

ATTACHMENT 1

**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

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

^{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

^{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.

SAN DIEGO GAS & ELECTRIC COMPANY and
SOUTHERN CALIFORNIA GAS COMPANY

By: /s/ Richard M. Morrow
Richard M. Morrow
Vice President – Customer Services

DIVISION OF RATEPAYER ADVOCATES

By: /s/ Dana Appling
Dana Appling
Director

SOUTHERN CALIFORNIA EDISON COMPANY

By: /s/ Douglas Porter
Douglas Porter
Senior Attorney

ALCANTAR & KAHL LLP

By: /s/ Evelyn Kahl
Evelyn Kahl
Counsel to the INDICATED PRODUCERS

SOUTHERN CALIFORNIA GENERATION COALITION

By: /s/ Norman A. Pedersen
Norman A. Pedersen
Attorney

CITY OF LONG BEACH, a municipal corporation

By: /s/ Patrick H. West
Patrick H. West
City Manager

SOUTHWEST GAS CORPORATION

By: /s/ Keith Layton
Keith Layton
Attorney for Southwest Gas Corporation

CROSSBORDER ENERGY

By: /s/ R. Thomas Beach
R. Thomas Beach
Consultant to the California Cogeneration Council
and Watson Cogeneration Company

CALIFORNIA MANUFACTURERS AND TECHNOLOGY ASSOCIATION

By: /s/ Keith R. McCrea
Keith R. McCrea
Attorney for California Manufacturers and Technology Association

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(END OF ATTACHMENT 1)