(ATTACHMENT A)

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

In the Matter of San Diego Gas & Electric Company's Application for Authorization to (1) to Participate in the Steam Generator Replacement Project As A Co-Owner of San Onofre Nuclear Generating Station Unit Nos. 2 & 3 (SONGS 2 & 3) ; (2) Establish Ratemaking For Cost Recovery; and (3) Address Other Related Steam Generator Replacement Issues (U 902-E)	Application No. 06-04-018

SETTLEMENT AGREEMENT AMONG SAN DIEGO GAS & ELECTRIC COMPANY, THE DIVISION OF RATEPAYER ADVOCATES, AND SOUTHERN CALIFORNIA EDISON COMPANY

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August 1, 2006

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

In the Matter of San Diego Gas & Electric Company's Application for Authorization to (1) to Participate in the Steam Generator Replacement Project As A Co-Owner of San Onofre Nuclear Generating Station Unit Nos. 2 & 3 (SONGS 2 & 3) ; (2) Establish Ratemaking For Cost Recovery; and (3) Address Other Related Steam Generator Replacement Issues (U 902-E)	Application No. 06-04-018

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In accordance with Rule 51.1 of the California Public Utilities Commission's ("Commission" or "CPUC") Rules of Practice and Procedure, San Diego Gas & Electric Company ("SDG&E"), the Division of Ratepayer Advocates ("DRA"), and Southern California Edison Company ("SCE") (referred hereinafter collectively as Parties or individually as Party), hereby enter into this Settlement Agreement, dated August 1, 2006, in order to resolve all issues associated with SDG&E's Application to Participate in the Steam Generator Replacement Project ("SGRP") as a Co-Owner of San Onofre Nuclear Generating Station Unit Nos. 2 & 3 ("SONGS 2 & 3"), among other matters ("SGRP Application"), filed on April 14, 2006.

RECITALS

1. SDG&E is an investor-owned public utility in the State of California and is subject to the jurisdiction of the Commission with respect to providing electric service to its CPUC-jurisdictional retail customers.

2. SCE is an investor-owned public utility in the State of California and is subject to the jurisdiction of the Commission with respect to providing electric service to its CPUC-jurisdictional retail customers.

3. DRA (formerly known as Office of Ratepayer Advocates) is the office of the Commission responsible for advocating on behalf of the interests of utility customers.

4. SONGS 2 & 3 are Pressurized Water Reactor (PWR) nuclear generating units. SONGS 2 & 3 are located at a common site in Southern California, near San Clemente.

5. SDG&E owns a 20% interest in SONGS 2 & 3 and SCE owns a 75.05% interest in SONGS 2 & 3 and is the operating agent for SONGS 2 & 3.[1]

6. On April 14, 2006 SDG&E submitted its SGRP Application requesting authorization to participate in the SGRP as a 20% co-owner in SONGS 2 & 3.

7. In the SGRP Application, SDG&E requested the Commission to take certain actions as set forth therein.

8. On May 24, 2006 SCE filed a timely intervention in support of SDG&E's SGRP Application.

9. On May 24, 2006 DRA filed a timely protest to SDG&E's SGRP Application (the "DRA Protest").

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1 Presently, City of Anaheim owns a 3.16% interest and City of Riverside owns a 1.79% interest in SONGS 2 & 3. In March 2006, SCE filed an application with the Commission requesting SCE ratemaking for Anaheim's share of SONGS 2 & 3 following an early transfer of Anaheim's share of SONGS 2 & 3 to SCE. (A.06-03-018).

SETTLEMENT AGREEMENT

As a compromise among their respective litigation positions, and subject to the recitals and reservations set forth in this Settlement Agreement, the Parties hereby agree to fully resolve the issues raised in DRA's Protest of SDG&E's SGRP Application and to support approval by the Commission of this Agreement in this proceeding as further described in Section 7 below, as follows.

1. The Commission should authorize SDG&E to participate in the SONGS SGRP at its current 20% ownership share;

2. The Commission should authorize a two-way balancing account commencing January 1, 2007 applicable to all SONGS operations and maintenance ("O&M") costs, including refueling outage O&M and SCE's contractual overheads, billed to SDG&E under the San Onofre Operating Agreement[2] so as to allow SDG&E to recover in rates no more and no less than the actual O&M related costs billed to it by SCE.

3. This SDG&E SONGS specific two-way balancing account will commence on January 1, 2007 and remain in effect through SDG&E's next rate case cycle that will commence on January 1, 2008 ("Effective Period"). SDG&E may submit an application to the Commission seeking authorization to continue this SDG&E SONGS specific O&M balancing account after the Effective Period.

4. SDG&E will defer its request under the SGRP Application for a return on equity solely with respect to SDG&E's investment in SONGS and in

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[2] Second Amended San Onofre Operating Agreement Among Southern California Edison Company, San Diego Gas & Electric Company, City of Anaheim, and City of Riverside, effective February 26, 1987, as amended.

lieu thereof to file such request in its next Cost of Capital proceeding, currently anticipated to be filed with the Commission in May 2007.

5. The Commission should approve the remainder of SDG&E's requests set forth in its SGRP Application, which comports with the Commission's Decision No. 05-12-040 (December 15, 2005), as follows:

a) Establish an estimate of reasonable costs for SDG&E's ownership share in the SGRP of $142 million (2004$) consisting of $117 million (2004$) for replacement steam generator installation and $25 million (2004$) for removal and disposal of the original steam generators, including allocated overheads and excluding accumulated Allowance for Funds Used During Construction;[3]

b) Establish an increase in SDG&E's SONGS 2 & 3 depreciation expense recorded to SDG&E' Non-Fuel Generation Balancing Account ("NGBA") and recovered in SDG&E commodity rates (Schedule EECC, Electric Energy Commodity Costs) of $4.4 million (2004$) ($22.2 million multiplied by SDG&E's 20% ownership share) beginning in January 2007 (or when the application is approved) and continuing through 2011 to provide for recovery of 20% of SDG&E's share of estimated removal and disposal costs of the original steam generators.[4] SDG&E's estimated first year cost to be recovered is $1.02 million;

c) Authorize eventual recovery through rates of the associated revenue requirement on SDG&E's share of SGRP costs which shall not exceed SDG&E's ownership share of the maximum allowable 100% level of SGRP cost ("Maximum Allowable Amount") of $782

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[3] This request conforms to the treatment provided SCE under D.05-12-040, Ordering Paragraph 3.

[4] This request conforms to the treatment provided SCE under D.05-12-040, Ordering Paragraph 12.

million (2004$), which excludes accumulated Allowance for Funds Used During Construction, as adjusted for allocated overheads, inflation, and cost of capital.[5] SDG&E's share of the Maximum Allowable Amount is $163 million (2004$), which excludes accumulated Allowance for Funds Used During Construction;

d) Establish a balancing account called the SONGS Major Additions Adjustment Clause SONGS MAAC in which SDG&E will record the revenue requirements associated with its share of the steam generator installation cost for each Unit as of the date of operation of each Unit[6] and the remaining balance, not collected under part b) above, of its share of removal and disposal costs of the original steam generators for each Unit as of the date removal and disposal is completed;[7]

e) Authorize the revenue requirement recorded in the SONGS MAAC for its share of steam generator installation cost to be transferred to the NGBA for interim cost recovery on January 1 of the year following commercial operation of each Unit through an advice letter;[8]

f) Authorize the revenue requirement recorded in the SONGS MAAC for the remaining balance described in Part d) above, of its share of removal and disposal cost for the original steam generators to be transferred to the NGBA for interim cost recovery on January 1 of

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5 This request conforms to the treatment provided SCE under D.05-12-040, Ordering Paragraph 6.

6 This request conforms to the treatment provided SCE under D.05-12-040, Ordering Paragraph 7.

7 This request conforms to the treatment provided SCE under D.05-12-040, Ordering Paragraph 8.

8 This request conforms to the treatment provided SCE under D.05-12-040, Ordering Paragraph 9.

the year following completion of the removal and disposal of the original steam generators for each Unit through an advice letter;[9] and

g) Direct SDG&E to file (1) an application for inclusion of its share of the SGRP costs permanently in rates after completion of the SGRP, which will also address the appropriate inflation adjustment to convert the 2004 dollars referenced herein to nominal dollars, and (2) an application for inclusion of remaining removal and disposal costs of original steam generator permanently in rates after completion of the removal and disposal, which will also address the appropriate inflation adjustment to convert the 2004 dollars referenced herein to nominal dollars.[10]

RESERVATIONS

6. **Effective Date**: This Agreement shall become binding on the signature date.

7. **Regulatory Approval:** SDG&E and DRA shall use their best efforts to obtain Commission approval of this Agreement. SCE shall support this Agreement consistent with its agreement to support SDG&E's Application in the Settlement Agreement between SDG&E and SCE, dated April 13, 2006 ("April 13 Settlement Agreement"). The Parties shall jointly request that the Commission: (1) approve the Agreement without change; and (2) find the Agreement to be reasonable and in the public interest.

8. **Compromise of Disputed Claims:** This Agreement represents a compromise of disputed claims between the Parties. The Parties have reached this

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[9] This request conforms to the treatment provided SCE under D.05-12-040, Ordering Paragraph 10.

[10] This request conforms to the treatment provided SCE under D.05-12-040, Ordering Paragraphs 11 and 13.

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 and in the public interest.

9. **Non Precedent:** Consistent with Rule 51.8 of the Commission's Rules of Practice and Procedure, this Agreement is not precedential.

10. **Previous Communications:** The Agreement contains the entire Agreement and understanding between the Parties as to SDG&E's SGRP Application, and supersedes all prior agreements, commitments, representations, and discussions between the Parties regarding SDG&E's SGRP Application, except for the April 13 Settlement Agreement. In the event there is any conflict between the terms and scope of the Agreement and any writing, the Agreement shall govern other than the April 13 Settlement Agreement.

11. **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.

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

13. **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.

14. **Number of Originals:** This Agreement may be 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.

SAN DIEGO GAS & ELECTRIC COMPANY

By: Lee Schavrien

Name: Lee Schavrien

Title: Vice President Regulatory Affairs

SOUTHERN CALIFORNIA EDISON COMPANY

By: _____

Name: _____

Title: _____

DIVISION OF RATEPAYER ADVOCATES

By: _____

Name: _____

Title: _____

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Name: Lee Schavrien

Title: Vice President Regulatory Affairs

APPROVED
STEPHEN E. PICKETT
Sr. Vice President and
General Counsel
By Carol A. Schmid-Frazee
Attorney
August 1, 2006

SOUTHERN CALIFORNIA EDISON COMPANY

By:_____

Name: Richard M. Rosenblum

Title: Senior Vice President

DIVISION OF RATEPAYER ADVOCATES

By:_____

Name:_____

Title:_____

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Name: Lee Schavrien

Title: Vice President Regulatory Affairs

SOUTHERN CALIFORNIA EDISON COMPANY

By:_____

Name: _____

Title: _____

DIVISION OF RATEPAYER ADVOCATES

By: _____

Name: R. MARK POCTA

Title: PROGRAM MANAGER

(END OF ATTACHMENT A)