

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

Application of San Diego Gas &)	
Electric Company for Review of)	A.00-03-062
Its Market Indexed Capital)	
Adjustment Mechanism (MICAM))	
(U 902-M))	
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AMENDED SETTLEMENT AGREEMENT

Pursuant to Rules 51 through 51.10 of the Commission’s Rules of Practice and Procedure, the undersigned parties (“Settlement Parties”) hereby submit this Amended Settlement Agreement (“Amended SA”), superseding the Settlement Agreement (“SA”) dated and filed with the Commission on December 5, 2000.

A.00-03-062 was filed by San Diego Gas & Electric Company (“SDG&E”) on March 29, 2000, pursuant to order of the Commission in D.96-06-055 as modified by D.97-06-095. The scope of the proceeding, as described by the Commission in D.96-06-055, is to report on the performance of MICAM and recommend any necessary modifications.

On December 5, 2000, the Settlement Parties, which were all of the parties to A.00-03-062, filed the SA with the Commission. The SA is still pending Commission action and has not appeared on a Commission business meeting agenda to date.

Due to developments since the signature and filing of the SA, in particular the issuance of D.01-05-054, all of the Settlement Parties believe it is desirable to amend the SA in one aspect described below, and hereby agree to this Amended SA as set forth herein. The Settlement Parties request the approval of this Amended SA by the Commission in lieu of the SA as filed on December 5, 2000.

The SA provided (in Paragraph 3) that SDG&E would file in May of 2001 for effectiveness in 2002 (in lieu of MICAM) a cost of capital application covering all issues normally within the scope of annual cost of capital as well as the impact of electric restructuring on SDG&E's cost of capital, consistent with the discussion of this issue at mimeo pp.39 and 66 of D.99-06-057. On May 14, 2001, the Commission issued D.01-05-054, relieving SDG&E (and Southern California Edison Company and Pacific Gas & Electric Company) of the requirement to file a cost of capital application in May of 2001 for effectiveness in 2002. Rather, D.01-05-054 postponed such applications to being filed by May 8, 2002, for effectiveness in 2003.

Therefore, the Settlement Parties hereby amend the SA to read as follows:

1. The MICAM shall continue in effect subject to the modifications and terms set forth below in this Amended SA, unless and until further order by the Commission to the contrary. The Settlement Parties specifically agree that any of them, or any other person, may propose to the Commission, and the Commission may adopt, changes to the MICAM mechanism (as revised by this Amended SA), including its elimination, in SDG&E's next Cost of Service/PBR application. Settlement Parties or any other person may propose such changes to the MICAM mechanism at any time after such an application is filed.
2. Pursuant to the Commission's adoption of MICAM in D.96-06-055, there is an "off-ramp" provision in MICAM, which can be paraphrased as follows: for any year in which the difference between the current six-month average bond yield and the benchmark bond yield exceeds 400 basis points, the MICAM process is abated in the following year. SDG&E instead agrees to file a cost of capital application in that following year. MICAM will then resume the next year after that, and its components will be recalibrated to

reflect the prior year's litigated outcome. This Amended SA changes the existing off-ramp provision to substitute a threshold of 260 basis points difference for the currently-effective 400 basis points difference.

3. This Amended SA does not address when SDG&E must next file a cost of capital application, the effective date of such an application, or the scope of such an application. Nothing in this Amended SA modifies D.01-05-054, nor prohibits any Settlement Party from seeking to have the Commission modify D.01-05-054.
4. The MICAM benchmark for calculation of rates in effect in 2001 shall be 7.97% based on A-rated utility bonds, which was the April-September 1996 average (mean) bond rate for A-rated utility bonds. The MICAM benchmark for subsequent years is addressed in Paragraph 6.
5. Because D.01-05-054 relieved SDG&E of the requirement to file a cost of capital application in 2001 for effectiveness in 2002, the MICAM benchmark for calculation of rates in 2002 and until the effectiveness of a decision in SDG&E's next cost of capital application shall be 7.78% (which was the April-September AA-rated utility bond rate in 1996), and it shall be compared to the April-September AA-rated utility bond rate for the year prior to the year to which the MICAM formula applies. This is a change from using A-rated utility bonds, as is currently the case under the existing MICAM mechanism.
6. Every five years after the year in which SDG&E is next required to file a cost-of-capital application, SDG&E shall file a complete cost of capital application like that filed by SDG&E prior to the adoption of MICAM. The results of the application proceeding will determine SDG&E's cost of

capital for ratemaking purposes for one year. For example, if SDG&E is next required to file a cost of capital application in 2002 for application to rates in 2003, it would then have to file another cost-of-capital application in 2007 to apply to rates in effect in 2008. In the event that a MICAM off-ramp event is triggered, as described in Paragraph 2 above, SDG&E will not file a cost of capital application until five years after the year in which it filed a cost of capital application because of an off-ramp event. For example, if SDG&E is next required to file a cost of capital application in 2002 to apply to rates in effect in 2003, if the average recorded bond rates in April-September 2003 is more than 260 basis points different from the MICAM benchmark in effect in October 2002, an off-ramp event will occur. This event will cause SDG&E to file a cost of capital application in May 2004 to apply to rates in effect in 2005. In this case, SDG&E will not be required to file another cost of capital application until May 2009, rather than in May 2007 as would have been the case if no off-ramp event had occurred. For rates in effect in each year between the years in which rates are set on the basis of a cost of capital application, the MICAM will continue to apply.

7. In the event that the Commission makes any change in SDG&E's authorized rate of return on common equity ("ROE") other than through the operation of the MICAM, such as in a cost of capital application filed by SDG&E pursuant to the requirement herein for such a filing every five years or pursuant to an "off-ramp" event, the MICAM benchmark for subsequent years shall be revised to be the average yield on AA utility bonds for April-September of the year immediately preceding the year in which the change in authorized ROE is effective.

8. SDG&E's capital structure for ratemaking purposes shall remain unchanged in 2001 from the capital structure for SDG&E last adopted by the Commission in D.96-11-060. MICAM does not provide for any change in capital structure for ratemaking purposes thereafter, but the Commission may consider and adopt changes in SDG&E's capital structure for ratemaking purposes in any cost of capital application filed in 2002 or thereafter.

9. In the event that any of the Industrial Development Bonds ("IDBs") outstanding as of the date of this settlement that finance SDG&E's system and operations lose their tax-exempt status, SDG&E is authorized to file an advice letter within 30 days of refinancing of any of those IDBs to revise its rates to reflect changes in embedded cost of capital resulting from refinancing of those IDBs and/or segregation of its transmission and distribution capital structures to limit the amount of those IDBs it had to redeem and refinance. The advice letter filing shall be limited to the effects of loss of tax exempt status of those IDBs. The change in SDG&E's rates reflected in the advice letter will become effective on statutory notice and will not require any resolution of the Commission to become effective. Parties will be allowed to protest the accuracy of calculations in SDG&E's advice letter, but not to contest whether SDG&E is allowed to reflect in its rates the effects of redemption and refinancing of those IDBs. This paragraph applies solely to IDBs outstanding as of the date of this settlement and is not meant to specify a ratemaking treatment in the case of redemption of IDBs issued after the date of this agreement. This paragraph does not apply in the case of loss of tax exempt status or redemption of SDG&E's IDBs as a result of any sale that may occur in the future of SDG&E's electric transmission system or a portion thereof.

10. This Amended SA does not preclude the Commission from ordering SDG&E to participate in a cost of capital proceeding, or cost of capital adjustment proceeding, not otherwise provided by this Amended SA. However, as long as the overall MICAM mechanism as provided in this Amended SA remains in existence, the Settlement Parties request that the Commission not require SDG&E to participate in such a proceeding except as a result of developments that were not reasonably foreseeable as of the date of this Amended SA and that provide good cause for departing from the normal operation of the MICAM.

This Amended Settlement Agreement shall be effective as of the date of a Commission decision approving its terms. The Settlement Parties note that, consistent with the terms of this Amended SA, on October 16, 2000, SDG&E notified the Commission in writing that it had calculated the application of MICAM for rates to be in effect in 2001 using a benchmark of 7.97% for single A-rated utility bonds, and the use of that benchmark value under MICAM triggered no change in cost of capital or rates for 2001.

There is no fixed expiration date for the terms of this Amended SA. The terms of the Amended SA will remain in effect unless and until modified by the Commission. As described above, the Settlement Parties specifically contemplate that any of them or other person may propose to the Commission changes to the MICAM mechanism, including its elimination, in SDG&E's next Cost of Service/PBR application.

This Amended SA represents a negotiated compromise among the parties on a number of issues. Consistent with Rule 51.8, Commission adoption of this Amended SA does not constitute approval of, or precedent regarding, any principle or issue in the proceeding or any future proceeding. Consistent with Rule 51.9, if not approved by the Commission, the parties agree that the terms of

Amended Settlement in A.00-03-062
August 10, 2001

this Amended SA shall not be admissible in this or other proceedings unless their admission is agreed to by all Settlement Parties.

The Settlement Parties agree to urge the Commission to adopt the Amended SA in its entirety without modification. If the Commission conditions its adoption of the Amended SA on any modifications, no Settlement Party shall be bound to accept any such modifications, although such modifications may be made with the consent of all Settlement Parties.

Dated: August 10, 2001

San Diego Gas & Electric Company

By: 
Glen J. Sullivan
Attorney

Office of Ratepayer Advocates

By: _____

Federal Executive Agencies

By: _____
Norman J. Furuta
Associate Counsel
U. S. Department of the Navy

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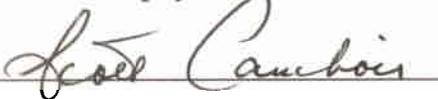
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San Diego Gas & Electric Company

By: _____
Glen J. Sullivan
Attorney

Office of Ratepayer Advocates

By: 
Senior Program Manager
Monopoly Regulation Branch

Federal Executive Agencies

By: _____
Norman J. Furuta
Associate Counsel
U. S. Department of the Navy

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Federal Executive Agencies

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Norman J. Furuta
Associate Counsel
U. S. Department of the Navy

CERTIFICATE OF SERVICE

I hereby certify that a copy of the **MOTION OF SETTLEMENT PARTIES FOR ADOPTION OF AMENDED SETTLEMENT AGREEMENT** has been served on all parties of record or to the attorney of record in service list A.00-03-062, by mailing a copy thereof to each such party, properly stamped and addressed.

By: *Lisa Fucci-Ortiz*
Lisa Fucci-Ortiz

Date: August 14, 2001