Attachment A

PBR PHASE 2 SETTLEMENT AGREEMENT

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Investigation on the Commission's Own Motion into the Practices of the Southern California Edison Company to Determine the Violations of the Laws, Rules, and Regulations Governing Performance Based Ratemaking, its Monitoring and Reporting to the Commission, Refunds to Customers and Other Relief, and Future Performance Based Ratemaking for this Utility.	)	Investigation 06-06-014 (Filed June 15, 2006)

PBR PHASE 2 SETTLEMENT AGREEMENT

Dated: January 12, 2009

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PBR PHASE 2 SETTLEMENT AGREEMENT
I.06-06-014

This PBR Phase 2 Settlement Agreement (Agreement or Settlement Agreement) is entered into by the undersigned Parties hereto, with reference to the following:

1. Parties

The Parties to this Agreement are Southern California Edison Company (SCE); the Consumer Protection and Safety Division (CPSD); the Division of Ratepayer Advocates (DRA); and the Coalition of California Utility Employees (CCUE) (referred to hereinafter collectively as Parties, Settling Parties or individually as Party).

a. SCE is an investor-owned public utility and is subject to the jurisdiction of the California Public Utilities Commission (Commission or CPUC) with respect to providing electric service to its CPUC-jurisdictional retail customers.

b. CPSD is a division of the Commission that has oversight of consumer protection and safety related to various utilities. The Enforcement Branch of the CPSD investigates alleged or apparent violations of the Public Utilities Code, other state laws, and Commission regulations by stationary utilities (telephone, cellular, electric, gas, etc.).

c. DRA is a division of the Commission that represents the interests of public utility customers. Its goal is to obtain the lowest possible rate for service consistent with reliable and safe service levels.

d. CCUE is a coalition of unions who represent employees at nearly all of the investor-owned and publicly-owned utilities in California, including SCE.

2. Recitals

a. SCE's PBR mechanism applied to the period from 1997 through 2003 with respect to three performance incentive mechanisms. The three performance incentive mechanisms were: (1) customer satisfaction, which measures customer

satisfaction with transactions with SCE via a survey; (2) system reliability, measured as average minutes of customer interruption ("ACMI") and frequency of interruptions ("Frequency"); and (3) employee health and safety, measured as the number of first aid incidents and OSHA-recordable lost time incidents per 200,000 employee hours worked. In addition to these three performance mechanisms, among other things, SCE's PBR mechanism included a cost of capital adjustment mechanism and a net revenue sharing mechanism.

b. In D.04-07-022, the Commission adopted successor incentive mechanisms for employee safety, measured by OSHA-recordable lost time incidents per 200,000 employee hours worked, and system reliability, measured by SAIDI, SAIFI, and MAIFI. These incentives applied to SCE's results in 2004 and 2005.

c. SCE is no longer subject to a shareholder/ratepayer, reward/penalty PBR mechanism for customer satisfaction, employee safety, or system reliability.

d. After conducting investigations, SCE provided its internal investigative reports to the Commission for customer satisfaction (dated June 24, 2004), employee health and safety (dated December 3, 2004), and system reliability (dated February 28, 2005) incentive mechanisms.

e. On June 15, 2006, the Commission issued Order Instituting Investigation 06-06-014 ("PBR OII"), ordering an inquiry into the three PBR metrics that were the subject of SCE's internal investigative reports.

f. As a result of rulings by assigned Administrative Law Judge ("ALJ") Robert Barnett, the OII was divided into two phases. Phase 1 covered issues related to customer satisfaction, employee safety, and results sharing; was the subject of hearings in November 2006; and was submitted when reply briefs were filed on February 14, 2007.

g. Pending the outcome of Phase 1, a procedural schedule for Phase 2 was established. In accordance with that Phase 2 schedule, on September 21, 2007, SCE served its Phase 2 initial prepared testimony. That testimony consisted of the following:

- "Testimony on the PBR Incentive Mechanisms for System Reliability and Customer Satisfaction (Call Centers, Field Delivery, and In-Person Services)"
- "Phase 2 Direct Testimony of Dr. Andrew Morrison"
- "Assessment of PBR Reliability Metrics and Related Systems and Processes"

h. On October 1, 2007, the Commission issued the Presiding Officer's Decision ("POD") on Phase 1 issues.

i. Appeals of the POD were filed by SCE, CPSD, and the Greenlining Institute.

j. The procedural schedule for Phase 2 was suspended pending the outcome of the appeals of the October 1, 2007 Presiding Officer's Decision.

k. On September 23, 2008, the Commission issued D.08-09-038 ("Phase 1 Decision"), which resolved all appeals and issues that were considered in Phase 1 of this proceeding. The Phase 1 Decision ordered SCE to

- Refund with interest to ratepayers all $28 million in Performance Based Ratemaking (PBR) customer satisfaction rewards SCE had collected for the period 1997 through 2000 and to forgo recovery of $20 million in rewards that SCE had calculated or requested for the period 2001 through 2003.
- Refund with interest to ratepayers all $20 million in PBR employee health and safety rewards SCE had collected for the period 1997 through 2000 and to forgo $15 million in rewards that SCE had requested or calculated for the period 2001 through 2003.
- Refund with interest to ratepayers $32.714 million results sharing revenues.
- Pay a fine of $30 million to the General Fund of California.

l. The Phase 1 decision resolved all issues related to the PBR customer satisfaction and the PBR employee health and safety incentive mechanisms, and results sharing. The Phase 1 decision did not address issues related to intervenor compensation claims.

m. Following the issuance of the Phase 1 decision, ALJ Barnett issued an October 8, 2008 ruling that listed remaining issues for consideration in Phase 2 of the OII. The ruling listed four issues: (1) system reliability and customer satisfaction for call centers, field delivery other than meter reading, and in-person services,[1] (2) whether the Commission should permit SCE to continue PBR and, if so, under what conditions and modifications, (3) investigate the total costs that CPSD and its legal representatives have incurred because of CPSD's investigation and discuss whether the costs are recoverable from SCE, and (4) whether the Commission can reward a whistleblower.

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1 Notwithstanding the reference in the ALJ's October 8, 2008 ruling to adjudicating PBR results for customer satisfaction for call centers, field delivery other than meter reading and in-person services in Phase 2, in fact the Phase 1 Decision had resolved all of those subjects by ordering SCE to refund or forgo all PBR rewards calculated for these activities for the entirety of the PBR period. Therefore, the only PBR metric covered by the PBR OII that still remained at issue in Phase 2 was system reliability.

n. The status of PBR system reliability incentives based on SCE's requests is that SCE has recovered $8.0 million for the period 1997 through 2000 and has requested or calculated a net reward of $2.0 million for the period 2001 through 2003 as follows:

PBR System Reliability Results (Maximum incentive $18M/year for ACMI and Frequency)							
	1997	1998	1999	2000	2001	2002	2003
ACMI	—	—	—	—	—	—	(3.0)
Frequency	—	2.0	2.0	4.0	5.0	—	—
	$8 million rewards recovered from ratepayers				Net $2 million reward pending		

o. ALJ Barnett's October 8, 2008 ruling scheduled a prehearing conference on October 31, 2008. At the request of SCE and CPSD at the October 31, 2008 prehearing conference, ALJ Barnett deferred establishing a procedural schedule for Phase 2 to allow parties to discuss potential resolution of remaining issues in the OII.

p. After discussions among SCE, CPSD, and DRA pertaining to the resolution of Phase 2 issues had occurred, on December 11, 2008, SCE provided notice to all parties of a settlement conference related to Phase 2 issues. A settlement conference was held on December 18, 2008.

q. The Parties desire to resolve all issues related to Phase 2 as indicated in Paragraph 4 of this Agreement.

3. Definitions

When used in initial capitalization in this agreement, whether in singular or plural, the following terms shall have the following meanings:

a. "ACMI" means average customer minutes of interruption, which was one of the two metrics that comprised the PBR system reliability incentive mechanism.

b. "Agreement" shall have the meaning given to such term in the introductory paragraph hereof.

c. "Commission" means the California Public Utilities Commission.

d. "Frequency" means the frequency of interruption of SCE's customers.

e. "OII" means the Order Instituting Investigation Into The Operations Of The Southern California Edison Company Pertaining To Performance Based Ratemaking issued by the Commission on June 14, 2006.

f. PBR" means SCE's Performance Based Ratemaking mechanisms in effect from 1997 through 2003, of which the incentive mechanisms for customer satisfaction, employee health and safety were to be reviewed in this OII.

g. "Ratepayer Credit" means the $4 million amount SCE has agreed to record to the benefit of ratepayers upon Commission approval of this Agreement.

h. "Settling Parties" means SCE, CPSD, DRA, and CCUE.

4. Agreement

In consideration of the mutual obligations, covenants and conditions contained herein, the Settling Parties agree to the terms of this Agreement. Nothing in this paragraph of this Agreement shall be deemed to constitute an admission of wrongdoing by SCE or an acceptance by any Party of any fact, principle, or position contained herein. This Agreement is subject to the limitations described in Paragraph 10 with respect to the express limitation on precedent. The Parties, by signing this Agreement, acknowledge that they pledge support for Commission approval and subsequent implementation of all the provisions of the Agreement.

a. **Ratepayer Credit**

Within 30 days after Commission approval of this Agreement, SCE shall credit $4.0 million to the distribution subaccount of SCE's existing Base Revenue Requirement Balancing Account (BRRBA). Ratepayers will receive the benefit of the Ratepayer Credit as a reduction to SCE's distribution rates when the BRRBA is amortized in rates.

b. **System Reliability**

The PBR system reliability rewards SCE received for the period 1997 through 2000 shall not be affected by this Agreement. For the period 2001 through 2003, SCE shall forgo its claim for a net reward of $2 million, which is comprised of a reward of $5 million for Frequency in 2001 and a penalty of $3 million for ACMI in 2003.

c. **Conditions on Future SCE PBR Mechanisms**

SCE agrees that it will not propose any PBR customer satisfaction or employee safety shareholder incentive mechanism before the completion of its 2015 GRC cycle. This moratorium is limited to SCE proposals for a mechanism whereby ratepayers would be obligated to make payments to SCE if a specified performance metric was achieved or a mechanism whereby SCE would be obligated to make payments to ratepayers if a specified performance metric was not achieved. The moratorium does not apply to current programs or future proposals for incentive compensation such as results sharing, system reliability, or incentives provided under current incentives such as energy efficiency or SCE's nontariffed products and services gross revenue sharing mechanism.

d. **Whistleblower Compensation**

No whistleblower compensation shall be awarded in connection with the PBR OII.

e. **Other Penalties**

SCE shall not be liable for any statutory penalties or PBR penalties related to Phase 2 of the OII.

f. **Post-PBR Period**

This Agreement does not affect the employee safety and system reliability results SCE reported by advice letter for 2004 and 2005 pursuant to the post-PBR incentive mechanisms that the Commission adopted in D.04-07-022 and which applied to those years.

5. **Final Resolution of Phase 2 Issues**

SCE's payment of the Ratepayer Credit resolves all outstanding monetary claims of or against SCE related in any way to the subject matter of the OII. It is the intent and agreement of the Settling Parties that the provisions of Paragraph 4 also resolve all issues raised in ALJ Barnett's October 8, 2008 ruling and that the OII be closed upon Commission approval of this Agreement.

6. **Implementation of Agreement**

It is the intent of the Parties and their request that the Commission adopt this Agreement on an expedited basis.

7. **Incorporation of Complete Agreement**

This Agreement is to be treated as a complete package and not as a collection of separate agreements on discrete issues. To accommodate their different interests related to different issues, the Parties acknowledge that changes, concessions, or compromises by a Party or Parties in one section of this Agreement resulted in changes, concessions, or compromises by the Parties in other sections. Consequently, the Parties agree to oppose any modification of this Agreement not agreed to by all Parties.

8. **Signature Date**

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

9. **Regulatory Approval**

The Parties shall use their best efforts to obtain Commission approval of the Agreement. The Parties shall jointly request that the Commission: (1) approve the Agreement without change; and (2) find the Agreement to be reasonable, consistent with law and in the public interest.

10. **Compromise Of Disputed Claims**

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

11. **Non Precedent**

Consistent with Rule 12.5 of the Commission's Rules of Practice and Procedure, this Agreement is not precedential in any other proceeding before this Commission, except as expressly provided in this Agreement or unless the Commission expressly provides otherwise.

12. **Previous Communications**

The Agreement contains the entire agreement and understanding between the Parties as to the subject matter of this Agreement, and supersedes all prior agreements, commitments, representation, and discussions between the Parties. In the event there is any conflict between the terms and scope of the Agreement and the terms and scope of the accompanying joint motion, the Agreement shall govern.

13. **Non Waiver**

None of the provisions of this Agreement shall be considered waived by any Party unless such waiver is given in writing. The failure of a Party to insist in any one or more instances upon

strict performance of any of the provisions of this Agreement or to take advantage of any of their rights hereunder shall not be construed as a waiver of any such provisions or the relinquishment of any such rights for the future, but the same shall continue and remain in full force and effect.

14. **Effect Of Subject Headings**

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

15. **Governing Law**

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

16. **Number Of Originals**

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

SOUTHERN CALIFORNIA EDISON COMPANY

By: /s/ Bruce A. Reed

Title: Senior Attorney Date: 1/14/2009

CONSUMER PROTECTION AND SAFETY DIVISION

By: /s/ Julie Halligan for Richard Clarke

Title: Director Date: 1/21/2009

DIVISION OF RATEPAYER ADVOCATES

By: /s/ Dana Appling

Title: Director Date: 1/13/2009

CCUE

By: /s/ Marc D. Joseph

Title: Attorney Date: 1/13/2009

(END OF ATTACHMENT A)