate case or CPCN proceeding will be included in the revenue requirement of the inventory subfunction in the next cost allocation proceeding (BCAP or TCAP) and allocated to the core, balancing, and unbundled storage functions in proportion to the allocation of storage inventory capacity to each of these functions. The capital costs of this storage inventory expansion will be in addition to the capital costs authorized by the Commission for recovery in customer transportation rates in the most recent general rate cases of SDG&E and SoCalGas (A.06-12-009/A.06-12-010). The parties hereto agree to support expeditious

approval of any CPCN application filed by SoCalGas with the Commission for authority to construct the inventory expansion facilities addressed in this paragraph.

7. 1.0 Bcf of the 7.0 Bcf expansion capacity described above in Paragraph 6 shall be added to the combined core's inventory capacity in each of the four years 2010-2013. 1.0 Bcf of the expansion capacity described above shall be added to the unbundled storage program in each of the three years 2010, 2012, and 2014. The estimated schedule for adding storage inventory capacity to the storage allocated to core customers and the unbundled storage program is depicted below:

Date	**Combined Core Inventory Increase**	**Unbundled Program Inventory Increase**
April 1, 2010	1 Bcf	1 Bcf
April 1, 2011	1 Bcf	
April 1, 2012	1 Bcf	1 Bcf
April 1, 2013	1 Bcf	
April 1, 2014		1 Bcf

8. SoCalGas shall make commercially reasonable efforts to replace the existing three obsolete LM-1500 turbines used to compress up to 300 MMcf per day of natural gas for injection into storage at its Aliso Canyon storage facility. Production by the manufacturer of these obsolete turbines was halted in the late 1970s and replacement parts are extremely limited. SoCalGas shall, during the replacement of the existing turbines, expand overall injection capacity at Aliso Canyon to the extent feasible by approximately 145 MMcfd. The replacement of turbines and expansion of injection capacity at Aliso Canyon shall be undertaken as soon as possible. Once the Aliso Canyon injection replacement and expansion facilities are used and useful in providing storage service, the cost of the facilities shall be added to SoCalGas' storage rate base through a general rate case application before the Commission or through an application before the Commission seeking a CPCN to construct the facilities. The increase in the revenue requirement established in the general rate case or CPCN application will be incorporated in the revenue requirement of the injection subfunction in the next cost allocation proceeding (BCAP or TCAP) and allocated to the core, load balancing, and unbundled storage services in proportion to the allocation of storage injection capacity to each of these services. The capital costs of the Aliso Canyon injection replacement and expansion project addressed in this paragraph will be in addition to the capital costs authorized by the Commission for recovery in transportation rates in the most recent SDG&E and SoCalGas general rate cases (A.06-12-009/A.06-12-010). The parties hereto agree to support expeditious approval of any CPCN application filed by SoCalGas with the Commission seeking authority to construct the storage injection facilities addressed in this paragraph.

9. The balancing function will be allocated 4.2 Bcf of storage inventory capacity, 200 MMcfd of storage injection capacity, and 340 MMcfd of storage withdrawal capacity. The revenue requirement associated with these storage capacities allocated to the balancing function will be based on the storage embedded unit costs approved

by the Commission in each cost allocation proceeding (BCAP or TCAP) to reflect new embedded costs. The combined core customers of SDG&E/SoCalGas will only be allocated a share of the costs for storage injection and withdrawal capacity allocated to the balancing function. The combined core customers of SDG&E/SoCalGas will balance within the storage inventory capacity allocated to them under this SA.

10. The parties agree to meet and confer in good faith to explore the feasibility of proposing in Phase Two of this proceeding an optional enhanced balancing service that would be available to noncore customers wishing to pay for balancing tolerances greater than those provided in the tariff rules of SDG&E/SoCalGas. Among the issues to be discussed are the storage capacities available for such a service, the manner by which noncore customers could subscribe to such a service, the effect of such a service on the operation of the system, the effect of such a service on the rates of customers not taking the service, and the effect of such a service on the unbundled storage program. The settlement parties agree not to propose an optional enhanced balancing service in a Commission proceeding for the term of this SA unless mutually agreed upon by the settlement parties.

11. SDG&E/SoCalGas will withdraw their proposals in Phase Two of this proceeding to change the current 10% monthly balancing requirement. SoCalGas shall maintain for the settlement period all imbalance tolerances in effect as of the date of this SA, including the 10% monthly tolerance and current daily imbalance tolerances applicable to nominations in excess of system capacity and imbalances during winter operating periods. SDG&E/SoCalGas shall not during the settlement period institute a "low OFO" (Operational Flow Order) procedure and shall withdraw their proposal for such a procedure from their testimony in Phase Two of this proceeding.

12. Storage injection, inventory, and withdrawal capacity available to the unbundled storage program, including the allocation to wholesale (Long Beach and SWG) core customers, shall be the amount of such capacity that is not allocated to SDG&E/SoCalGas core customers and to the balancing function in this SA.

13. SWG shall be allocated storage capacity from the unbundled storage program at the same rates included in this SA for the combined core customers of SDG&E/SoCalGas upon approval of this SA by the Commission, as revised in future cost allocation proceedings (BCAP or TCAP) to reflect new embedded costs. Initially, upon approval of this SA by the Commission, SWG shall be allocated 1.98% of the storage capacities (injection, inventory, and withdrawal) allocated to the combined core customers of SDG&E/SoCalGas in this SA. If, however, SWG's core load or portion of core load is directly served under an agreement between Pacific Gas and Electric Company and SWG during the term of this SA, SWG's percentage of storage capacity set-asides will be adjusted not earlier than April 1 of the subsequent year to reflect the ratio of SWG's core load served by SoCalGas and the capacities allocated to the combined core customers of SDG&E/SoCalGas. SWG

will have the option to reduce its commitment in each future BCAP or TCAP cycle during the settlement period.

14. Long Beach shall be allocated storage capacity from the unbundled storage program at the same rates included in this SA for the combined core customers of SDG&E and SoCalGas as revised in future cost allocation proceedings (BCAP or TCAP) to reflect new embedded costs. Initially, upon approval of this SA by the Commission, Long Beach shall be allocated storage inventory capacity of 0.635 Bcf, storage injection capacity of 2.9 MMcfd, and storage withdrawal capacity of 31.6 MMcfd. On April 1, 2012, Long Beach may increase its allocated storage capacities to 0.700 Bcf of inventory, 3.3 MMcfd of injection capacity and 36 MMcfd of withdrawal capacity. Long Beach may reduce its allocated storage capacities in each future BCAP or TCAP during the settlement period.

15. From January 1, 2009, to the end of the settlement period, net revenues (gross revenues minus embedded unit costs as approved by the Commission) received by SoCalGas through the unbundled storage program shall be shared between SoCalGas' ratepayers and shareholders in the following manner: the first $15 million of net unbundled storage revenues shall be allocated on a 90/10 ratepayer/shareholder basis; the next $15 million of net unbundled storage revenues shall be allocated on a 75/25 ratepayer/shareholder basis; and net unbundled storage revenues above $30 million shall be allocated on a 50/50 ratepayer/shareholder basis. There will be an annual cap on shareholder earnings of $20 million. The cost of storage in the unbundled storage program for purposes of calculating net storage revenues shall be the embedded unit costs approved by the Commission in Phase Two of this proceeding and as revised in each cost allocation proceeding (BCAP or TCAP) during the term of the SA to reflect new embedded costs.

16. Individual unit price caps for storage injection, inventory, and withdrawal services will be set initially at the current levels set forth in the SoCalGas G-TBS rate schedule and will be escalated in succeeding BCAPs in the following manner: the initial unit price caps will be increased by the percentage increase (if any) in embedded inventory, injection, and withdrawal unit costs established by the Commission in each cost allocation proceeding (BCAP or TCAP) during the term of the SA.[3/]

17. For 2008, revenues booked to the NSMA will be off-set by a negotiated storage cost of $31.5 million. Net revenues (gross revenues minus $31.5 million) will be shared between ratepayers and shareholders in the same manner as the net revenues associated with the unbundled storage program as described above in Paragraph 15. The reduction in customer transportation rates resulting from the allocation to ratepayers of their estimated share of net NSMA revenues shall be consolidated with

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[3/] For example, if the per unit cost of injection in this 2009 BCAP is authorized by the Commission to be $20/mcfd, and that unit cost increases to $25/mcfd in the next BCAP, the price cap for injection in the GTBS program will increase by 25 percent, from $60/mcfd to $75/mcfd.

other SDG&E/SoCalGas transportation rate adjustments effective January 1, 2009 if the Commission approves this SA in 2008. If this estimated NSMA allocation is in fact included in the transportation rate adjustment effective January 1, 2009, and if there is any balance remaining in the NSMA as of January 1, 2009 representing the difference between actual unbundled storage revenues and a forecast of such revenues in December 2008, that balance will be transferred to the Noncore Storage Balancing Account, will be subject to the revenue-sharing mechanism described above in Paragraph 15, and will be reflected in customer transportation rates in the annual transportation rate adjustment effective January 1, 2010. If the Commission approves this SA after December 31, 2008, the ratepayer share of net NSMA revenues shall be reflected in customer transportation rates through an advice letter filing as soon as practicable following such Commission approval. The NSMA shall be closed as of the close of business December 31, 2008.

18. Further commercially reasonable storage expansions at SoCalGas' existing storage fields beyond the specific storage expansions described above in Paragraphs 6 and 8 undertaken during the settlement period will be deemed as undertaken for the unbundled storage program. Once the expansion facilities are used and useful in providing storage service, the cost of any such storage expansions shall be added to SoCalGas' storage rate base through a general rate case or through any CPCN application filed with the Commission by SoCalGas requesting authority to construct the expansion facilities. The associated increase in revenue requirement will be reflected in the cost of the unbundled storage program used for purposes of calculating "net" revenues for revenue-sharing purposes in the next cost allocation proceeding (BCAP or TCAP). The increased storage capacities created by any such expansions will also be allocated to the unbundled storage program in the next cost allocation proceeding (BCAP or TCAP). If SoCalGas estimates that the total cost of such expansion projects will exceed $50 million, SoCalGas shall file a CPCN application with the Commission seeking approval of the project(s) causing the total cost of the projects to exceed $50 million. SoCalGas will seek prior Commission approval through a CPCN application to construct any facilities for unbundled storage expansion that are in addition to the project(s) addressed above in this paragraph that caused SoCalGas to exceed $50 million in total unbundled storage expansion costs. The revenues obtained by SoCalGas from any such expansions will not be distinguished from revenues obtained from the unbundled storage program generally and will be included in the revenue-sharing mechanism described above in Paragraph 15 for the unbundled storage program. Thus, both the costs of, and revenues from, any such expansions will be treated as costs of, and revenues from, the unbundled storage program for all purposes under this SA.[4/]

19. Net revenues obtained through the System Operator Hub approved in D.07-12-019 shall be treated as unbundled storage revenues for purposes of ratepayer/shareholder sharing. Thus, such revenues will be included in the sharing mechanism described

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[4/] Similarly, the costs of any such expansions will be included in the storage unit costs for injection, inventory, and withdrawal for purposes of adjusting the unit price caps as described above in Paragraph 16.

above in Paragraph 15 and will be included in the same $20 million annual cap of shareholder earnings.[5/]

20. The SDG&E SMA will be closed with no adjustment to the transportation rates of SDG&E or SoCalGas customers.

III.

ADDITIONAL TERMS AND CONDITIONS

A. The Public Interest.

The Joint Parties agree jointly by executing and submitting this SA that the relief requested herein is just, fair and reasonable, and in the public interest.

B. Non-Precedential Effect.

This SA is not intended by the Joint Parties to be precedent for any future proceeding. The Joint Parties have assented to the terms of this SA only for the purpose of arriving at the settlement embodied in this SA. Except as expressly precluded in this SA, each of the Joint Parties expressly reserves its right to advocate, in current and future proceedings, positions, principles, assumptions, arguments and methodologies which may be different than those underlying this SA, and the Joint Parties expressly declare that, as provided in Rule 12.5 of the Commission's Rules, this SA should not be considered as a precedent for or against them. Likewise, the SA explicitly does not establish any precedent on the litigated issues in the case.

[5/] Thus, the sharing mechanism and annual shareholder earnings cap described above in Paragraph 15 will apply to the cumulative costs and revenues associated with the System Operator Hub, the existing unbundled storage program, and any storage expansions undertaken during the settlement period for the unbundled storage program as described in Paragraph 18.

C. Indivisibility.

This SA embodies compromises of the Joint Parties' positions. No individual term of this SA is assented to by any of the Joint Parties, except in consideration of the other Joint Parties' assents to all other terms. Thus, the SA is indivisible and each part is interdependent on each and all other parts. Any party may withdraw from this SA if the Commission modifies, deletes from, or adds to the disposition of the matters stipulated herein. The Joint Parties agree, however, 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 only if such negotiations are unsuccessful.

The Joint Parties acknowledge that the positions expressed in the SA were reached after consideration of all positions advanced in the prepared and oral testimony of SDG&E/SoCalGas and the other interested parties, as well as proposals offered during the settlement negotiations. This document sets forth the entire agreement of the Joint

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Parties on all of those issues, except as specifically described within the SA. The terms and conditions of this SA may only be modified in writing subscribed by all Joint Parties.

Dated this 22nd day of August, 2008.

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Corp10/LAW/Data/DGilmore/BCAP/SETTLE-AGMT.8.08-APP.A.DOC

CERTIFICATE OF SERVICE

I hereby certify that a copy of **JOINT MOTION OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902 G), SOUTHERN CALIFORNIA GAS COMPANY (U 904 G), THE DIVISION OF RATEPAYER ADVOCATES, SOUTHERN CALIFORNIA EDISON COMPANY(U 338 E), THE INDICATED PRODUCERS, THE SOUTHERN CALIFORNIA GENERATION COALITION, THE CITY OF LONG BEACH, SOUTHWEST GAS CORPORATION (U 095 G), WATSON COGENERATION COMPANY AND THE CALIFORNIA COGENERATION COUNCIL, AND THE CALIFORNIA MANUFACTURERS AND TECHNOLOGY ASSOCIATION FOR ADOPTION OF SETTLEMENT AGREEMENT AND IMMEDIATE SUSPENSION OF BRIEFING SCHEDULE FOR PHASE ONE ISSUES** has been electronically mailed to each party of record on the service list in A.08-02-001. Any party on the service list who has not provided an electronic mail address was served by placing copies in properly addressed and sealed envelopes and depositing such envelopes in the United States Mail with first-class postage prepaid.

Copies were also sent via Federal Express to the Commissioner Timothy A. Simon and the Assigned Administrative Law Judge John S. Wong.

Executed this 22nd day of August, 2008 at San Diego, California.

/s/ Jodi Ostrander

Jodi Ostrander

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