APPENDIX A

SETTLEMENT AGREEMENT

^

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

Southern California Edison Company's (U 338-E) Application for Approval of Advanced Metering Infrastructure Deployment Activities and Cost Recovery Mechanism	Application No. 07-07-026 (Filed July 31, 2007)

SETTLEMENT AGREEMENT

Pursuant to the California Public Utilities Commission's Rules of Practice and Procedure, Rule 12.1, this Settlement Agreement ("Settlement Agreement") is entered into by and between Southern California Edison Company (SCE) and the Division of Ratepayer Advocates (DRA) (each a "Settling Party" and collectively the "Settling Parties"), and shall be effective on the date it is fully executed by the Settling Parties. The Settling Parties intend and agree that all outstanding issues of Southern California Edison Company's Application (A.07-07-026) for Approval of Advanced Metering Infrastructure Deployment Activities and Cost Recovery Mechanism, which seeks authorization and cost recovery for Phase III of SCE's Advanced Metering Infrastructure (AMI) project, Edison SmartConnect™ shall be fully settled and resolved by means of this Settlement Agreement.

1. BACKGROUND

On July 31, 2007, SCE filed its Application (A.07-07-026) for Approval of Advanced Metering Infrastructure Deployment Activities and Cost Recovery (the Application) with the California Public Utilities Commission (the Commission). In the Application, SCE seeks authority to deploy SCE's AMI solution, Edison SmartConnect™, to all residential and business customers with demands under 200 kW during a five-year period beginning in 2008 and to recover the costs associated with the deployment activities. In addition, SCE requests authority to implement a Programmable Communicating Thermostat (PCT) load control program and to conduct outreach, marketing, and education on dynamic rates and demand response program offerings for customers receiving the new AMI meters.

DRA filed a protest to the Application on August 30, 2007. In addition, responses to the Application were filed by the Alliance for Retail Energy Markets (AReM) and Southern California Gas Company (SoCalGas). SoCalGas expressed its intention to monitor the proceeding. AReM requested that certain metering and data access issues of interest to Energy Service Providers (ESPs) be included within the scope of the proceeding.

Following a pre-hearing conference, on October 17, 2007 the Assigned Commissioner and Administrative Law Judge (ALJ) issued a Scoping Memo and Ruling (Ruling) establishing the scope and schedule of the proceeding. In the Ruling, settlement discussions were strongly encouraged: "the assigned Commissioner and the ALJ urge parties to this proceeding to hold settlement discussions and, if possible, propose a comprehensive settlement to the issues within the scope of this case."[1] The Ruling established a mandatory settlement conference and required SCE to prepare and file a report on the status of settlement discussion.[2]

Subsequent to the pre-hearing conference, DRA, TURN and AReM propounded numerous data requests, to which SCE responded. SCE also met with each party numerous times to review its extensive workpapers and/or answer additional questions.

On November 16, 2007, SCE and AReM submitted a report on their mutual efforts to address the metering and data access issues raised by AReM in response to the Application. SCE and AReM reported that their efforts were successful in informally resolving AReM's issues, and that no special metering or data access issues related to ESPs or direct access customers required litigation in this proceeding.[3]

On December 5, 2007, after briefing DRA and TURN, SCE served errata testimony to revise certain cost estimates for its AMI project. At the joint request of SCE, DRA and TURN, the proceeding schedule was modified in a December 24, 2007 ALJ Ruling to allow DRA and

---

1 *See* the Ruling at p. 8.

2 *See id.*

3 *See* November 16, 2007 Letter to ALJ Hecht from Janet Combs of SCE and Gregory Klatt of AReM.

TURN additional time to review SCE's errata testimony and workpapers before serving their opening testimony.

On January 25, 2008, DRA and TURN served opening testimony.[4] SoCalGas also served opening testimony regarding contract meter reading issues.[5]

On January 29, 2008, SCE met with DRA, TURN and SoCalGas to discuss the potential settlement of the Phase III issues. The results of this meeting are reported in SCE's Case Management Statement and Settlement Conference Report filed February 15, 2008. On February 19, 2008, SCE served rebuttal testimony in response to the opening testimony of DRA and TURN.

Since the initial settlement conference, DRA and SCE met numerous times to continue to diligently pursue settlement. The Settling Parties believe the record is sufficient to allow the Commission to find that the Settlement Agreement is reasonable in light of the whole record, is consistent with law and previous Commission decisions, and is in the public interest. A comparison of the positions of SCE and DRA taken in their respective testimonies and the Settlement Agreement is set forth below.

---

4 DRA served errata to Chapters 1 and 13 of its testimony on February 15, 2008.

5 SoCalGas also filed a motion requesting an ALJ Ruling directing SoCalGas and SCE to exchange information that will reasonably assist SoCalGas in analyzing the feasibility of developing, installing and operating a gas meter AMI system compatible with SCE's current plans for its Edison SmartConnect™ system, and enable SoCalGas and SCE to reach conclusions on this matter for review by the Commission in an appropriate proceeding as determined by the Commission. SCE filed a reply to the motion on February 11, 2008. On February 29, 2008, Commissioner Grueneich directed SoCalGas to share information with SCE and other California investor-owned utilities.

Table 1-1
Settlement Comparison

($ Million)

Line No.			SCE		DRA	Updated Settlement	Difference
			12/05/07 Errata	2/19/08 Rebuttal	2/15/08 Errata	3/6/2008	
			(a)	(b)	(c)	(d)	= (d) - (b)
1		(Nominal, 2008-2012) **Phase III Expenditure Request**	**$1,645**	**$1,649**	**$1,611**	***$1,634***	**-$15**
2		(PVRR, 2007-2032) **Total AMI Costs**	$1,960	$1,980	$1,981	*$1,981*	$1
3		**Total AMI Benefits**	$2,076	$2,053	$1,797	*$1,990*	-$63
4		**Total Societal Benefits**	$0	$0	$0	*$295*	$295
5	= 3 + 4 - 2	**Net AMI Benefits (w/Societal)**	**$116**	**$73**	**-$184**	***$304***	**$231**
6	= 5 - 4	**Net AMI Benefits**	**$116**	**$73**	**-$114**	***$9***	**-$64**

2. DEFINITIONS

Capitalized terms not defined in this Settlement Agreement shall have the meanings given them in SCE's Application and supporting testimony.

3. TERMS OF THE SETTLEMENT AGREEMENT

In consideration of the mutual obligations, covenants and conditions contained herein, the Settling Parties hereby agree to settle all outstanding issues related to the Application as follows.

A. **Deployment Period Costs**: SCE should be authorized to deploy Edison SmartConnect™ to all metered accounts in its service territory with demands less than 200 kW (approximately 5.3 million meters) over a five-year period from 2008 through 2012 (the "Deployment Period"). The Settling Parties agree that SCE's proposed deployment activities (as revised by this Settlement Agreement) and total estimated Deployment Period expenditures (as revised by the Settlement Agreement) of $1,633.5 million (comprised of an estimated $406.8 million of Operations and Maintenance (O&M) expenses and an estimated $1,226.7 million of capital expenditures) are reasonable and should be approved.

B. **Cost Effectiveness**: With the revisions to SCE's business (economic) case as agreed to in this Settlement Agreement, the Edison SmartConnect™ investment is cost effective and is reasonably expected to generate $1,174 million in forecast operational benefits and $816 million in forecast energy conservation, load control and demand response related benefits, for an estimated $9 million in net forecast benefits (on a present value revenue requirement (PVRR) basis) to SCE's ratepayers. The impact of the Settlement Agreement on SCE's economic case is shown in Table 3-2 below, and demonstrates that SCE's economic case is positive on a PVRR basis.

Table 3-2
PVRR of Edison SmartConnect™ under the Settlement Agreement

	Nominal ($ millions)			PVRR ($ millions)
	Deployment	Post-Deployment	Total	
Cost-Benefit Analysis as Reflected in SCE's Rebuttal Testimony (Feb 19, 2008)				
Total Costs*	(1,696.0)	(1,530.5)	(3,226.5)	(1,980.3)
Total Benefits	453.8	7,257.8	7,711.6	2,052.8
			Net Benefits	**72.6**
*Includes Pre-Deployment costs			**Benefit to Cost Ratio**	**1.04**
Adjustments Reflected in Settlement Agreement				
Costs				
Prepayment Services	1.1	89.8	90.9	21.6
Billing Services	2.2	-	2.2	1.6
Meter Panels	11.1	-	11.1	8.3
Revenue Protection	-	(141.4)	(141.4)	(32.6)
Program Management	0.7	-	0.7	0.5
Total Cost Adjustments	15.1	(51.6)	(36.5)	(0.6)
Benefits				
Prepayment Services	-	(258.1)	(258.1)	(51.3)
Eight Month Benefit Recognition	(18.7)	-	(18.7)	(13.1)
Billing Exception Benefit	2.5	-	2.5	1.7
Total Benefit Adjustments	(16.2)	(258.1)	(274.3)	(62.7)
			Adjusted Costs Total	(1,980.9)
			Adjusted Benefits Total	1,990.2
			Adjusted Net Benefits	**9.3**
			Adjusted Benefit to Cost Ratio	**1.00**
Total Deployment Costs				
Phase II Pre-Deployment	(45.2)			
Phase III Power Procurement	(2.2)			
Phase III Expenditure Request				
O&M	(406.8)			
Capital	(1,226.7)			
	(1,633.5)			
Total Deployment Costs	(1,680.9)			

Operational O&M Benefits Credit		
Ln#	Item	Total
1	Revised O&M Benefits	$ 172,327,169
2	Revised O&M Benefits net of pensions, PBOPs, & Results Sharing	$ 151,506,457
3	Total Sum of Active Meter Months	106,350,096
4	Avg. O&M Benefit per Active Meter Month (Line 4 = Line 2 divided by Line 3)	$ 1.4246

C. **Energy Conservation**.

a. SCE has created detailed ex-ante participation goals for specific information feedback conservation programs as set forth in **Attachment A** hereto which further support the forecasted energy conservation benefits of $164 million (PVRR) in SCE's economic case. The Commission should find that the ex-ante participation goals for specific information feedback conservation programs as set forth in Attachment A and the forecasted energy conservation benefits of $164 million (PVRR) in SCE's economic case are reasonable.

b. The Commission should authorize SCE to spend up to $3.5 million (included in SCE's total estimated Deployment Period funding level of $1,633.5 million set forth in Section 3.A above) during the Deployment Period on personal computer (PC)-based information display devices for residential customers receiving the Edison SmartConnect™ meter who want to connect their personal computer to the Zigbee meter interface that receives near real-time information from Home Area Network (HAN) interface, consistent with the assumptions in Attachment A.

D. **Prepayment Service**. Because SCE does not plan to offer prepayment service to its customers until 2013, the Settling Parties agree that the details of SCE's prepayment service, including reasonable consumer protections, should be litigated in the application in which SCE seeks authority to offer this service. The cost and benefit assumptions associated with this service shall be removed from SCE's economic case, and are not reflected in the cost effectiveness result shown in Section 3.B above.

E. **Annual Meter Inspections**. The Settling Parties agree that SCE's plan to conduct annual educated and random inspections of 0.5% of Edison SmartConnect™ meters during the Deployment and Post-Deployment Periods and to use the capabilities of the system to minimize meter tampering and energy theft is reasonable and should be approved. Statistical analysis of information collected from previous years' random Edison SmartConnect™ meter inspections will be used to target some of the 0.5% of

meter inspections toward accounts that may most likely be involved in electricity theft. Furthermore, in an effort to prevent theft from happening in the first place, SCE will notify its ratepayers of its plan to conduct Edison SmartConnect™ meter inspections.

F. **Meter Panel Repairs**. The Settling Parties agree that SCE's estimated costs for meter panel repairs during the Deployment Period of $29.7 million shall be reduced by $11.1 million (reduction is included in SCE's total estimated Deployment Period funding level of $1,633.5 million set forth in Section 3.A above).

G. **Billing Costs**. The Settling Parties agree that SCE's estimated billing costs during the Deployment Period of $55.2 million shall be reduced by $2.2 million (reduction is included in SCE's total estimated Deployment Period funding level of $1,633.5 million set forth in Section 3.A above).

H. **Project Management and Organizational Change and Career Planning Deployment Costs**. The Settling Parties agree that SCE's estimated costs for PMO and Organizational Change and Career Planning during the Deployment Period shall be reduced by $0.7 million.

I. **Benefits for Increased Accuracy of Meter Reads (B23.04) and Working Cash**. The Settling Parties agree that SCE's forecast benefits related to reduced billing services exception work (increased accuracy of meter reads) shall be increased by a total of $2.5 million (nominal) during the Deployment Period, and that SCE's forecast benefits related to working cash are reasonable as adjusted in Section IV.J in SCE's rebuttal testimony.

J. **Automated Contract Meter Reading**. The Settling Parties agree that SCE has taken reasonable steps to ensure that its system is capable of providing automated meter reading (AMR) for gas and water utilities. SCE commits to work with gas and water utilities in its service territory to explore the potential benefits of AMR for gas and water utilities using its Edison SmartConnect™ system. SCE commits to hold four workshops to explore issues related to AMR for gas and water utilities using SCE's Edison SmartConnect™ system, as follows:

- Workshops will be held quarterly beginning in the second quarter of 2008 through the first quarter of 2009;
- All interested parties, including DRA, shall be invited to participate;
- The workshop agendas shall be agreed upon by interested parties, including DRA;
- In the event participants in the workshops reach a consensus that subsequent workshops are no longer needed, no further workshops will be held; and
- For each of the four quarterly workshops, SCE shall produce a post-workshop report on behalf of the workshop participants, which should be served on parties to the service list for this proceeding (A.07-07-026).

K. Risk Sharing Mechanism for Deployment Cost Overruns.

- Deployment Period expenditures of up to $1,633.5 million shall be deemed reasonable and the revenue requirement associated with actual Deployment Period expenditures up to that funding level shall be recovered in rates without any after-the-fact reasonableness review.
- To the extent Deployment Period expenditures exceed $1,633.5 million by up to $100 million ("Cost Overruns"), then the revenue requirement associated with 90 percent of such expenditures (i.e., up to $90 million) shall be recovered without any after-the-fact reasonableness review.
- To the extent Deployment Period expenditures exceed $1,633.5 million by up to $100 million, then 10 percent of such expenditures (i.e., up to $10 million) shall be borne by SCE shareholders and the revenue requirement associated with such expenditures shall not be recovered in rates.
- Subject to this risk sharing mechanism, SCE shall be authorized to spend up to $100 million on Deployment Period Cost Overruns for capital expenditures or O&M expenses in accordance with normal accounting practices for the project.
- The Settling Parties agree to the following force majeure provisions that provide for SCE to recover in rates costs that exceed $1,633.5 million by up to $100

million without shareholder contribution due to events beyond SCE's control (uncontrollable events), including:

- *Force majeure* events that materially affect SCE's ability to implement the Edison SmartConnect™ project as planned such as: (i) landslide, lightning, earthquake, storm, hurricane, flood or other acts of nature; (ii) transportation accidents or the lack of availability of components and raw materials used in the manufacture of the hardware products including meters, communications equipment and servers in which SCE is neither intentionally nor negligently responsible; (iii) riots, terrorism, war, civil disturbances, or sabotage; or (iv) changes in law.
- Material changes in the scope or functionality of the Edison SmartConnect™ project (as that scope is defined in the Application) due to governmental or regulatory actions, or due to issuance of any order, judgment, award, or decree which affects the project;
- Material changes in the costs of the Edison SmartConnect™ project caused by a delay in Commission approval of the project beyond August 2008; and
- Material delays before or during the Deployment Period caused by regulatory or governmental action or inaction, including delays caused by cities and local governments or permit delays.
- Notwithstanding anything herein to the contrary, *force majeure* does not include any events such as, but not limited to, events arising from the failure to implement the Edison SmartConnect™ project in accordance with Good Utility Practice,[6] economic factors including the price of labor,

---

[6] "Good Utility Practice" means any of the practices, methods and acts engaged in or approved by a significant portion of the electric utility industry during the relevant time period, or any of the practices, methods and acts which, in the exercise of reasonable judgment in light of the facts known at the time the

materials or variable operations and maintenance costs, or failure of third parties to provide goods and services essential to SCE's performance, except to the extent that failure is caused by a *force majeure* event.

- Deployment Period expenditures that exceed $1,733.5 million ($1,633.5 million plus $100 million for Cost Overruns) may be recovered in rates to the extent approved by the Commission in a subsequent application filed by SCE and would be subject to a reasonableness review.

L. Programmable Communicating Thermostat (PCT) Program.

a. As a result of the recent removal by the California Energy Commission of the PCT mandate from the 2008 California Building Code, it is reasonable to modify the program design for SCE's proposed PCT program during the Deployment Period, and revise the cost and benefit assumptions for PCT programs in SCE's business case as set forth in **Attachment B** hereto. As a result of these new assumptions, it is reasonable to reduce the PCT program net benefits in SCE's economic case by $32.2 million PVRR as reflected in SCE-07, page 17.

b. SCE should be authorized to implement the voluntary PCT program as described in **Attachment B** during the Deployment Period, at an estimated cost of $58.1 million[7] (included in the total estimated Deployment Period funding level of $1,633.5 million as set forth in Section 3.A above.) The Parties agree that the Commission should order, and SCE commits to file, an advice letter proposing a PCT tariff consistent with the PCT program authorization in the Commission's final decision in this proceeding.

---

decision was made, could have been expected to accomplish the desired result at a reasonable cost consistent with good business practices, reliability, safety and expedition. Good Utility Practice does not require the optimum practice, method, or act to the exclusion of all others, but rather is intended to include acceptable practices, methods, or acts generally accepted in the Western Electric Coordinating Council region.

7 Includes $5.4 million increase summarized in Table I-1 of SCE-7, page 3.

M. **Peak Time Rebate (PTR) Program**. The Settling Parties agree that a two-tiered incentive for PTR, whereby participants with enabling automated load-reduction devices (such as PCTs) or utility-registered dedicated portable graphical information-feedback displays will be paid a higher incentive than participants without such devices or displays, is a reasonable way to minimize incentives paid to "structural benefiters."[8] SCE shall propose a two-tiered PTR incentive in Phase 2 of its 2009 GRC.

N. **Operational Benefits Realization**.

a. SCE's proposal for crediting to ratepayers the capital operational benefits of Edison SmartConnect™ as described in the proposed SmartConnect Balancing Account tariff as set forth in **Attachment C** hereto is reasonable and should be approved.

b. For each Edison SmartConnect™ meter purchased during the Deployment Period, SCE shall credit $1.4246 of O&M operational benefit per month through the Deployment Period to ratepayers via the Edison SmartConnect Balancing Account beginning eight (8) months after reflecting such meter into rate base, consistent with the operation of the proposed SmartConnect Balancing Account tariff attached hereto as Attachment C, and as summarized in Table 3-3 below.

---

[8] A structural benefiter is a customer who receives a PTR incentive credit without taking any direct action to reduce load during a PTR event.

Table 3-3
Summary of Operational O&M Benefits Credit

Line No.	Item	Total
1.	Revised O&M Benefits	$172,327,169
2.	Net of pensions, PBOPs and Results Sharing	$151,506,457
3.	Total Sum of Active Meter Months	106,350,096
4.	Average O&M Benefit per Active Meter Month (Line 4 = Line 2 divided by Line 3)	$1.4246

O. Avoidance of Double Recovery of Deployment Costs. The Settling Parties agree that SCE shall not recover any Edison SmartConnect™ Deployment Period-related costs in its 2009 GRC. If SCE includes any Edison SmartConnect™ Deployment Period-related costs in its 2012 GRC, SCE will ensure (i) that there is no double recovery of such costs, *i.e.*, through the 2012 GRC and the recovery mechanism adopted in this proceeding; and (ii) that the recovery of Deployment Period-related costs is consistent with the limits on recovery of such costs adopted in this proceeding.

P. Revenue Protection/Meter Electricity Usage.

a. The Settling Parties agree that Unaccounted For Energy (UFE)-related costs and benefits shall not be included in SCE's economic case:

- The Edison SmartConnect™ meters are expected to consume more electricity than existing electromechanical meters, at an estimated cost of $57 million (PVRR). Because the cost of this increased electricity consumption is treated in the same manner as other UFE (e.g., line losses), it shall not be considered a component of SCE's economic case, but rather a societal cost.
- As a result of annual meter inspections during the Deployment and Post Deployment Periods and use of the system capabilities to minimize meter tampering and energy theft, the Edison SmartConnect™ system is expected to

reduce energy theft by $96 million (PVRR). Because this energy theft benefit serves to reduce UFE, it shall not be considered a component of SCE's economic case, but rather a societal benefit.

- These UFE-related costs and benefits result in a net societal benefit of $39 million (PVRR), which shall not be considered a component of SCE's economic case.

b. The Post-Deployment period Revenue Protection costs should be included in SCE's economic case, resulting in an increase in the economic case costs of $33 million (PVRR), which is reflected in the cost effectiveness results shown in Section 3.B above.

Q. **Meter Accuracy**: The Settling Parties agree that SCE should realize some meter accuracy benefits over the life of the Edison SmartConnect™ project. Such benefits shall not be included in SCE's economic case, but rather included as a societal benefit, which DRA has quantified at $256 million (PVRR).

R. **Cost Recovery**: SCE's proposed cost recovery mechanism as set forth in the proposed SmartConnect Balancing Account tariff attached hereto as Attachment C is reasonable and should be approved.

S. **Allocation of Edison SmartConnect™ Revenue Requirement**: The allocation of the Edison SmartConnect™ revenue requirement among customer groups should be litigated in Phase 2 of SCE's 2009 GRC. Pending the outcome of this issue in Phase 2 of SCE's 2009 GRC, the Edison SmartConnect™ revenue requirement should be allocated among customer classes using the SCE distribution allocators for SCE's distribution revenue requirement in place when Edison SmartConnect™ deployment costs are recovered in rates.

T. **Uncontested Issues**: SCE's proposals that were not contested are reasonable and should be adopted.

4. GENERAL TERMS AND CONDITIONS

A. Performance

The Settling Parties agree to perform diligently, and in good faith, all actions required or implied hereunder, including, but not necessarily limited to, the execution of any other documents required to effectuate the terms of this Settlement Agreement, and the preparation of exhibits for, and presentation of witnesses at, any required hearings to obtain the approval and adoption of this Settlement Agreement by the Commission. No Settling Party will contest in this proceeding, or in any other forum, or in any manner before this Commission, the recommendations contained in this Settlement Agreement. It is understood by the Settling Parties that time is of the essence in obtaining the Commission's approval of this Settlement Agreement and that each will extend its best efforts to ensure its adoption.

B. The Public Interest

The Settling Parties agree by executing and submitting this Settlement Agreement that the relief requested herein is just, fair and reasonable, and in the public interest. The Settling Parties agree that the Settlement will enable the deployment of an AMI system in SCE's service territory that will generate real, quantifiable economic benefits for SCE's ratepayers as well as societal benefits, such as energy theft reductions, improved customer experience and security, and potential environmental benefits. In consideration of the economic benefits as well as the societal benefits, which were not included in SCE's economic business case, the Settling Parties agree that ratepayer interests have been thoroughly considered, and in light of the record, the Settlement protects ratepayers' best interests.

The Settlement Agreement, if adopted by the Commission, also avoids the cost of further litigation between the Settling Parties, thereby narrowing the scope of evidentiary hearings and reducing the Commission resources that must be devoted to this proceeding. The saved resources of the Commission may then be devoted to matters that involve greater cost or policy issues. Given that the Commission's workload is extensive, the impact on Commission

resources is doubly important.

C. Non-Precedential Effect

This Settlement Agreement is not intended by the Settling Parties to be precedent regarding any principle or issue. The Settling Parties have assented to the terms of this Settlement Agreement only for the purpose of arriving at the settlement embodied in this Settlement Agreement. Each Settling Party 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 Settlement Agreement, and each Settling Party expressly declares that, as provided in Rule 12.5 of the Commission's Rules of Practice and Procedure, this Settlement Agreement should not be considered as a precedent for or against it.

D. Indivisibility

This Settlement Agreement embodies compromises of the Settling Parties' positions. No individual term of this Settlement Agreement is assented to by any Settling Party, except in consideration of the other Settling Parties' assents to all other terms. Thus, the Settlement Agreement is indivisible and each part is interdependent on each and all other parts. Any Settling Party may withdraw from this Settlement Agreement if the Commission modifies, deletes from, or adds to the disposition of the matters stipulated herein. The Settling 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 terms and conditions of this Settlement Agreement may only be modified in writing subscribed to by the Settling Parties.

E. Previous Communications

The Settlement Agreement contains the entire agreement and understanding between the Parties as to the subject matter of this Settlement Agreement, and supersedes all prior

agreements, commitments, representation, and discussions between the Settling Parties. In the event there is any conflict between the terms and scope of the Settlement Agreement and the terms and scope of the accompanying motion for adoption of the Settlement Agreement, the Settlement Agreement shall govern.

F. Signature Date

This Settlement Agreement shall become binding as of the last signature date of the Settling Parties.

G. Number of Originals

This Settlement Agreement is 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.

SOUTHERN CALIFORNIA EDISON COMPANY:

Akbar Jazayeri

By: AKBAR JAZAYERI
Its: Vice President
Date: March 7, 2008

DIVISION OF RATEPAYERS ADVOCATES:

_____

By: DANA S. APPLING
Its: Director
Date: _____, 2008

terms and scope of the accompanying motion for adoption of the Settlement Agreement, the Settlement Agreement shall govern.

F. Signature Date

This Settlement Agreement shall become binding as of the last signature date of the Settling Parties.

G. Number of Originals

This Settlement Agreement is 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.

SOUTHERN CALIFORNIA EDISON COMPANY:

By: AKBAR JAZAYERI
Its: Vice President
Date: _____, 2008

DIVISION OF RATEPAYERS ADVOCATES:

By: DANA S. APPLING
Its: Director
Date: 3/10/08, 2008

ATTACHMENT A

EX-ANTE PARTICIPATION GOALS FOR SPECIFIC INFORMATION FEEDBACK CONSERVATION PROGRAMS

CONSERVATION BENEFITS: ADDITIONAL PROGRAM DETAILS AND BENCHMARKS TO SUPPORT THE BENEFIT ASSUMPTIONS REFLECTED IN THE SETTLEMENT AGREEMENT

For SCE's business case, assume two categories of participants toward conservation. The categories are:

- Residential customers that use Near Real Time technology;
- Residential customers that use historical information from the SCE web portal.

Residential customers that adopt Near Real Time technology is forecast in four categories:

- Building-Integrated Graphical Display (New Construction)
  - Assume customers with In-Home Graphical Display receiving usage signals from the SmartConnect™ meter will reduce a residential customer's energy consumption by 6.5%;
  - Assume that 10% of new homes will be equipped In-Home Graphical Display (New Construction);
  - Market directly to construction companies and technology vendors to include these devices in new homes;
  - Include the marketing costs in the business case.
- Building-Integrated Graphical Display (Retrofit)
  - Assume customers with In-Home Graphical Display receiving usage signals from the SmartConnect™ meter will reduce a residential customer's energy consumption by 6.5%;
  - Market directly to home automation vendors;
  - Assume that the adoption rate starts at 0.5% and grows 0.05% annually;
  - Include the marketing costs in the business case.
- Dedicated Handheld Graphical Display
  - Assume Existing products modified to receive Zigbee signals and new simple low-cost displays enter marketplace starting in 2009;
  - Assume customers with an In-Home Graphical Display receiving usage signals from the SmartConnect™ meter will reduce a residential customer's energy consumption by 6.5%;
  - Assume that the adoption rate starts at .5% and grows .05% annually;
  - Sales through, big-box retailers, online outlets, others;
  - May integrate sales with other demand response and energy efficiency programs;
  - The marketing costs are included in the business case.

- PC Based Graphical Display
    - Assume customers will want to connect a personal computer to the meter Home Area Network interface to access near real-time information, which reduces a residential customer's energy consumption by 6.5%;
    - Assume that the cost of the Zigbee radio device to link the personal computer to the meter is $15 each and will be included in the business case;
    - Assume downloadable software from SCE.com in addition to services from Internet firms or software firms;
    - Include the customer outreach as part of integrated product marketing approach through "Bundles" targeted to specific customer personas;
    - Assume a 1% penetration in 2009 and a 1% growth rate per year.

To forecast residential customers that use historical information from the SCE web portal, assume:

- The percentage of US households online is a reasonable proxy for SCE service territory;
- Residential customers who use SCE.com to view historical information will reduce their energy consumption by 2%;
- Assume a 10% penetration in 2009 and a 1% growth rate per year;
- Marketing costs are included in the business case.

These updates support the minimum of $164 million in conservation benefits reflected in SCE's application.

ATTACHMENT B

PCT PROGRAM DESIGN MODIFICATIONS AND REVISED BUSINESS CASE ASSUMPTIONS

SCE PCT PROGRAM DESIGN

Title 24 PCT assumptions adjusted because the decision by the California Energy Commission to remove the T24 PCT requirements from the 2008 Building Code.

SCE proposes to revise the assumptions for the PCT program design as follows:

- For the business case, SCE will maintain two types of marketing channels
  - Title 24 participants become Construction and Retrofit marketing channel;
  - Non Title 24 participants become Mass PCT Marketing Channel.
- Assume for the Mass Marketing channel that:
  - In years 2009 to 2011, SCE assumes
    - SCE will administer the PCT program;
    - SCE will buy the PCT at wholesale and at volume discounts;
    - SCE will not distribute PCTs through retail marketing channels (e.g., Home Depot);
    - SCE will be able to negotiate the cost per PCT up to $50 due to the volume of order;
    - The installation cost is up to $75 per PCT;
    - SCE will work with 3rd party vendors to install PCTs at customer locations;
    - SCE will buy and install the PCT for customers that sign up to the program;
  - SCE will raise the cap of from 250,000 customers to 350,000 customers (reached in 2015).
  - SCE will raise the sign up rate per year from 60,000 to 70,000 customers (limited by meter roll-out schedule).
  - Starting in 2012, SCE will offer a $125 rebate for the PCT equipment and installation for PCT load control participants in the Mass Marketing Channel redeemed from retail stores.
- Assume for the Construction and Retrofit channel that:
  - In years 2009 to 2011 SCE assumes
    - SCE will be able to negotiate the cost per PCT up to $50 due to the volume of order;
    - SCE will provide a PCT to construction companies at a cost of up to $50;
    - SCE will not pay for the installation costs;
    - SCE should reduce penetration rate of home builders from 84% to 50%;

- SCE should reduce penetration rate of retrofit companies from 50% to 25%.

- In years 2012 through 2032 SCE assumes
  - Starting in 2012 the building code will require customers of new construction and HVAC retrofits to install a HAN enabled PCT;
  - If there is no CEC T24 PCT requirement, SCE will provide a $50 rebate toward the cost of the PCT;
  - The penetration rate of home builders 84%;
  - The penetration rate of retrofit companies from 50%.

Net impact to SCE's economic case based on these changes to PCT programs is a reduction of $32 million PVRR net benefits, which includes ancillary impacts to load control programs.

ATTACHMENT C

EDISON SMARTCONNECT™ BALANCING ACCOUNT

DRAFT PRELIMINARY STATEMENT

Edison SmartConnect™ Balancing Account (SmartConnectBA)

I. Purpose

The purpose of the Edison SmartConnect™ Balancing Account (SmartConnectBA) is to record all costs incurred by SCE up to $1,633.5million (and corresponding revenue requirements), with additional costs of up to the amounts described in Section V below, and to capture the operational benefits as set forth herein, associated with the Phase III Edison SmartConnect™ advanced metering deployment activities as authorized by the Commission in Application 07-07-026 (Application) (Decision No. 08-XX-XXX) from the effective date of D. 08-XX-XX through December 31, 2012. SCE may seek modifications to the Edison SmartConnect™ Balancing Account (SmartConnectBA) in its 2012 GRC to ensure no double recovery of Deployment Period costs authorized in D.08-XX-XXX.

II. Operation of the SmartConnectBA

Entries to the SmartConnectBA shall be made monthly as follows:

1. An initial entry to record the transfer of the balance from the AMIMA Phase III Sub-Account (debit); plus
2. Recorded, incremental SCE Operation and Maintenance (O&M) expenses associated with Phase III activities (debit); plus
3. Capital-related revenue requirements (depreciation, income and property taxes and return on rate base), calculated on actual rate base amounts associated with Phase III and previously Commission approved Phase II activities (debit); plus
4. Operational benefits calculated as set forth below (credit).

The SmartConnectBA balance shall be transferred on a monthly basis to the distribution sub-account of the Base Revenue Requirement Balancing Account (BRRBA). Interest expense shall not be recorded in the SmartConnectBA since the monthly activity is transferred to the BRRBA.

III. SmartConnectBA Costs

Phase III incremental O&M and capital-related costs shall be related to one of the following areas:

1. Acquisition of meters and communication network equipment;
2. Installation of meters and communication network equipment;
3. Implementation and operation of new back office systems;
4. Customer tariffs, programs and services;
5. Customer Service Operations;
6. Overall program management;
7. Contingencies for mass meter deployment; and
8. Any other activities as related to Phase III as authorized by the Commission in this Application (D. 08-XX-XXX.)

All recorded, incremental costs shall include provisions for overhead loadings on direct labor dollars to account for items such as benefits, results sharing and payroll taxes. The overhead loading factors shall be based on authorized GRC loading factor rates. However, SCE shall not record Pensions and Post-Retirement Other Than Pensions (PBOPs) costs into the SmartConnectBA due to the existence of other balancing accounts authorized for Pensions and PBOPs recovery. In addition, in each year that the Results Sharing Memorandum Account (RSMA) is in effect, SCE shall be limited to recording the actual results sharing costs in the SmartConnectBA capped at the target level amounts described in Section V below.

IV. SmartConnectBA Benefit Calculation

Each month SCE shall calculate the amount of operational O&M benefits to be credited to the SmartConnectBA as follows:

1. Recorded total of cumulative SmartConnect™ meters in rate base, lagged by 8 months;
2. Multiplied by $1.4246 of average O&M benefits per meter per month as authorized in this Application (D.08-XX-XXX.)

If SCE's 2009 GRC proposal to eliminate the RSMA is adopted, SCE will file a supplemental advice letter to update the $1.4246 of average O&M benefits per meter per month to include results sharing benefits.

All capital-related benefits shall be returned to customers through the operation of the BRRBA as authorized in this Application (D.08-XX-XXX.)

V. Edison SmartConnect™ Program Funding Limit

The total authorized SmartConnect™ deployment funding level is $1,633.5 million for the period from 2008 through 2012. Pursuant to the Commission decision on this Application (D.08-XX-XXX), a risk sharing mechanism will be applied as follows:

1. Expenditures up to the total authorized funding level of $1,633.5 million are deemed reasonable and the revenue requirement associated with those expenditures shall be recovered through the SmartConnectBA without any after-the-fact reasonableness review.
2. To the extent actual project costs exceed $1,633.5 million by up to $100 million, then the revenue requirement associated with 90% (i.e. up to $90 million) of such costs that exceed $1,633.5 million will be recovered through the SmartConnectBA without any after-the-fact reasonableness review.
3. Except to the extent affected by *force majeure*, to the extent actual project costs exceed $1,633.5 million by up to $100 million, then 10% (i.e., up to $10 million) of such costs that exceed $1,633.5 million will be borne by SCE shareholders and will not be recovered in rates.
4. Project costs that exceed $1,633.5 million, up to $100 million, may be incurred for increases in costs for capital expenditures or O&M expenses in accordance with normal accounting practices for the project.
5. Any project costs over $1,733.5 million ($1,633.5 million plus $100 million in cost overruns) may be recoverable in rates to the extent approved by the Commission following a reasonableness review of the additional costs.

The Settlement Agreement adopted in D.08-XX-XXX describes *force majeure* provisions that provide for SCE to recover in rates costs that exceed $1,633.5 million, up to $100 million, without shareholder contribution due to events beyond SCE's control.

VI. Review Procedures

The recorded operation of the SmartConnectBA for the Record Period (or previous calendar year 12-month period) shall be reviewed by the Commission in SCE's annual April ERRA application to ensure that the entries made in the SmartConnectBA are stated correctly and were incurred for Phase III activities as authorized by the Commission in this Application.

SCE shall provide a monthly report and supporting workpapers showing the activity in the SmartConnectBA to the Energy Division within 30 days of the end of each calendar month.