

PROPOSED DECISION

Agenda ID #11938 (Rev. 1)
Ratesetting
3/21/2013 Item 21

Decision PROPOSED DECISION OF ALJ GALVIN (Mailed 2/22/2013)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Edison Company (U338E) for Authority to Establish Its Authorized Cost of Capital for Utility Operations for 2013 and to Reset the Annual Cost of Capital Adjustment Mechanism.

Application 12-04-015
(Filed April 20, 2012)

And Related Matters.

Application 12-04-016
Application 12-04-017
Application 12-04-018

(See Decision 12-12-034 for List of Parties.)

**PHASE 2 DECISION ON THE COST OF CAPITAL
ADJUSTMENT MECHANISM AND CORRECTION OF
PHASE 1 DECISION TYPOGRAPHICAL ERRORS**

1. Summary

This decision approves a stipulation agreement resolving all Phase 2 issues. This stipulation agreement: (1) continues the Cost of Capital Mechanism (CCM), unchanged; (2) replaces the Market-Indexed Capital Adjustment Mechanism used by Southern California Gas Company (SoCalGas) with the CCM; (3) sets a base benchmark index of 4.24% for San Diego Gas & Electric Company (SDG&E) and SoCalGas based on Moody’s long-term A utility bond index for the 12-month period ending September 2012; (4) sets a base benchmark

index of 5.00% for Southern California Edison Company (SCE) and Pacific Gas and Electric Company (PG&E), based on Moody's long-term Baa utility bond index for the 12-month period ending September 2012; and (5) requires SCE, SDG&E, SoCalGas and PG&E to file test year 2016 cost of capital applications on April 20, 2015.

This decision also corrects two typographical errors in the body of the Phase 1 Decision.

2. Procedural Background

A Cost of Capital Mechanism (CCM) was adopted in 2008 for Southern California Edison Company (SCE), San Diego Gas & Electric Company (SDG&E) and Pacific Gas and Electric Company (PG&E), pursuant to Decision (D.) 08-05-035. The CCM provides a mechanism for SCE, SDG&E and PG&E to automatically adjust their revenue requirements based on utility bond rate changes in each year that the utilities are not required to file a cost of capital (COC) application.

The CCM is based on: (1) the most recently adopted capital structure and costs of long-term debt and preferred stock; (2) an index based on the average 12-month October through September period of Moody's A utility bonds (for utilities rated better than BBB+ and lower than AA-) and Moody's Baa utility bonds (for BBB credit-rated utilities or lower); (3) a 100-basis point dead band;¹ and (4) an adjustment ratio of 50%.

In any year where the difference between the current 12-month October through September average Moody's utility bond index rate and an

¹ One-basis point equals .01%.

established benchmark exceeds a 100-basis points deadband, an automatic adjustment to the utilities' return on equity would be made as follows:

- a. The return on equity is adjusted by one-half of the difference between the A utility bond average (for utilities rated better than BBB+ and lower than AA-) or Baa utility bond average (for BBB credit-rated utilities or lower) and the benchmark.
- b. Long-term debt and preferred stock costs are updated to reflect actual August month-end embedded costs in that year and forecasted interest rates for variable long-term debt and new long-term debt and preferred stock scheduled to be issued.
- c. Authorized capital structure is not adjusted.
- d. On October 15th of such year, a Tier 2 advice letter is filed to update the return on equity and related rate adjustments to become effective on January 1st of the following year.
- e. In any year where the 12-month October through September average Moody's utility bond rates triggers an automatic return on equity adjustment, that average becomes the new benchmark.
- f. Work papers outlining the calculations required shall be submitted with the advice letter to the Energy Division and active parties to prior cost of capital test year proceeding, and shall be made available to any party upon request.

SCE, SDG&E and PG&E were scheduled to file test year 2011 COC applications on April 20, 2010. However, in 2009, those utilities and the Division of Ratepayer Advocates (DRA) filed petitions to extend the CCM two additional years and to extend SCE, SDG&E and PG&E's date for filing their next COC application from April 20, 2010 to April 20, 2012 with a test year of 2013. Those petitions were approved by the Commission pursuant to D.10-01-017 and D.09-10-016.

SCE, SDG&E and PG&E filed their test year 2013 COC applications on April 20, 2012, pursuant to the revised schedule. SoCalGas also filed a test year 2013 COC application on that same date. Those applications were consolidated into a single proceeding at a June 4, 2012 prehearing conference where the COC issues were bifurcated. The first phase would address the appropriate test year 2013 COC for each utility and the second phase would address the CCM. The Phase 1 issue was resolved with the Commission's issuance of D.12-12-034 on December 20, 2012.

The assigned Commissioner's December 5, 2012 Phase 2 Scoping Memo and Ruling identified three issues to be addressed in the second phase of this consolidated proceeding. The issues are: (1) whether the CCM should continue; (2) whether modifications should be made to the CCM; and (3) whether the CCM should replace SoCalGas' Market-Indexed Capital Adjustment Mechanism.

An evidentiary hearing on the Phase 2 issues was held on January 14, 2013. Phase 2 of this proceeding was submitted on February 5, 2013. Thirteen exhibits addressing the utilities and DRA's individual positions on the CCM issues were received into evidence.² Of those parties, only SCE recommended continuing the CCM in its current form.³ Both PG&E and DRA recommended a 25-basis point change in the 100-basis point deadband. PG&E recommended the deadband be reduced to 75 basis points, the same deadband it recommended in the proceeding that established the CCM.⁴ DRA recommended that the deadband

² Exhibits 2, 9, 17, 21 and 154 through 162.

³ Exhibit 154 at 6.

⁴ Exhibit 160 at 1.

be increased to 125 basis points to account for increased differences between the 12-month average of 2011 and 2012.⁵

PG&E also recommended that the 12-month averaging period be replaced with a six-month averaging period to increase the sensitivity of the mechanism to changes in interest rates.⁶

SDG&E, acknowledging that the current CCM allows utilities to file a COC application outside of the current CCM process, recommended that an offset provision be added to the CCM to safeguard it against extreme changes in market conditions during times of great financial or economic upheaval. To accomplish this safeguard, SDG&E recommended that it be allowed to voluntarily suspend the CCM if the yield on single-A utility bonds moves by more than 250 basis points from the benchmark during the record period.⁷

SoCalGas recommended that the CCM, based on bond yields, replace its Market-Indexed Capital Adjustment Mechanism, based on Treasury Bond yield benchmarks, so that its capital adjustment mechanism is consistent with the other major energy utilities.⁸

3. Proposed Stipulation Agreement

Irrespective of the individual parties' recommendations to change the CCM, the utilities and DRA jointly introduced a stipulated agreement after SCE, SDG&E, SoCalGas, PG&E, and DRA's individual testimony were received into evidence. The unopposed stipulated agreement was received into evidence as

⁵ Exhibit 162 at 6.

⁶ Exhibit 160 at 3.

⁷ Exhibit 2 at 6.

⁸ Exhibit 156.

Exhibit 163. A copy of the stipulated agreement is attached to this decision as Appendix A. Other than agreeing that the CCM should replace SoCalGas' Market-Indexed Capital Adjustment Mechanism, the stipulated agreement proposed no change in the CCM process established by D.08-05-035.

4. Discussion of Proposed Stipulation Agreement

Pursuant to Rule 12.1(d) of the Commission's Rules of Practice and Procedure, stipulation agreements must be reasonable in light of the record, consistent with the law, and in the public interest.

4.1. Reasonableness in Light of the Whole Record

The stipulation agreement is straightforward and unopposed, and does not change the CCM process established by D.08-05-035. The CCM has provided certainty for its customers and investors, and avoided the use of scarce Commission resources to litigate the utilities' COC.⁹ The CCM has also maintained a fair and reasonable COC while reducing the time and costs to the Commission and all parties associated with annual COC proceedings.

Further, the combination of a 12-month measurement period and 100-basis point deadband provides a level of stability between full COC proceedings occurring every third year that strikes a balance between triggering too often and triggering too infrequently.¹⁰

We find that the stipulation agreement resolves all of the CCM issues raised in this proceeding and reflects a reasonable compromise among the

⁹ Exhibit 17 at 73.

¹⁰ Exhibit 2 at 6.

positions taken by the settling parties in their direct testimony. Thus, we conclude that the settlement is reasonable in light of the whole record.

4.2. Consistent with the Law

The stipulation agreement is the product of good faith negotiations, compromise, and does not conflict with State and Federal law. Therefore, we conclude that the stipulation agreement is consistent with the law.

4.3. In the Public Interest

This CCM streamlines the major energy utilities' COC process while providing greater predictability of the utilities' COC by eliminating the use of interest rate forecasts and disputes concerning interest rate levels and trends, as well as uncertainties associated with conflicting perceptions of financial markets and the return requirements of investors. Hence, shareholders and ratepayers alike share in the burden and benefit of market changes, while eliminating the burden of annual COC applications. The CCM also enables the utilities, interested parties, and Commission staff to reduce and reallocate their respective workload requirements for litigating annual COC proceedings.

While streamlining the COC process, the utilities continue to have a right to file a COC application outside of the CCM process upon an extraordinary or catastrophic event that materially impacts their respective COC and/or capital structure and affects them differently than the overall financial markets. We find that the stipulation agreement is in the public interest.

5. Phase 1 Decision Typographical Errors

SDG&E has requested that two typographical errors in the body of the Phase 1 Decision (D.12-12-034) be corrected, pursuant to Rule 16.5 of the Commission's Rules of Practice and Procedure. A copy of its request was served

on all parties to this consolidated proceeding on January 16, 2013. There were no filed objections to SDG&E's request.

The typographical errors identified by SDG&E pertain to discussions of SDG&E's authorized long-term debt and capital structure on pages 11 and 13 of D.12-12-034, respectively. These are obvious typographical errors that should be corrected as follows:

- a. The 46.25% identified in the last sentence of Section 3.2 on page 11 should be corrected to 45.25%. That sentence should read "We concur with SDG&E and find a 45.25% long-term debt, 2.75% preferred stock and 52.00% common equity capital structure reasonable and we adopt it."
- b. SDG&E's 46.75% long-term debt and 50.50% common equity ratios identified in the Section 3.5 table on page 13 should be corrected to 45.25% long-term debt and 52.00% common equity.

6. Shortened Comment Period

The Phase 2 parties have stipulated that the otherwise applicable 30-day period for public review and comment be reduced to 10 days and reply comment remains at five days. Accordingly, pursuant to Section 311 of the Public Utilities Code and Rule 14.6(b) of the Commission's Rules of Practice and Procedure the period for public review and comment is reduced to 10 days and reply comments remain at five days. Comments were filed on March 1, 2013. There were no reply comments.

7. Assignment of Proceeding

Mark J. Ferron is the assigned Commissioner and Michael J. Galvin is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. A CCM was adopted in 2008 for SCE, SDG&E, and PG&E, pursuant to D.08-05-035.
2. Three COC issues identified to be addressed in this phase of the consolidated proceeding are: (1) whether the CCM should continue; (2) whether modifications should be made to the CCM; and (3) whether the CCM should replace SoCalGas' Market-Indexed Capital Adjustment Mechanism.
3. SCE, SDG&E, SoCalGas, PG&E and DRA introduced an unopposed stipulated agreement that resolves all of the CCM issues identified in this phase of the consolidated proceeding.
4. There are two obvious typographical errors in the body of the Phase 1 D.12-12-034.
5. The Phase 2 parties have stipulated that the otherwise applicable 30-day period for public review and comment be reduced to 10 days and reply comments remains at five days.

Conclusions of Law

1. The stipulation agreement is reasonable in light of the whole record.
2. The stipulation agreement is consistent with the law.
3. The stipulation agreement is in the public interest because the shareholders and ratepayers alike share in the burden and benefit of market changes, while eliminating the burden of annual COC applications.
4. The stipulation agreement in Appendix A should be adopted.

O R D E R

IT IS ORDERED that:

1. The stipulation agreement between Southern California Edison Company, San Diego Gas & Electric Company, Southern California Gas Company, Pacific Gas and Electric Company and the Division of Ratepayer Advocates received into the record as Exhibit 163 and attached to this decision as Appendix A is adopted.
2. The Cost of Capital Mechanism established for Southern California Edison Company, San Diego Gas & Electric Company, and Pacific Gas and Electric Company by Decision 08-05-035 shall continue unchanged.
3. The Cost of Capital Mechanism adopted in Decision 08-05-035 shall replace Southern California Gas Company's Market-Indexed Capital Adjustment Mechanism.
4. Southern California Edison Company, San Diego Gas & Electric Company, Southern California Gas Company, and Pacific Gas and Electric Company shall file their next cost of capital application on April 20, 2015 for a test year 2016.
5. Southern California Edison Company, San Diego Gas & Electric Company, Southern California Gas Company, and Pacific Gas and Electric Company shall use the Cost of Capital Mechanism adopted in decision 08-05-035 in each year that they are not required to file a cost of capital application.
6. Southern California Edison Company and Pacific Gas and Electric Company shall use Moody's long-term Baa rated utility bond index in determining whether their cost of capital mechanism's 100-basis point deadband has triggered. Southern California Edison Company's and Pacific Gas and Electric Company's benchmark index is 5.00%, based on the 12-month period

ending September 2012. Their next measurement period will represent the 12-month period ending September 2013.

7. San Diego Gas & Electric Company and Southern California Gas Company shall use Moody's long-term A rated utility bond index in determining whether their cost of capital mechanism's 100-basis point deadband has triggered. San Diego Gas & Electric Company's and Southern California Gas Company's benchmark index is 4.24%, based on the 12-month period ending September 2012. Their next measurement period will represent the 12-month period ending September 2013.

8. Two obvious typographical errors in the body of the Phase 1 Decision (Decision 12-12-034) are corrected to read as follows:

- The last sentence of Section 3.2 on page 11 of Decision 12-12-034 is corrected to read "We concur with SDG&E and find a 45.25% long-term debt, 2.75% preferred stock and 52.00% common equity capital structure reasonable and we adopt it."
- The table in Section 3.5 on page 13 of Decision 12-12-034 is corrected to show that SDG&E's long-term debt ratio is 45.25% and its common equity ratio is 52.00%.

9. Consolidated Applications 12-04-015, 12-04-016, 12-04-017 and 12-04-018 are closed.

This order is effective today.

Dated _____, at San Diego, California.

A.12-04-015 et al. ALJ/MFG/lil

APPENDIX A

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Application of Southern California Edison
Company (U 338-E) for Authority to Establish Its
Authorized Cost of Capital for Utility Operations
for 2013 and to Reset the Annual Cost of Capital
Adjustment Mechanism

A.12-04-015
(Filed April 20, 2012)

And Related Matters.

A.12-04-016
A.12-04-017
A.12-04-018
(Filed April 20, 2012)

**JOINT STIPULATION EXHIBIT OF THE PHASE 2 PARTIES
RESOLVING ISSUES**

January 11, 2013

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Application of Southern California Edison Company (U 338-E) for Authority to Establish Its Authorized Cost of Capital for Utility Operations for 2013 and to Reset the Annual Cost of Capital Adjustment Mechanism

A.12-04-015
(Filed April 20, 2012)

And Related Matters.

A.12-04-016
A.12-04-017
A.12-04-018
(Filed April 20, 2012)

**JOINT STIPULATION EXHIBIT OF THE PHASE 2 PARTIES
RESOLVING ISSUES**

I. INTRODUCTION

San Diego Gas & Electric Company (SDG&E), Southern California Gas Company (SCG), Pacific Gas & Electric Company (PG&E), Southern California Edison Company (SCE), and Division of Ratepayer Advocates (DRA) (collectively, the Phase 2 Parties¹) hereby stipulate to resolve the previously contested matters associated with “Phase 2” of the above-captioned case.

SDG&E, SCG, PG&E, and SCE (collectively, the IOUs) filed applications initiating these now-consolidated proceedings on April 20, 2012. The Commission’s December 20, 2012 final decision on Phase 1 issues addressed the IOUs’ proposals regarding their authorized capital structure and returns. Phase 2 addresses the remaining IOU application requests regarding each

¹The identified “Phase 2 Parties” include all parties who have sponsored testimony in this Phase 2 proceeding.

IOU's proposed cost of capital adjustment mechanism (CCM), as set forth in the IOUs' respective applications and supporting testimony.²

In general, cost of capital adjustment mechanisms provide a formula that allows an IOU to automatically adjust its revenue requirement based on utility bond rate changes in each year that the IOU is not required to file a cost of capital application. The Commission and stakeholders have recognized that cost of capital mechanisms benefit California ratepayers by conserving administrative resources (in potentially replacing annual cost of capital proceedings) and by supporting the IOUs' financial and regulatory stability in a simple, objective, and transparent manner.

Parties at the October 2, 2012 Phase 1 evidentiary hearing agreed to the Phase 2 schedule, as memorialized in the Assigned Commissioner's December 5, 2012 Phase 2 Scoping Memo and Ruling. Consistent with this schedule, the IOUs served supplemental Phase 2 testimony on October 26, 2012. DRA served its testimonial report³ on November 30, 2012. No other party served testimony. On December 14, 2012, the IOUs served rebuttal testimony.

Since that time, the Phase 2 Parties have engaged in discussing the issues identified in testimony and, in the public interest, have reached agreement on the contested issues between the Phase 2 Parties. This Stipulation hereby reflects the agreement of the parties to resolve outstanding contested Phase 2 issues in the instant case. Uncontested portions of the IOUs' proposals are fully described in testimony and summarized below.

² IOU witnesses supporting Phase 2 testimony are Mr. Kenneth Deremer (SDG&E), Mr. Scott Wilder (replacing Mr. Herb Emmrich, for SCG), Mr. Richard Patterson (PG&E), Mr. Robert C. Boada (SCE) and Mr. Paul Hunt (SCE).

³ DRA's "Report on the Cost of Capital for Test Year 2013; Phase 2: Adjustment Mechanism," sponsored by Mr. Jerry Oh.

II. UNCONTESTED CCM FEATURES

The IOUS provided testimony supporting CCMs with the uncontested features identified below.⁴ DRA does not oppose adoption of the IOUs CCMs with these uncontested features.

| Item No. | Summary of the Phase 2 Parties' Uncontested CCM Features |
|----------|--|
| SDG&E-1 | SDG&E proposed to use a twelve-month average period, ending in September, to calculate the change in utility bond interest rates (based on the Moody's long-term A utility bond index) from one year to the next and determine whether the mechanism's dead band trigger was exceeded for the twelve-month measurement period. The twelve-month period ending September 2012 establishes the initial benchmark, which is 4.24%. The first measurement period will represent the twelve-month period ending September 2013. |
| SDG&E-2 | If the 12-month average index breaches the 100 basis point deadband and thus triggers an adjustment, ROE for the following year is adjusted by one-half of the difference between the triggering 12-month-average index and the benchmark value; the triggering 12-month-average index becomes the new benchmark value. Embedded costs of long-term debt and preferred equity are updated to the latest forecast values for the following year. These features are included in SDG&E's current mechanism. |
| SDG&E-3 | The term of the cost of capital mechanism shall be three years; the IOUs' next cost of capital applications will be due on April 20, 2015 for test year 2016. In the year of cost of capital filings the CCM would not be used, because the cost of capital proceeding will set new rates for the following year. |
| SCG-1 | SCG's replacement of its current Market-Indexed Capital Adjustment Mechanism (MICAM) with a CCM that is benchmarked against Moody's A-rated utility bond index. |
| SCG-2 | SCG is dispensing with using interest rate forecast projections as a factor in determining a triggering event. |
| SCG-3 | SCG proposed to use a twelve-month average period, ending in September, to calculate the change in utility bond interest rates (based on the Moody's long-term A utility bond index) from one year to the next and determine whether the mechanism's dead band trigger was exceeded for the twelve-month measurement period. The twelve-month period ending September 2012 establishes the initial benchmark, which is 4.24%. The first measurement period will represent the twelve-month period ending |

⁴ The descriptions of the proposals in this section are intended only to summarize and not to alter the meaning of the IOU's proposal descriptions in testimony.

| Item No. | Summary of the Phase 2 Parties' Uncontested CCM Features |
|----------|---|
| | September 2013. |
| SCG-4 | If the 12-month average index breaches the 100 basis point deadband and thus triggers an adjustment, ROE for the following year is adjusted by one-half of the difference between the triggering 12-month-average index and the benchmark value; the triggering 12-month-average index becomes the new benchmark value. Embedded costs of long-term debt and preferred equity are updated to the latest forecast values for the following year. |
| SCG-5 | The term of the cost of capital mechanism shall be three years; the IOUs' next cost of capital applications will be due on April 20, 2015 for test year 2016. In the year of cost of capital filings the CCM would not be used, because the cost of capital proceeding will set new rates for the following year. |
| PG&E-1 | PG&E proposed to use a twelve-month period, ending in September, as the period from one year to the next under the ACCAM, to determine if the mechanism's dead band trigger was exceeded for the year. The initial twelve-month period ending in September 2012 establishes the benchmark, which is 5.00%. The first measurement period will represent the twelve-month period ending September 2013. |
| PG&E-2 | PG&E's utility bond rate index will be based on the Moody's long-term Baa utility bond yield, as has been utilized in PG&E's current mechanism. |
| PG&E-3 | If the index breaches the deadband, ROE for the following year is adjusted by one-half of the difference between the current index and the benchmark value. The current index becomes the new benchmark value. Embedded costs of long-term debt and preferred equity are updated to the latest forecast values for the following year. These features are included in PG&E's current mechanism. |
| PG&E-4 | The term of the cost of capital mechanism shall be three years; the IOUs' next cost of capital applications will be due on April 20, 2015 for test year 2016. |
| SCE-1 | SCE proposed to use a twelve-month period, ending in September, to calculate the change in utility bond interest rates from one year to the next to determine if the mechanism's dead band trigger was exceeded for the year. The initial twelve-month period ending in September 2012 establishes the benchmark, which is 5.00%. The first measurement period will represent the twelve-month period ending September 2013. |
| SCE-2 | SCE's utility bond rate index will be based on the Moody's long-term Baa utility bond yield, as in SCE's current mechanism. |

| Item No. | Summary of the Phase 2 Parties' Uncontested CCM Features |
|-----------------|--|
| SCE-3 | If the index breaches the deadband, ROE for the following year is adjusted by one-half of the difference between the current index and the benchmark value; the current index becomes the new benchmark value. Embedded costs of long-term debt and preferred equity are updated to the latest forecast values for the following year. These features are included in SCE's current mechanism. |
| SCE-4 | The term of the cost of capital mechanism shall be three years; the IOUs' next cost of capital applications will be due on April 20, 2015 for test year 2016. |

III. STIPULATION RESOLVING PREVIOUSLY CONTESTED MATTERS

The Phase 2 Parties agree to the resolution of the previously contested matters as presented in the table below.

| Item No. | Summary of the Phase 2 Parties' Litigation Positions | Stipulated Agreement |
|-----------------|--|---|
| SDG&E-1 | SDG&E proposed retaining its currently authorized CCM's 100 basis point "deadband." DRA proposed expanding the deadband to 125 basis points. | The Phase 2 Parties agree to support retaining the 100 basis point deadband. |
| SDG&E-2 | SDG&E proposed modifying its currently authorized CCM to include an "off-ramp" provision, which would apply in the event of extreme interest rate changes. DRA disagreed that an off-ramp provision is necessary. | SDG&E and DRA agree to support retaining the CCM with no off-ramp provision (as is currently authorized). |
| SCG-1 | SCG proposed a CCM with a 100 basis point deadband. DRA proposed a deadband of 125 basis points. | The Phase 2 Parties agree to support the 100 basis point deadband. |
| SCG-2 | SCG proposed an "off-ramp" provision, which would apply in the event of extreme interest rate changes. DRA disagreed that an off-ramp provision is necessary. | SCG and DRA agree that the CCM for SCG contain no off-ramp provision (in alignment with the CCM currently authorized for SDG&E, SCE and PG&E). |
| PG&E-1 | PG&E proposed a 75 basis point deadband. DRA proposed a deadband of 125 basis points. | The Phase 2 Parties agree to support retaining the 100 basis point deadband. |
| PG&E-2 | PG&E proposed to use a six month period to calculate the change in utility bond interest rates from the end of one year to the next to determine if the mechanism's dead band trigger was exceeded for the year. | PG&E agrees to retain the existing 12 month period to calculate the change in the utility bond interest rates from the end of one year to the next. |
| PG&E-3 | PG&E proposed specifically to reserve the right to file an application during the mechanism period if PG&E needs to change its capital structure due to Commission decisions in other proceedings that materially change the level of debt it bears. | PG&E and DRA agree that applications on capital structure during the mechanism period will follow existing provisions in Commission decisions. |

| Item No. | Summary of the Phase 2 Parties' Litigation Positions | Stipulated Agreement |
|----------|--|--|
| SCE-1 | SCE proposed retaining its currently authorized CCM's 100 basis point "deadband." DRA proposed expanding the deadband to 125 basis points. | The Phase 2 Parties agree to support retaining the 100 basis point deadband. |

In addition, Phase 2 Parties hereby stipulate to mutual waiver of all Phase 2 witnesses, and recommend forgoing evidentiary hearings. To the extent the Administrative Law Judge, Assigned Commissioner, or any other party seeks additional information for the record, Phase 2 Parties recommend paper hearings (e.g., data request responses or supplemental testimony) in lieu of physical hearings.

IV. CONCLUSION

The Stipulation reflects agreement among the Phase 2 Parties⁵ that will resolve the outstanding issues and is in the public interest.

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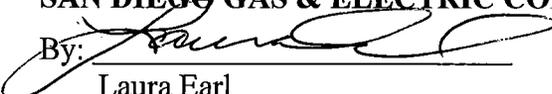
⁵ The Phase 2 Parties have signed this agreement in counterparts transmitted by facsimile and/or electronic copy, each of which is considered an original and part of the agreement.

DIVISION OF RATEPAYER ADVOCATES

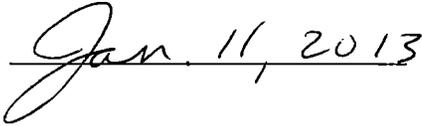
By: 
Jonathan Bromson
Principal Counsel

Date: 1.11.13

SAN DIEGO GAS & ELECTRIC COMPANY

By: 

Laura Earl
Senior Counsel, Regulatory

Date: 

SOUTHERN CALIFORNIA GAS COMPANY

By: 
Johnny Pong
Senior Counsel, Regulatory

Date: 1/11/13

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PACIFIC GAS & ELECTRIC COMPANY

By: Shirley A. Woo
Shirley A. Woo
Attorney

Date: January 11, 2013

PACIFIC GAS & ELECTRIC COMPANY

SOUTHERN CALIFORNIA EDISON

By: *Rob Boada*

Mr. Robert Boada
Vice President and Treasurer

Date: 1/11/2013

(END OF APPENDIX A)