SETTLEMENT AGREEMENT BETWEEN SOUTHERN CALIFORNIA EDISON COMPANY AND THE DIVISION OF RATEPAYER ADVOCATES RESOLVING THE CATASTROPHIC EVENT MEMORANDUM ACCOUNT PROCEEDING (APPLICATION No. 10-04-026)

In accordance with Article 12 of the California Public Utilities Commission's (Commission) Rules of Practice and Procedure, the Division of Ratepayer Advocates (DRA) and Southern California Edison Company (SCE) (together the "Settling Parties"), by and through their undersigned representatives, enter into this Settlement Agreement resolving SCE's Catastrophic Event Memorandum Account (CEMA) proceeding, Application No. 10-04-026. As a compromise to resolve the issues in this proceeding, SCE and DRA agree to and support all of the terms of this Settlement Agreement.

I. BACKGROUND AND PROCEDURAL HISTORY

Beginning on October 20, 2007, southern California experienced a series of wind and firestorms. Between October and November 2007, 14 separate fires, ranging from 25 acres to over 58,000 acres, caused significant widespread damage to SCE's system in counties SCE serves.[1] Santa Ana winds helped spread the fires. Compliant disaster declarations from the Governor of California and the President of the United States were issued in this matter, as required by CPUC Decision (D.) 07-07-041.[2]

On October 31, 2007, SCE notified the Commission's Executive Director by letter that it activated its CEMA for the 2007 wind and firestorms, effective October 21, 2007 to "record its costs to restore service to customers and repair damage to its facilities resulting from the recent wind and firestorms in several counties throughout its service territory."[3]

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[1] The Ranch fire started on October 20, 2007 and was followed by the Buckweed, Canyon, Magic, Meadowridge, October, Nightsky, Slide, Grass Valley, Cajon, Martin, Santiago, Rose and Roca fires.

[2] Copies of these emergency declarations were provided in SCE's workpapers titled "Emergency Proclamations."

[3] A copy of the letter was provided in SCE's workpapers entitled "SCE Notification of CEMA Activation."

On April 22, 2010, SCE filed its CEMA Application to recover its incremental expenses and capital-related costs incurred as a result of the 2007 wind and firestorms in its service territory. On June 2, 2010, SCE filed its Amended CEMA Application to correct certain errors relating to the calculation and application of insurance premiums and reserves to the costs recorded in CEMA.

DRA timely protested SCE's Amended CEMA Application on July 8, 2010, recommending that CEMA costs relating to the Malibu Canyon Fire, which is the subject of a pending OII (I. 09-01-018), should either be disallowed or held in abeyance.[4] Specifically, as shown in a data request response from SCE, DRA took issue with $0.681 million in Operations and Maintenance expense, and the capital-related revenue requirement associated with $1,475,000 in Capital expenditures incurred in the Thousand Oaks district, which were linked to the Malibu Canyon Fire. DRA also raised arguments about other fires.[5] On July 19, 2010, SCE timely replied to DRA's protest. In its Reply, SCE argued that "DRA's proposal amounts to a drastic change in the reasonableness analysis in CEMA proceedings."[6]

A Prehearing Conference (PHC) was held on November 8, 2010 before Administrative Law Judge (ALJ) Maribeth Bushey. After hearing the opposing arguments by the Settling Parties, ALJ Bushey adopted a procedural schedule which included briefing the issue of the scope of this proceeding.

On December 3, 2010, SCE filed its brief addressing the scope of the proceeding and on December 17, 2010, DRA filed its reply brief. On December 17, 2010, PG&E, an intervenor in the proceeding, also filed a reply brief which materially agreed with SCE's arguments. PG&E noted that: "If the Commission is inclined to expand the scope of SCE's CEMA proceeding to include the outcome of the Malibu Canyon Fire OII and/or other investigations, PG&E agrees with SCE that this would involve a novel interpretation of the CEMA statute as well as a major policy shift from the way CEMA proceedings have been handled previously by the Commission."[7]

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[4] DRA Protest at 2-3.
[5] *Id.* at 3.
[6] SCE Reply at 2.
[7] PG&E Reply Brief at 3.

On December 17, 2010, SCE submitted an errata to its testimony. SCE stated that: "The primary change to the testimony is the removal of the costs associated with the Sedgewick fire. Based on further review, it has come to SCE's attention that the costs SCE incurred in Santa Barbara County were associated with damages caused by wind. Because the Emergency Proclamation for Santa Barbara County was limited to fire, and did not include wind, the costs that SCE incurred for restoration of facilities in Santa Barbara County are not eligible for CEMA recovery."[8] Since SCE had withdrawn the Sedgewick fire-related costs, any potential causal issue that DRA had with those costs became moot as to the instant proceeding.

On January 20, 2011, Assigned Commissioner Simon issued a Scoping Memo and Ruling.

II. THE SETTLEMENT

This Settlement resolves this proceeding and consists of the following agreement by the Settling Parties:

1. SCE's Amended Application sought Commission approval for $6.837 million in Operations and Maintenance expense, and $9.487 million in Capital expenditures. SCE's December 17, 2010 Errata reduced these figures to $6.792 million[9] in Operations and Maintenance expense, and $9.428 million in Capital expenditures. Accordingly, $3.468 million in capital-related revenue requirement (i.e., depreciation, taxes and return on rate base) associated with the incremental capital additions, was requested to be recovered by SCE. The estimated total revenue requirement, including capital, incremental O&M expense, and interest that SCE requested, taking into consideration the December 17, 2010 Errata, is $10.390 million.[10]

2. The settled amount would reduce SCE's total revenue requirement by $2.317 million. The $2.317 million settlement adjustment reflects the reduction of the following amounts

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[8] *See* SCE Errata of December 17, 2010.

[9] As discussed on page 7 of SCE's Amended CEMA Application, $0.214 million in insurance reserve credit was applied in error. Therefore the $6.792 million of O&M expenses should be reduced to $6.578 million to account for the $0.214 million recorded in error. The above-referenced amounts are projected to be recorded in SCE's 2007 Wind and Firestorm CEMA Sub-accounts through December 31, 2011.

[10] *See* page 46 of SCE's Errata and Update to Reflect Most Recent Recorded Information to Amended Catastrophic Event Memorandum Account Testimony- 2007 Wind and Firestorms, dated December 17, 2010.

from SCE's CEMA request: (a) removal of $1.099 million in incremental O&M expenses (reflecting the removal of the entire $0.681 million in incremental O&M expenses related to the Canyon/Malibu fire and the entire $0.418 million in incremental O&M expenses related to the Grass Valley fire); (b) removal of $0.872 million in capital-related revenue requirement estimated to be recorded in the CEMA Sub-account through December 31, 2011 associated with $1.928 million in Capital expenditures; and (c) removal of $0.346 million in interest expense estimated to be recorded in the CEMA Sub-account through December 31, 2011.

This adjustment would result in the recovery of approximately $8.073 million, or 78% of SCE's requested revenue requirement of $10.390 million recorded and estimated to be recorded in the 2007 Wind and Firestorm CEMA through December 31, 2011.

3. Upon the Commission's approval of the Settlement, the Settling Parties agree that SCE shall recover the December 31, 2011 balance recorded in the 2007 Wind and Firestorm CEMA Sub-account, less the adjustments set forth above. Other than as specified above, DRA shall seek no further adjustments to SCE's CEMA recovery for the 2007 Wind and Firestorms, whether in this proceeding or in any other proceeding.

4. DRA recommended the 22% revenue requirement reduction based on its review of SCE's amended application and associated prepared testimony, workpapers and errata, SCE's responses to DRA data requests, and DRA's audit of SCE's records relating to this proceeding, taking into consideration the Consumer Protection and Safety Division's investigation in regards to the Malibu Canyon Fire. SCE strongly disagrees with that investigation and its relevance to this proceeding, but has agreed to the 22% revenue requirement reduction in this matter in the spirit of compromise and in order to bring this CEMA proceeding to conclusion without undue delay or expenditure of the Settling Parties' resources in accordance with the Commission's settlement rules.

III. RESERVATIONS

1. The Settling Parties agree that this Settlement represents a compromise of their respective positions. It does not represent the Settling Parties' endorsement of, or agreement with, any or all of the positions of the other party.

2. This Settlement represents a compromise between the Settling Parties and should not be considered precedent in any other current or future proceeding. This Settlement should also not be considered precedent with respect to any other matters in any way related to the 2007 fires, including but not limited to the Malibu Canyon OII proceeding (I.09-01-018). The Settling Parties have assented to the terms of this Settlement Agreement only for the purpose of arriving at the compromise herein. Except as provided in reservations 3 and 5 below, each Settling Party expressly reserves its right to advocate, in current and future proceedings, positions, principles, assumptions, arguments and methodologies that may be different from those underlying this Settlement.

3. The Settling Parties by joint motion concurrently request Commission approval of this Settlement. The Settling Parties additionally agree to actively support prompt approval of the Settlement. Active support shall include necessary filings and, if required, appearances and other means to obtain the approval sought. The Settling Parties further agree to participate jointly in necessary briefings to Commissioners and their advisors regarding the Settlement and the issues resolved by it.

4. This Settlement embodies the entire understanding and agreement of the Settling Parties with respect to the matters described herein, and, except as described herein, supersedes and cancels any and all prior oral or written agreements, principles, negotiations, statements, representations or understandings among the Settling Parties.

5. The Settlement may be amended or changed only by a written agreement signed by the Settling Parties.

6. The Settling Parties have bargained earnestly and in good faith to achieve this Settlement. The Settling Parties intend the Settlement to be interpreted and treated as a unified,

interrelated agreement. The Settling Parties therefore agree that if the Commission fails to approve the Settlement as reasonable and adopt it unconditionally and without modification, any Settling Party may in its sole discretion elect to terminate the Settlement. If the Settlement is terminated, the signatories shall be released from any and all obligations and representations set forth in the Settlement and shall be restored to their positions prior to having entered into the Settlement.

7. The Settling Parties further agree that any material change to the Settlement shall give each Settling Party in its sole discretion the option to terminate the Settlement. In the event the Settlement is terminated, the Settling Parties will request that the unresolved issues in Application 10-04-026 be heard at the earliest convenient time.

8. Each of the Settling Parties hereto and their respective counsel have contributed to the preparation of this Settlement. Accordingly, the Settling Parties agree that no provision of this Settlement shall be construed against any Settling Party because that party or its counsel drafted the provisions.

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

10. This document may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

11. This Settlement shall become effective between the Settling Parties on the date the last Settling Party executes the Settlement as indicated below.

IV. STIPULATION OF RECORDS

1. The Settling Parties hereby stipulate that the following documents be made part of the evidentiary record in this proceeding, without the need for cross-examination of sponsoring witnesses, solely for the purpose of evaluating the reasonableness of the settlement:

(a) Amended Catastrophic Event Memorandum Account Testimony- 2007 Wind and Firestorms, dated June 2, 2010;

(b) Errata to Amended Catastrophic Event Memorandum Account Testimony- 2007 Wind and Firestorms, dated June 16, 2010; and

(c) Errata and Update to Reflect Most Recent Recorded Information to Amended Catastrophic Event Memorandum Account Testimony- 2007 Wind and Firestorms, dated December 17, 2010.

In witness whereof, intending to be legally bound, the Settling Parties hereto have duly executed this Settlement Agreement on behalf of the parties they represent.

DIVISION OF RATEPAYER ADVOCATES

Joseph P. Como
Acting Director
Division of Ratepayer Advocates

SOUTHERN CALIFORNIA EDISON COMPANY

James A. Kelly
Senior Vice President,
Southern California Edison Company-
Transmission & Distribution Business Unit

Date: March 15, 2011

(a) Amended Catastrophic Event Memorandum Account Testimony- 2007 Wind and Firestorms, dated June 2, 2010;

(b) Errata to Amended Catastrophic Event Memorandum Account Testimony- 2007 Wind and Firestorms, dated June 16, 2010; and

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DIVISION OF RATEPAYER ADVOCATES

Joe Como
Director
Division of Ratepayer Advocates

SOUTHERN CALIFORNIA EDISON COMPANY

James A. Kelly
Senior Vice President,
Southern California Edison Company-
Transmission & Distribution Business Unit

Date: March 15, 2011

CERTIFICATE OF SERVICE

I hereby certify that, pursuant to the Commission's Rules of Practice and Procedure, I have this day served a true copy of JOINT MOTION OF SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E) AND THE DIVISION OF RATEPAYER ADVOCATES FOR APPROVAL OF SETTLEMENT AGREEMENT on all parties identified on the attached service list(s). Service was effected by one or more means indicated below:

Transmitting the copies via e-mail to all parties who have provided an e-mail address. First class mail will be used if electronic service cannot be effectuated.

Executed this **15th day of March 2011**, at Rosemead, California.

/s/ Alejandra Arzola
Alejandra Arzola
Project Analyst
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A.10-04-026 ALJ/MAB/avs

California Public Utilities Commission

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(END OF ATTACHMENT A)