APPENDIX C
A.02-12-028
SAN DIEGO GAS & ELECTRIC COMPANY
TEST YEAR 2004
COMBINED SUMMARY OF EARNINGS
(Thousands of Dollars)

Line No.	Description			Adopted (2004$)
1	Base Margin		$	959,483
2	Miscellaneous Revenues			37,122
3	Revenue Requirement		$	996,605
	OPERATING & MAINTENANCE EXPENSES			
4	Clearing Accounts		$	12,731
5	Nuclear Generation			61,378
6	Procurement			4,574
7	Transmission			5,216
8	Distribution			93,383
9	Uncollectibles ('04: 0.266%)			2,552
10	Customer Services			92,401
11	Administrative & General			122,307
12	Franchise Fees ('04E: 3.67% '04G: 2.13%)			32,060
13	Subtotal (2001$)			426,603
14	Labor Escalation			16,274
15	Non-Labor Escalation			5,753
16	Subtotal O & M (2004$)		$	448,630
17	Depreciation & Amortization			214,133
18	Taxes on Income			103,850
19	Taxes Other Than on Income			39,149
20	Total Operating Expenses		$	805,762
21	Return		$	190,843
22	Rate Base		$	2,176,084
23	Rate of Return			8.77%
24	Derivation of Base Margin			
25	O&M Expenses	(Line 16)	$	448,630
26	Depreciation	(Line 17)		214,133
27	Taxes	(Line 18+19)		142,999
28	Return	(Line 21)		190,843
29	Revenue Requirement			996,605
30	Less: Misc. Revenues	(Line 2)		37,122
31	Base Margin	(Line 1)	$	959,483

APPENDIX C
A.02-12-028
SAN DIEGO GAS & ELECTRIC COMPANY
TEST YEAR 2004
COMBINED ADMINISTRATIVE & GENERAL EXPENSE
(Thousands of Dollars)

Line No.	Account No.	Description	Adopted (2004$)
1	920	Administrative & Gen. Salaries	$ 24,228
2	921	Office Supplies & Exp	57,958
3	923	Outside Services Employed	5,025
4	924	Property Insurance	1,099
5	925	Injuries and Damages	15,044
6	926	Employee Pensions & Benefits	37,476
7	928	Regulatory Commission Exp	3,421
8	929	Company Use - Electricity	(1,178)
9	930	General Expenses	(31,906)
10	931	Rents	7,176
11	935	Maintenance of General Plant	9,518
12		Subtotal	$ 127,860
13	927	Franchise Fees	32,060
14		TOTAL COMBINED A & G	$ 159,921

APPENDIX C
A.02-12-028
SAN DIEGO GAS & ELECTRIC COMPANY
TEST YEAR 2004
COMBINED CUSTOMER SERVICES
(Thousands of Dollars)

Line No.	Account No.	Description		ADOPTED (2004$)
1	586	Meter Exp - Electric	$	4,830
2	597	Meters - Electric		632
3	878	Meter & House Regulator Exp - Gas		2,357
4	879	Customer Install. Exp - Gas		9,611
5	902	Meter Reading Exp		11,989
6	903	Cust. Rec. & Collect. Exp		66,127
7	910	Customer Service & Info Exp		4,855
8		Subtotal	$	100,401
9	904	Uncollectibles Accts		2,552
10		TOTAL COMBINED CUSTOMER SERVICES	$	102,954

APPENDIX C
A.02-12-028
SAN DIEGO GAS & ELECTRIC COMPANY
TEST YEAR 2004
COMBINED CLEARING ACCOUNTS
(Thousands of Dollars)

Line No.	Account No.	Description	ADOPTED (2004$)
1	163	Purchasing and Warehouse	$ 1,671
2	184	Clearing Accounts	11,586
3		TOTAL CLEARING ACCOUNTS	$ 13,257

APPENDIX D
A.02-12-028
SAN DIEGO GAS & ELECTRIC COMPANY
TEST YEAR 2004
GAS SUMMARY OF EARNINGS
(Thousands of Dollars)

Line No.	Description		ADOPTED (2004$)
1	Base Margin		$ 204,721
2	Miscellaneous Revenues		8,972
3	Revenue Requirement		$ 213,693
	OPERATING & MAINTENANCE EXPENSES		
4	Clearing Accounts		$ 3,936
5	Procurement		1,079
6	Transmission		5,216
7	Distribution		14,116
8	Uncollectibles ('04: 0.266%)		545
9	Customer Services		30,070
10	Administrative & General		35,920
11	Franchise Fees ('04: 2.13%)		4,361
12	Subtotal (2001$)		95,242
13	Labor Escalation		4,941
14	Non-Labor Escalation		1,410
15	Subtotal O & M (2004$)		$ 101,594
16	Depreciation & Amortization		48,022
17	Taxes on Income		19,598
18	Taxes Other Than on Income		8,484
19	Total Operating Expenses		$ 177,698
20	Return		$ 35,995
21	Rate Base		$ 410,429
22	Rate of Return		8.77%
23	Derivation of Base Margin		
24	O&M Expenses	(Line 15)	$ 101,594
25	Depreciation	(Line 16)	48,022
26	Taxes	(Line 17+18)	28,082
27	Return	(Line 20)	35,995
28	Revenue Requirement		$ 213,693
29	Less: Misc. Revenues	(Line 2)	8,972
30	Base Margin	(Line 1)	$ 204,721

APPENDIX D
A.02-12-028
SAN DIEGO GAS & ELECTRIC COMPANY
TEST YEAR 2004
GAS TRANSMISSION EXPENSE
(Thousands of Dollars)

Line No.	Account No.	Description	ADOPTED (2004$)
		Operation	
1	850	Supervision & Engineering	$ 1,069
2	851	System Con. & Load Dispatch	462
3	853	Compressor Station	806
4	855	Other Fuel & Pow-Comp. Sta.	203
5	856	Mains Exp	563
6	857	Measuring & Reg. Sta. Exp	125
7	859	Other Exp	847
8	860	Rents	1
9		Total Operation	$ 4,076
		Maintenance	
10	861	Supervision & Engineering	$ 63
11	863	Mains	381
12	864	Compressor Station Equipment	803
13	865	Measuring & Reg. Sta. Equip	289
14		Total Maintenance	$ 1,537
15		TOTAL GAS TRANSMISSION	$ 5,613

APPENDIX D
A.02-12-028
SAN DIEGO GAS & ELECTRIC COMPANY
TEST YEAR 2004
GAS DISTRIBUTION EXPENSE
(Thousands of Dollars)

Line No.	Account No.	Description		ADOPTED (2004$)
		Operation		
1	870	Supervision & Engineering	$	3,235
2	871	Load Dispatching		-
3	874	Mains & Services Exp		2,901
4	875	Meas. & Reg. Station. Exp		504
5	880	Other Exp		4,835
6	881	Rents		-
7		Total Operation	$	11,474
		Maintenance		
10	885	Supervision & Engineering	$	61
11	886	Structure & Improvements		-
12	887	Mains		1,819
13	889	Meas. & Reg. Station Exp		56
14	892	Services		975
15	893	Meters & House Regulators		748
16	894	Other Equipment		301
17		Total Maintenance	$	3,962
18		TOTAL GAS DISTRIBUTION	$	15,436

APPENDIX D
A.02-12-028
SAN DIEGO GAS & ELECTRIC COMPANY
TEST YEAR 2004
GAS ADMINISTRATIVE & GENERAL EXPENSE
(Thousands of Dollars)

Line No.	Account No.	Description	ADOPTED (2004$)
1	920	Administrative & Gen. Salaries	$ 7,293
2	921	Office Supplies & Exp	16,249
3	923	Outside Services Employed	1,415
4	924	Property Insurance	467
5	925	Injuries and Damages	4,841
6	926	Employee Pensions & Benefits	12,100
7	928	Regulatory Commission Exp	957
8	930	General Expenses	(10,562)
9	931	Rents	2,020
10	935	Maintenance of General Plant	2,643
11		Subtotal	$ 37,424
12	927	Franchise Fees	4,361
13		TOTAL GAS A & G	$ 41,784

APPENDIX D
A.02-12-028
SAN DIEGO GAS & ELECTRIC COMPANY
TEST YEAR 2004
GAS CUSTOMER SERVICES
(Thousands of Dollars)

Line No.	Account No.	Description		ADOPTED (2004$)
1	878	Meter & House Regulator Exp	$	2,357
2	879	Customer Install. Exp		9,611
3	902	Meter Reading Exp		2,220
4	903	Cust. Rec. & Collect. Exp		16,842
5	910	Customer Service & Info Exp		1,861
6		Subtotal	$	32,891
7	904	Uncollectibles Accts		545
8		TOTAL GAS CUSTOMER SERVICES	$	33,435

APPENDIX D
A.02-12-028
SAN DIEGO GAS & ELECTRIC COMPANY
TEST YEAR 2004
GAS STORAGE EXPENSE
(Thousands of Dollars)

Line No.	Account No.	Description	2004 Test Year (2004$)
		Operation	
1	841	Labor & Exp	$ 24
2		TOTAL GAS STORAGE	$ 24

APPENDIX D
A.02-12-038
SAN DIEGO GAS & ELECTRIC COMPANY
TEST YEAR 2004
GAS CLEARING ACCOUNTS
(Thousands of Dollars)

Line No.	Account No.	Description		ADOPTED (2004$)
1	163	Purchasing and Warehouse	$	392
2	184	Clearing Accounts		3,713
3		TOTAL CLEARING ACCOUNTS	$	4,105

APPENDIX E
A.02-12-028
SAN DIEGO GAS & ELECTRIC COMPANY
TEST YEAR 2004
ELECTRIC SUMMARY OF EARNINGS
(Thousands of Dollars)

Line No.	Description			ADOPTED (2004$)
1	Base Margin		$	754,763
2	Miscellaneous Revenues			28,150
3	Revenue Requirement		$	782,912
	OPERATING & MAINTENANCE EXPENSES			
4	Clearing Accounts		$	8,795
5	Nuclear Generation			61,378
6	Procurement			3,495
7	Distribution			79,266
8	Uncollectibles ('04: 0.266%)			2,008
9	Customer Services			62,331
10	Administrative & General			86,387
11	Franchise Fees ('04: 3.67%)			27,700
12	Subtotal (2001$)			331,361
13	Labor Escalation			11,333
14	Non-Labor Escalation			4,343
15	Subtotal O & M (2004$)		$	347,036
16	Depreciation & Amortization			166,111
17	Taxes on Income			84,253
18	Taxes Other Than on Income			30,665
19	Total Operating Expenses		$	628,064
20	Return		$	154,848
21	Rate Base		$	1,765,655
22	Rate of Return			8.77%
23	Derivation of Base Margin			
24	O&M Expenses	(Line 15)	$	347,036
25	Depreciation	(Line 16)		166,111
26	Taxes	(Line 17+18)		114,918
27	Return	(Line 20)		154,848
28	Revenue Requirement			782,912
29	Less: Misc. Revenues	(Line 2)		28,150
30	Base Margin	(Line 1)	$	754,763

APPENDIX E
A.02-12-028
SAN DIEGO GAS & ELECTRIC COMPANY
TEST YEAR 2004
ELECTRIC DISTRIBUTION EXPENSE
(Thousands of Dollars)

Line No.	Account No.	Description		2004 Test Year (2004$)
		Operation		
1	580	Supervision & Engineering	$	12,401
2	581	Load Dispatching		1,671
3	582	Station Exp		4,487
4	583	Overhead Line Exp		1,441
5	584	Underground Line Exp		3,128
6	585	Street Light & Signal Exp		506
7	587	Customer Installation Exp		2,549
8	588	Misc. Distribution Exp		15,700
9	589	Rents		140
10		Total Operation	$	42,023
		Maintenance		
12	590	Supervision & Engineering	$	1,132
13	591	Structures		60
14	592	Station Equipment		4,219
15	593	Overhead Lines		30,776
16	594	Underground Lines		5,998
17	595	Transformers		356
18	596	St. Light & Signal		45
19	598	Misc. Dist. Plant		422
20		Total Maintenance	$	43,009
21		TOTAL ELECTRIC DISTRIBUTION	$	85,033

APPENDIX E
A.02-12-028
SAN DIEGO GAS & ELECTRIC COMPANY
TEST YEAR 2004
ELECTRIC ADMINISTRATIVE & GENERAL EXPENSE
(Thousands of Dollars)

Line No.	Account No.	Description	ADOPTED (2004$)
1	920	Administrative & Gen. Salaries	$ 16,936
2	921	Office Supplies & Exp	41,708
3	923	Outside Services Employed	3,610
4	924	Property Insurance	632
5	925	Injuries and Damages	10,202
6	926	Employee Pensions & Benefits	25,376
7	928	Regulatory Commission Exp	2,464
8	929	Company Use - Electricity	(1,178)
9	930	General Expenses	(21,344)
10	931	Rents	5,156
11	935	Maintenance of General Plant	6,875
12		Subtotal	$ 90,437
13	927	Franchise Fees	27,700
14		TOTAL ELECTRIC A & G	$ 118,136

APPENDIX E
A.02-12-028
SAN DIEGO GAS & ELECTRIC COMPANY
TEST YEAR 2004
ELECTRIC CUSTOMER SERVICES EXPENSE
(Thousands of Dollars)

Line No.	Account No.	Description	ADOPTED (2004$)
1	586	Meter Exp	$ 4,830
2	597	Meters	632
3	902	Meter Reading Exp	9,769
4	903	Cust. Rec. & Collect. Exp	49,285
5	910	Customer Service & Info Exp	2,994
6		Subtotal	$ 67,511
7	904	Uncollectibles Accts	2,008
8		TOTAL ELECTRIC CUSTOMER SERVICES	$ 69,518

APPENDIX E
A.02-12-028
SAN DIEGO GAS & ELECTRIC COMPANY
TEST YEAR 2004
NUCLEAR GENERATION EXPENSE
(Thousands of Dollars)

Line No.	Account No.	Description	ADOPTED (2004$)
		Operation	
1	517	Supervision & Engineering	$ 14,154
2	519	Coolants and Water	191
3	520	Steam Exp	6,169
4	523	Electric Exp	1,883
5	524	Misc Nuclear Gen Exp	17,219
6	525	Rents	342
7		Total Operation	$ 39,958
		Maintenance	
8	528	Supervision & Engineering	$ 4,534
9	529	Structures	2,855
10	530	Reactor Equipment	4,202
11	531	Electric. Plant	3,881
12	532	Misc. Nuclear Plant	5,949
13		Total Maintenance	$ 21,420
14		TOTAL NUCLEAR GENERATION	$ 61,378

APPENDIX E
A.02-12-028
SAN DIEGO GAS & ELECTRIC COMPANY
TEST YEAR 2004
PROCUREMENT EXPENSE
(Thousands of Dollars)

Line No.	Account No.	Description	ADOPTED (2004$)	
1	556	System Control & Load Dispatch	$	1,881
2	557	Generation and Other Expenses		1,937
3		Total Electric Procurement/Dispatch	$	3,818
4	807	Procurement Exp	$	1,197
5		TOTAL PROCUREMENT	$	5,015

APPENDIX E
A.02-12-028
SAN DIEGO GAS & ELECTRIC COMPANY
TEST YEAR 2004
ELECTRIC CLEARING ACCOUNTS
(Thousands of Dollars)

Line No.	Account No.	Description		ADOPTED (2004$)
1	163	Purchasing and Warehouse	$	1,279
2	184	Clearing Accounts		7,873
3		TOTAL CLEARING ACCOUNTS	$	9,153

APPENDIX F
A.02-12-027
SOUTHERN CALIFORNIA GAS COMPANY
TEST YEAR 2004
SUMMARY OF EARNINGS
(Thousands of Dollars)

Line No.	Description		ADOPTED (2004$)
1	Base Margin		$ 1,457,008
2	Miscellaneous Revenues		45,025
3	Revenue Requirement		1,502,033
	Operating and Maintenance Expenses		
4	Clearing Accounts		57,291
5	Underground Storage		23,370
6	Transmission		38,321
7	Distribution		132,450
8	Customer Services		261,987
9	Uncollectibles ('04: 0.329%)		4,932
10	Administrative & General		349,714
11	Franchise Fees ('04: 1.5534%)		23,081
12	Subtotal (2001$)		$ 891,145
13	Labor Escalation Amount		33,709
14	Non-Labor Escalation Amount		11,815
15	Subtotal (2004$)		$ 936,670
16	O&M Reassignments		(54,330)
17	Total O&M Expenses		882,340
18	Depreciation		260,394
19	Taxes on Income		101,147
20	Taxes Other Than on Income		57,869
21	Total Operating Expenses		1,301,749
22	Return		200,284
23	Rate Base		2,307,420
24	Rate of Return		8.68%
25	Derivation of Base Margin		
26	O&M Expenses	(Line 17)	882,340
27	Depreciation	(Line 18)	260,394
28	Taxes	(Line 19+20)	159,016
29	Return	(Line 22)	200,284
30	Revenue Requirement		1,502,033
31	Less: Miscellaneous Revenues	(Line 2)	45,025
32	Base Margin	(Line 1)	$ 1,457,008

APPENDIX F
A.02-12-027
SOUTHERN CALIFORNIA GAS COMPANY
DISTRIBUTION EXPENSE
(Thousands of Dollars)

Line No.	Account No.	Description	ADOPTED (2004$)
		Operation	
1	870	Supervision and Engineering	$ 36,613
2	875	Meas. & Reg. Station Exp	664
3	878	Meter & House Regulator Exp	443
4	880	Other Exp.	56,748
5	881	Rents	44
6		Total Operation	$ 94,511
		Maintenance	
7	886	Structures and Improvements	-
8	887	Mains	17,681
9	889	Meas. & Reg. Station Exp	1,363
10	892	Services	22,807
11	893	Meters & House Regulators	6,801
12	894	Other Equipment	-
13		Total Maintenance	$ 48,651
14		TOTAL DISTRIBUTION	$ 143,163

APPENDIX F
A.02-12-027
SOUTHERN CALIFORNIA GAS COMPANY
TRANSMISSION EXPENSE
(Thousands of Dollars)

Line No.	Account No.	Description	ADOPTED (2004$)
		Operation	
1	850	Supervision and Engineering	$ 14,605
2	851	System Con. & Load Dispatching	2,719
3	852	Communications System Exp	-
4	853	Compressor Station	1,575
5	855	Other Fuel Power Compr Stations	1,447
6	856	Mains Exp	3,506
7	857	Measuring & Reg. Station Exp.	449
8	859	Other Exp	4,555
9	860	Rents	5,151
10		Total Operation	$ 34,009
		Maintenance	
11	861	Supervision & Engineering	-
12	862	Structures & Improvements	54
13	863	Mains	2,692
14	864	Compressor Station Equipment	4,017
15	865	Measuring & Reg. Station Equip.	476
16	867	Other Equipment	115
17		Total Maintenance	$ 7,353
18		TOTAL TRANSMISSION	$ 41,362

APPENDIX F
A.02-12-027
SOUTHERN CALIFORNIA GAS COMPANY
ADMINISTRATIVE & GENERAL EXPENSE
(Thousands of Dollars)

Line No.	Account No.	Description	2004 Estimated (2004$)
1	920	Administrative & Gen. Salaries	$ 29,813
2	921	Office Supplies and Exp	18,734
3	923	Outside Services Employed	123,763
4	924	Property Insurance	3,345
5	925	Injuries and Damages	35,214
6	926	Employee Pensions and Benefits	108,082
7	928	Regulatory Commission Exp	290
8	930	General Exp	3,555
9	931	Rents	23,723
10	935	Maintenance of General Plant	10,499
11		Subtotal	$ 357,019
12	927	Franchise Fees	23,081
13		TOTAL ADMIN. & GEN.	$ 380,100

APPENDIX F
A.02-12-027
SOUTHERN CALIFORNIA GAS COMPANY
CUSTOMER SERVICES
(Thousands of Dollars)

Line No.	Account No.	Description	ADOPTED (2004$)
1	807	Procurement Exp	$ 3,931
2	879	Customer Install. Exp	92,712
3	901	Supervision	3,904
4	902	Meter Reading Exp	22,490
5	903	Cust. Rec. & Collect. Exp	138,893
6	905	Misc. Customer Accounts Exp	0
7	907	Supervision	379
8	908	Customer Assistance Expenses	17,041
9	909	Informational & Instructional Exp	2,674
10	910	Misc. Customer Svc & Info Exp	-
11		Subtotal	$ 282,026
12	904	Uncollectible Accts	4,932
13		TOTAL CUST. ACCTS. & COLL.	$ 286,958

APPENDIX F
A.02-12-027
SOUTHERN CALIFORNIA GAS COMPANY
UNDERGROUND GAS STORAGE EXPENSE
(Thousands of Dollars)

Line No.	Account No.	Description	ADOPTED (2004$)
		Operation	
1	814	Supervision and Engineering	$ 7,297
2	815	Maps and Records	8
3	816	Wells Exp	2,512
4	817	Lines Exp	56
5	818	Compressor Station Exp	2,656
6	820	Measuring & Regulating Station Exp	-
7	821	Purification Exp	314
8	824	Other Exp	3,294
9	825	Storage Well Royalties	476
10	826	Rents	160
11		Total Operation Exp	$ 16,773
		Maintenance	
12	830	Supervision & Engineering	$ -
13	831	Structures and Improvements	20
14	832	Reservoirs and Wells	2,690
15	833	Lines	1,289
16	834	Compressor Station Equipment	3,653
17	835	Measuring & Reg Station Equipment	151
18	836	Purification Equipment	799
19	837	Other Equipment	3
20		Total Maintenance Exp	$ 8,605
21		TOTAL UNDERGROUND STORAGE	$ 25,377

APPENDIX F
A.02-12-027
SOUTHERN CALIFORNIA GAS COMPANY
CLEARING ACCOUNTS
(Thousands of Dollars)

Line No.	Account No.	Description	ADOPTED (2004$)
1	163	Purchasing & Warehouse	$ 10,791
2	184	Clearing Accounts	48,918
3		TOTAL CLEARING ACCOUNTS	$ 59,709

APPENDIX G
SOCALGAS SETTLEMENT AGREEMENT

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Gas Company for Authority to Update its Gas Revenue Requirement and Base Rates. (U 904 G)	Application 02-12-027 (Filed December 20, 2002)
Application of San Diego Gas & Electric Company for Authority to Update Its Gas and Electric Revenue Requirement and Base Rates. (U 902 M)	Application 02-12-028 (Filed December 20, 2002)
Investigation on the Commission's Own Motion Into the Rates, Operations, Practices, Service and Facilities of Southern California Gas Company and San Diego Gas & Electric Company.	Investigation 03-03-016 (Filed March 13, 2003)

SETTLEMENT AGREEMENT

REGARDING SOUTHERN CALIFORNIA GAS COMPANY

Keith W. Melville
Glen J. Sullivan
Steven C. Nelson
101 Ash Street
San Diego, CA 92101
Attorneys for Southern California Gas Company

James Scarff
Paul Angelopulo
505 Van Ness Avenue
San Francisco, CA 94102
Attorneys for Office of Ratepayer Advocates

Marcel Hawiger
Robert Finkelstein
711 Van Ness Ave., #350
San Francisco, CA 94102
Attorneys for The Utility Reform Network

Norman Pedersen
Scott LeHecka
Hanna and Morton LLP
444 South Flower Street, Suite 2050
Los Angeles, CA 90071-2922
Attorneys for SCGC

Bernardo Garcia
Region 5 Director, UWUA
215 Avenida Del Mar, Suite M
San Clemente, CA 92672-4062

Dennis Zukowski
President, Local 483
P.O. Box 6021
Santa Barbara, CA 93160

Robert Gnaizda
Itzel Berrio
785 Market Street, Third Floor
San Francisco, CA 94103
Attorneys for Greenlining Institute

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Gas Company for Authority to Update its Gas Revenue Requirement and Base Rates. (U 904 G)	Application 02-12-027 (Filed December 20, 2002)
Application of San Diego Gas & Electric Company for Authority to Update Its Gas and Electric Revenue Requirement and Base Rates. (U 902 M)	Application 02-12-028 (Filed December 20, 2002)
Investigation on the Commission's Own Motion Into the Rates, Operations, Practices, Service and Facilities of Southern California Gas Company and San Diego Gas & Electric Company.	Investigation 03-03-016 (Filed March 13, 2003)

SETTLEMENT AGREEMENT

REGARDING SOUTHERN CALIFORNIA GAS COMPANY

Pursuant to the California Public Utilities Commission ("Commission") Rules of Practice and Procedure, Section 51.3 ("Rule 51.3"), the Commission's Office of Ratepayer Advocates ("ORA"), Southern California Gas Company, (SoCalGas), The Utility Reform Network (TURN), Utility Workers Union of America (UWUA), Local 483 UWUA, the Southern California Generation Coalition (SCGC), and the Greenlining Institute (Greenlining) [collectively referred to hereafter as "Joint Parties"] respectfully submit to the Commission this Settlement Agreement. In this Settlement Agreement, the Joint Parties provide to the Commission a recommended resolution of the vast majority of the issues that have been designated for consideration in Phase I of this proceeding, including the associated revenue requirement increase for Test Year 2004. Greenlining is joining in the Settlement Agreement only as to issues raised in Greenlining's testimony (see Attachment C to this Settlement Agreement) and takes no position on the remaining issues.

Certain topics designated for Phase I of this proceeding are not resolved by this Settlement Agreement and will be litigated unless resolved by subsequent agreement. These unresolved matters include the method of recovery of fumigation-related costs and SoCalGas'

gas resource plan. In addition, issues designated for consideration in Phase II of this proceeding related to performance based ratemaking are not addressed in this Settlement Agreement. Accompanying this Settlement Agreement is the Motion of the Joint Parties requesting that the Commission adopt the terms of this Settlement Agreement in its decision on Application No. 02-12-027.

Attached to this Settlement and incorporated as integral parts of the Settlement are the following attachments:

Attachment A: Pension Balancing Account – SoCalGas

Attachment B: Summary of Earnings Table (reflecting Settlement results)

Attachment C: SETTLEMENT AGREEMENT BETWEEN THE GREENLINING INSTITUTE AND SOCALGAS AND SDG&E

Attachment D: Joint Comparison Exhibit, Results of Operations; Settlement Agreement for SoCalGas

I.
INTRODUCTION AND BACKGROUND

SoCalGas filed A.02-12-027 on December 20, 2002, which requested an increase in its authorized base rate revenues for gas service of $130 million in 2004 over the 2002 authorized level. Also, on December 20, 2003, San Diego Gas & Electric Company ("SDG&E") filed A.02-12-028, requesting an increase in its authorized base rate revenues for electric and gas service. The assigned ALJ consolidated the applications in light of the similarities of the filings, including many of the same witnesses, use of the same ratemaking calculations or "models," and the fact that the two companies are operated in large part by the same management. On March 13, 2003 the Commission issued a companion order instituting investigation (I) 03-03-016, stating that the proceeding will "determine whether the companies are properly organized, managed and controlled so as to provide safe, reliable and cost effective gas and/or gas and electric retail service to their customers." (I.03-03-016, mimeo, pg. 3.) On April 2, 2003 Assigned Commissioner Wood issued a Ruling Establishing Scope, Schedule and Procedures For Proceeding (Scoping Memo). On May 22, 2003, the Assigned Commissioner and ALJ issued a further ruling, modifying the procedural schedule and deferring to a second phase of the proceedings issues related to performance-based ratemaking.

ORA's examination of an appropriate revenue level for SoCalGas' 2004 Test Year began only days after the SoCalGas filing. ORA issued to the Applicants data requests consisting of over 250 questions and requests for information. Over the next ten months, ORA continued its indepth discovery, propounding over 1,000 questions and requests for information. These requests probed virtually every element of SoCalGas' prepared testimony addressing Phase I issues. ORA also assigned financial examiners who reviewed the financial, accounting and operating records of SoCalGas. Other interested parties, including TURN, Greenlining, and UWUA Local 483, also engaged in substantial discovery of SoCalGas.

On August 8, 2003, ORA served its testimony on the parties to this proceeding, including detailed reports on SoCalGas gas results of operations, and other reports. On September 5, Local 483 of the UWUA, Greenlining, and SCGC served their respective prepared testimonies. On September 12, TURN and the National UWUA served their respective prepared testimonies. Twenty days of hearings were held between October 7 and November 14, 2003. Following a fully litigated proceeding, and based upon the positions expressed in SoCalGas' direct and rebuttal testimony and ORA's reports, the Joint Parties perceived a potential to reach compromises on various issues. Accordingly, the parties began intensive discussions of potential settlement positions. On November 10, 2003, SoCalGas, SDG&E and ORA sent to all parties a Notice of Settlement Conference, which was held on November 17, 2003 at the Commission's offices in San Francisco, California. Numerous subsequent meetings of parties were held, resulting in the instant Settlement Agreement.

Compared to SoCalGas' final, close-of-hearings position requesting a 2004 revenue requirement of $1,572,470,000, this Settlement Agreement provides for a 2004 revenue requirement in the amount of $1,502, 033,000, or more than $70 million less than proposed by SoCalGas. Furthermore, the settlement 2004 revenue requirement represents a decrease of approximately $33 million from the Commission-authorized revenue requirement for 2003 for the same costs.

II.

REASONABLENESS OF THE SETTLEMENT

The Joint Parties believe this Settlement Agreement complies with the Commission's requirements that settlements be reasonable, consistent with law, and clearly in the public interest. The Joint Parties have recognized that there is risk involved in litigation, and that no party was likely to be 100% successful in supporting its filed case. The Joint Parties have vigorously argued their positions in this matter, and have reached compromise positions that they believe are appropriate in light of the litigation risks. In the process of reaching these compromises, the Joint Parties in certain instances have considered some smaller issues in the aggregate rather than item by item. The Joint Parties believe that this approach was used appropriately given the multiplicity of issues addressed. The level of revenues agreed to in this Settlement Agreement reflects the Joint Parties' best judgments as to the totality of their positions and risks, and their agreement herein is explicitly based on the bottom line result achieved.

Forecast Methodology

Both SoCalGas and ORA based their respective test year expense forecasts largely on analyses of historical data. In many instances the differences in their forecasts are the result of employing different forecast methodologies, such as: 1) trends, 2) averages, 3) zero-based estimating, 4) adjustments to recorded expenses, and 5) varying historical time periods. The Joint Parties agree that the proper application of forecast methodologies requires the use of judgment and that, as in any forecasting exercise; there is a range of reasonable outcomes. The Joint Parties also agree that different methodologies can produce results within this range and that no single methodology will produce the sole reasonable result in every instance.

The level of test year expenses recommended by the Joint Parties is based upon their individual judgments regarding the strengths and weaknesses of competing forecasting methodologies, and the resulting compromises each party felt were reasonable. Except as specifically identified in this Settlement Agreement, the substantial differences among the Joint Parties' initial positions in each major expense area were resolved through such judgments and compromises.

III.

SETTLEMENT AND STIPULATIONS

Attachment B to this Settlement Agreement contains a Summary of Earnings table. This table sets forth the positions expressed in SoCalGas' application and testimony, as revised during the proceeding, and in ORA's reports, by FERC functional account area.[1] The final column on each table, labeled "Settlement", presents the levels of expense (by functional area), revenue and rate base agreed upon by the Joint Parties, subject to adjustments described in this Settlement Agreement.

In addition to the agreements expressed in the "Settlement" column on the Summary of Earnings table, the Joint Parties agree as follows:

A. BASE MARGIN

The Joint Parties agree on a 2004 SoCalGas base margin of $1,457,008,000.

B. MISCELLANEOUS REVENUES

The Joint Parties agree to miscellaneous revenues of $45,025,000 for the 2004 Test Year.

C. REVENUE REQUIREMENT

The Joint Parties agree to a TY 2004 Revenue Requirement for SoCalGas of $1,502,033,000.

D. OPERATIONS AND MAINTENANCE ("O&M") EXPENSE

Authorized O&M Expense. The Joint Parties agree that the amount of O&M expenses that SoCalGas should be allowed to recover in rates in the 2004 Test Year is $891,145,000 before escalation, or $936,670,000 (in both cases, before O&M reassignments of $54,330,000). Details are set forth below regarding Clearing accounts, Gas Storage, Gas Transmission, Distribution, Uncollectibles, Customer Services, Administrative & General, and Franchise Fees.

[1] All operations and maintenance expenses set forth in this Settlement Agreement are expressed in 2001 dollars unless otherwise specified. Capital related costs reflect SoCalGas' currently authorized rate of return.

E. CLEARING ACCOUNTS

The Joint Parties agree to a total of $57,291,000.

F. GAS STORAGE

The Joint Parties agree to SoCalGas' estimated test year revenue requirement for Gas Storage of $23,370,000.

Within this revenue requirement, and incremental to the positions proposed by SoCalGas, SoCalGas shall create and fill one (1) additional Cathodic Protection Specialist position (union-represented) in its Storage Department. SoCalGas shall also create and fill two (2) additional other represented positions in the Storage Department. These additions address concerns related to staffing levels raised by Local 483 of the UWUA. The staffing and deployment of the positions described above will be governed by the existing Collective Bargaining Agreement between SoCalGas and the UWUA. The jobs described above will be filled within 90 days of a decision from the Commission that adopts this Settlement.

G. GAS TRANSMISSION

The Joint Parties agree to SoCalGas' estimated test year costs of $38,321,000.

Within this revenue requirement established by this Settlement, and incremental to the positions proposed by SoCalGas, SoCalGas shall create and fill four (4) additional represented positions (existing classifications) in Transmission to support the Pipeline Integrity Program. The cost of these four positions may be capitalized to the extent consistent with Commission regulation and normal accounting practices. In addition, SoCalGas shall create and fill two (2) other represented positions in the Transmission Department. These additions address concerns related to staffing levels raised by Local 483 of the UWUA. The staffing and deployment of the positions described above will be governed by the existing Collective Bargaining Agreement between SoCalGas and the UWUA. The jobs described above will be filled within 90 days of a decision from the Commission that adopts this Settlement.

H. GAS DISTRIBUTION

The Joint Parties agree to Distribution Expense of $ 132,450,000. The major reductions from the amount originally requested by SoCalGas are in the areas of:

Freeway/Franchise O&M: The Joint Parties agree to reduce SoCalGas' requested funding in Account 887 for freeway/franchise O&M by $436,000.

Maturing Workforce: The Joint Parties agree to a reduction in SoCalGas request of $998,000 for maturing workforce. This reduction shall be made in the following accounts:

Account 870.6:	$221,000
Account 870.5	$243,000
Account 887:	$117,000
Account 892:	$417,000

Leak Backlog: The Joint Parties agree not to provide the $1,500,000 requested by SoCalGas to reduce leak backlog. SoCalGas asked for this increase in Distribution expenses in Account 887 to reduce the leak backlog from its 2001 level of 8900 down to 4000. TURN claimed that a portion of the backlog was "deferred maintenance". Because SoCalGas will not get the increase it requested, the Joint Parties agree that it is reasonable to maintain the leak backlog at 8000, which is approximately its 5-year average level.

Carbon Monoxide Testing: The Joint Parties agree not to create at this time a two- way balancing account for costs associated with Carbon Monoxide ("CO") testing. The Settlement reflects the funding levels recommended by SoCalGas for this activity. However, the Joint Parties agree that the utility shall at the first appropriate opportunity seek funding for CO testing through the same process and mechanism in which SoCalGas recovers the costs of its Direct Assistance Program ("DAP") which includes balancing account treatment. If funding other than from base rates is authorized by the Commission prior to a decision in the next SoCalGas cost of service or General Rate Case, SoCalGas will contemporaneously reduce base rates.

I. UNCOLLECTIBLES

Uncollectibles. The uncollectibles portion of O&M expense has been calculated using a rate of 0.329%, the rate proposed by ORA. This rate is acceptable to the Joint Parties. It should be noted that, because franchise fees and uncollectibles are calculated based on total revenues, they are stated in 2004 dollars throughout the Settlement Agreement.

J. CUSTOMER SERVICES

The Joint Parties agree to customer service expenses of $261,987,000. In its application SoCalGas asked for substantial increases, and encountered substantial opposition from interested parties. The Joint Parties agree to a substantially smaller increase than requested by SoCalGas. The accounts with larger adjustments are summarized below. There are other Customer Services accounts with smaller adjustments, as set forth in the attached Settlement Comparison Exhibit.

Account 879-Customer Installation Expenses. SoCalGas requested a revenue requirement for this account of $89,088,000, which included substantial increases related to meter replacement and other activities. ORA and TURN opposed substantial portions of SoCalGas' request in this account. The Joint Parties agree to $83,950,000 as the revenue requirement for this account, which is $5,138,000 less that proposed by SoCalGas. The Joint Parties agree that the funding granted by this Settlement is intended to allow SoCalGas to replace tin meters at the rate proposed by SoCalGas in the proceeding of approximately 100,000 per year over five years, as well as other planned meter replacements as proposed by SoCalGas, but none of SoCalGas' request for Rockwell meter replacements. However, this Settlement allows SoCalGas to redirect replacement work from tin meters to Rockwell meters to the extent that any family or families of Rockwell meters fall outside of allowed accuracy tolerances during the term of this settlement. For purposes of calculating expectations for reductions in the rate of replacement of tin meters if any family or families of Rockwell meters are replaced because they fall outside of allowed accuracy tolerances, it shall be assumed that the cost of replacement of a Rockwell meter relative to a tin meter, exclusive of the capital cost of the replacement meters (assumed to be the same whether a tin or Rockwell meter is being replaced), is $24.17/$38.19 for direct labor and $2.35/$3.51 for supervision per meter.

Fumigation: The Settlement reflects the expense level recommended by SoCalGas in its final position, but leaves for the Commission to determine in a decision in Phase 1 of this proceeding whether this cost should be recovered through base rates or through a separate fee that would be charged per fumigation to fumigators or SoCalGas customers of record at locations being fumigated. The Joint Parties agree that if the Commission adopts the option of recovering this cost through a separate fee, the fee should be $ 60 (this fee covering both turn off and turn on of a premises being fumigated), that the base rate revenue requirement otherwise established by this Settlement will be reduced by $5,596,000, and the payments of a separate fee will be recorded in miscellaneous revenues. The Joint Parties note that the amount of this fee and the associated reduction in base rate revenue requirement reflects indirect and overhead costs, in addition to direct labor costs of $3,173,000 for this activity.

Account 903 – Customer Records and Collection Expenses: There were twelve different issues raised by ORA with respect to SoCalGas' requested revenue requirement for this account, most of which were related to differences in forecasts of customer-initiated contacts. This Settlement adopts a revenue requirement that is $1,944,000 less than requested by SoCalGas, which amounts to adoption of more than half of ORA's proposed adjustments for this account as a whole. The reduction in SoCalGas' request represents a compromise with respect to all of the issues as a group, not a resolution of individual issues in this account, due to the commonality of cost drivers. However, the reduction does explicitly reflect adoption of a 4-year life cycle on personal computers as discussed further below in Section W. Miscellaneous.

Account 908-Customer Assistance. SoCalGas requested a revenue requirement for this account of $23,358,000, which included substantial increases for customer outreach efforts and "e-services". ORA and TURN opposed substantial portions of SoCalGas' requests in this account. The Joint Parties agree to $15,703,000 as the revenue requirement for this account, which represents acceptance of a significant portion, but not all, of ORA's and TURN's recommended adjustments. Joint Parties acknowledge the principle that DSM costs should not be recovered in base rates, but agree for purposes of this Settlement that the cost of outreach materials funded under this Settlement may contain information about the availability of DSM and CARE programs in addition to other programs without having to account for any of the costs as DSM or CARE costs.

K. ADMINISTRATIVE & GENERAL (A&G)

The Joint Parties agree to A&G expenses of $349,714,000. In response to SoCalGas' request in A.02-12-027, intervenors sought large A&G reductions (ORA proposed $63 million less than SoCalGas' request, TURN proposed $70 million less), and the Settlement reflects $27,020,000 less than SoCalGas' final litigation position. The Settlement therefore reflects the litigation risks but also protects against some of SoCalGas' major concerns, such as pension contribution requirements and medical cost increases:

Incentive Compensation: Only 50% of SoCalGas' forecast for costs associated with the incentive compensation plan, the long-term incentive plan and spot cash awards is included in the Settlement. This represents a reduction of $10.954 million from SoCalGas' proposal.

D&O Liability Insurance: The Joint Parties agree to an amount in D&O liability insurance funding $2,495,000 less than requested by the Applicant. This amount reflects a compromise among the parties on both the reasonable cost of future D&O liability insurance as well as the appropriate sharing of this expense between shareholders and ratepayers. The Settlement does not adopt any specific policy on whether these costs should be shared between shareholders and ratepayers.

Pension Expense: The Joint Parties recognize that Internal Revenue Service ("IRS") Code Section 412 as amended by the Employee Retirement Income Security Act of 1974 ("ERISA") obligates SoCalGas to make minimum contributions to its pension trust and that the amount of the required minimum contribution can fluctuate over time based on factors not subject to management control such as market return on invested assets, interest rates and federal legislative changes. To protect both ratepayers and shareholders, the Joint Parties therefore support adoption of a two-way balancing account to address the difference between forecasted and actual minimum contributions. The two-way balancing account allows SoCalGas to recover required pension contributions, subject to one exception: if the minimum required contribution in any year exceeds the estimate for that year that SoCalGas provided in its testimony, shareholders will have to pay 20% of the excess. The test year authorized pension expense for SoCalGas will be $4 million, $300,000 below SoCalGas' forecasted amount. Attachment A provides the details on how the balancing account will operate. The wording of Attachment A is controlling on this issue.

Supplemental Pensions: In Account 926, the Joint Parties agree to funding for supplemental pensions of $585,000. This represents 50% of the amount requested by SoCalGas.

Post-Retirement Benefits Other Than Pensions ("PBOPS"): The Joint Parties agree to SoCalGas' PBOPs forecast of $47.5 million, subject to a two-way balancing account (consistent with the approach the Commission employs for all California utilities).

Medical, Dental and Vision: The Joint Parties agree to SoCalGas' updated cost estimates for medical, dental and vision benefits (set forth in Exhibit 103), subject to the generic adjustment identified below for reduced workforce projections.

Benefits Adjustment – FTE Projections: The Joint Parties agree to a $2.3 million downward adjustment in benefits costs. This is attributed to reduced workforce (295 fewer incremental full-time equivalents or FTEs) compared to SoCalGas' original request and is intended to resolve concerns ORA and TURN raised about workforce levels, vacancy rates and synchronizing benefits costs to payroll.

Other Benefits Adjustment: The Joint Parties agree to a $2.0 million downward adjustment in benefits costs to reflect concerns ORA and TURN raised regarding the appropriateness of including in rates certain benefits such as executive life insurance, employee recognition, etc.

Regional Public Affairs: The Joint Parties agree to a $1.1 million adjustment to RPA funding (i.e. 25% of SoCalGas' labor and non-labor request in this area). This adjustment consists of a decrease in Account 920 of $708,000 (from SoCalGas' request) and a decrease in Account 921 of $437,000 (from SoCalGas' request).

Research, Development, and Demonstration (RD&D) Expenses: This Settlement adopts a revenue requirement for SoCalGas Base Margin RD&D of $8,000,000 in 2004, which is somewhat less than the $9,100,000 proposed by SoCalGas. This Settlement makes this amount subject to a one-way balancing account that will provide that RD&D expenditures at the end of the rate case cycle (not year-by-year) will be trued up to refund to ratepayers any spending less than $8 million per year times the number of years in the rate case cycle. The sharing mechanism for net revenues from RD&D (royalties and sale of securities) adopted in D.97-07-054, which provides for a 50/50 sharing between ratepayers and shareholders, will remain in effect. Nothing in this Settlement prevents the Commission from deciding in R.02-10-001 that some or all of the RD&D expenses authorized herein should be recovered through the Natural Gas Surcharge instead of base rates. If the Commission were to transfer recovery of any amount of the RD&D expenses authorized herein to the Natural Gas Surcharge, SoCalGas would reduce base rates by the same amount.

L. CORPORATE AND SHARED SERVICES

Corporate Center charges: The Joint Parties agree to a $7.5 million reduction to the SoCalGas request. This reduction reflects the inclusion of only 50% of costs associated with incentive compensation plans and supplemental pensions, and significant reductions of the costs requested to provide other benefits. It also reflects compromise regarding disputed positions at the Corporate Center and certain expense allocations from the Corporate Center, without adopting any specific positions on those disputed issues individually.

Utility Shared Services: The Joint Parties agree to a $1.2 million reduction from the SoCalGas forecast. This resolves concerns about the ability of ORA and other interested parties to reconcile some of these costs, and also to account for reductions in these charges that would occur due to other reductions in the Settlement Agreement.

The Joint Parties agree that an adjustment shall be made in the shared services billings area of $600,000 at SoCalGas ($300,000 in Account 920 and $300,000 in Account 921). This adjustment to the shared services forecast is a compromise based on two factors: 1) reduced FTEs and 2) impacts on other shared services due to other portions of this Settlement Agreement. The Joint Parties agree that the utilities shared services presentation was difficult to follow, but when provided with all necessary information the parties were able to confirm that the shared service credits and debits ultimately reconciled. The ORA recommendation for shared services revenues being subject to refund is no longer necessary and herein eliminated.
Applicants shall work with ORA and any other interested parties who chose to participate to develop a reasonable and more easily understood shared services presentation for the next base rate proceeding for SoCalGas and SDG&E.

M. FRANCHISE FEES AND UNCOLLECTIBLES

Franchise Fees: Consistent with the Joint Recommendation of SoCalGas, ORA and TURN (Exhibit 144), the franchise fees portion of O&M expense has been calculated using a gas franchise fee rate of 1.5534%. The uncollectibles portion of O&M expense has been calculated using a rate of 0.329%, as proposed by ORA. Because franchise fees and uncollectibles are calculated based on total revenues, they are stated in 2004 dollars throughout the Settlement Agreement.

N. COST ESCALATION

Cost Escalation. The Joint Parties agree to use an escalation rate of 1.106 for escalating labor expenses from 2001 dollars to 2004 dollars. For escalating non-labor O&M expenses, the Joint Parties mutually agree to use 1.076. The labor, non-labor and other expense allocations for purposes of escalating from 2001 dollars to 2004 dollars are set forth in Attachment D hereto.

O. DEPRECIATION.

The Joint Parties agree upon the method for calculating depreciation and that depreciation expense shall be $260,394, 000. The Joint Parties agree with SoCalGas' proposed change in service lives used to calculate depreciation, which was not contested, and the amount of depreciation expense provided for in this Settlement is consistent with that change. The amount of depreciation expenses allowed in this Settlement is lower than what SoCalGas had requested. The lower amount is due to two factors. First, the Joint Parties have agreed to a lower amount of capital additions than SoCalGas had requested. Second, the Settlement reflects a compromise between SoCalGas' and ORA's positions on net salvage rates. ORA had argued to leave unchanged the net salvage rates the Commission adopted in SoCalGas' 1994 General Rate Case; in contrast, SoCalGas submitted testimony updating its net salvage rates. The Settlement reflects a net salvage expense that is in the mid-range between what SoCalGas had requested and ORA had proposed, and reflects parties' perceptions of litigation risk on this issue. Finally, the Settlement reflects SoCalGas' position with respect to the amortization of land rights.

P. TAXES ON INCOME

The Joint Parties agree to an income tax expense of $101,147, 000. This amount is consistent with the method for computing taxes on income and the weighted average deferred tax amounts to be deducted from rate base for test year 2004 that SoCalGas, ORA and TURN agreed to in their Joint Recommendation on taxes (Exhibit 144).

Q. TAXES OTHER THAN ON INCOME

The Joint Parties agree to a tax expense, for taxes other than on income, of $57,869,000. This amount is consistent with the methods for computing payroll taxes and ad valorem taxes that SoCalGas, ORA and TURN agreed to in their Joint Recommendation on taxes (Exhibit 144).

R. TOTAL OPERATING EXPENSES

The Joint Parties agree to Total Operating Expenses of $1,301,749,000.

S. RETURN

The Joint Parties agree to Return of $200,284,000, assuming the currently-authorized rate of return on rate base of 8.68%.

T. RATE BASE

Rate Base: The Joint Parties agree to rate base for SoCalGas of $2,307,420,000. This is a reduction of approximately $70 million from SoCalGas' request.

Working Capital: TURN recommended reduction by approximately $87 million of SoCalGas' proposed working capital (and, therefore, rate base) on a variety of grounds. ORA also recommended reductions of approximately $16.8 million from SoCalGas' proposed level of working capital. Adjustments to SoCalGas' proposal are made by this Settlement of $30 million in working cash and $5 million in materials & supplies.

Capital Additions: The Joint Parties agree to an additional approximately $35 million reduction in capital additions compared to SoCalGas' position in the proceeding, to arrive at the approximately $70 million reduction in rate base. The request by SoCalGas for recovery of capital costs for software development projects to implement the Gas Industry Restructuring (Direct Testimony of Sarah Edgar, Ex. 10, page SE-1, Table SEE-1) is deferred without prejudice for determination in a proceeding other than the proceeding in which this Settlement is filed. Thus, the reduction in SoCalGas' proposed plant in service adopted in this Settlement includes a reduction of $7.7 million to reflect the deferral of the resolution of the GIR implementation costs.[2]

U. RATE OF RETURN

The Settlement assumes SoCalGas' authorized rate of return on rate base at 8.68%, as last authorized by the Commission. The Settlement does not address when or how the Commission may revise this authorized rate of return.

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[2] The revenue requirement adopted by this Settlement includes a portion, consistent with prior Commission decision, of the cost to SoCalGas of leasing the ARCO Cuyama-Casitas pipeline. SoCalGas has discussed with ORA the potential that SoCalGas may purchase that pipeline. This Settlement provides that if SoCalGas purchases this pipeline, it shall file an advice letter with the Commission detailing the terms of the purchase and reflecting the effect on rates of removing the cost of the lease in rates and including the cost of the purchase in rate base, provided that reflecting this change in ownership shall not increase the revenue requirement adopted herein.

V. SALES AND CUSTOMER LEVELS

The parties agree that the Commission should adopt the forecast of number of gas customers, totaling 5.256 million in 2004, as set forth in Exhibit No.24, the testimony of Scott Wilder on behalf of SoCalGas, which was uncontested on this issue.

W. MISCELLANEOUS

General Ledger Reconciliation

The Joint Parties agree that there has been a full reconciliation between the general ledger and the utilities 2001 base year starting points and that the base margin revenue requirements discussed above reflect this reconciliation.

Audit

The Joint Parties agree that no further audits are necessary in this proceeding, and do not support any proposals in this proceeding for further audits.

Term of Rate Case: The term of the rate case cycle starting with Test Year 2004 and ending with SoCalGas next cost of service or General Rate Case application shall be no less than 4 years; i.e., the next Test Year shall be no earlier than 2008, provided that the Commission may in a decision in Phase 2 of this proceeding adopt such provisions as it sees fit for the timing of the next rate case not inconsistent with the provisions of this Settlement.

Next GRC: SoCalGas agrees to file a notice of intent (NOI) as a part of the processing of its next cost of service or GRC application, in a manner and on a schedule consistent with the provisions of the Rate Case Plan adopted in D.89-01-040, as modified by the Commission.

Issues of Employee Training, Safety, and Health Care Costs raised by the UWUA: SoCalGas will join the Western States Utility Workers Industry Apprenticeship and Training Trust Fund, which will be a joint management/union multi-employer training trust fund. The fund will be utilized to further the training programs associated with UWUA represented job classifications within the western United States.

SoCalGas will provide funding of $500,000 to assist the UWUA in establishing the Western States Utility Workers Industry Apprenticeship and Training Trust. SoCalGas will fund this cost within the total revenue requirement provided for by this Settlement. SoCalGas will agree to hire the first 10 graduates from the program that are trained for SoCalGas.

SoCalGas will become a member of the National Coalition on Health Care joining the UWUA in its efforts to address rising health care costs.

Balancing Account for Electric Fuel for Sylmar Compressor Station: The Settlement reflects the expense level recommended by SoCalGas for electric fuel for its Sylmar Compressor Station, but SoCalGas agrees to propose to the Commission at the first opportunity in a BCAP proceeding, including in A.03-09-008 if the Commission allows, to treat these costs in the same manner for ratemaking as company-use gas fuel used in gas-fired compressor stations.

Personal Computer Life Cycle

The Joint Parties agree to use for ratemaking purposes of a life cycle of four years for personal computers, which represents a compromise between SoCalGas' position of three years and TURN's position of five years. The revenue requirements provided by this Settlement for each account including personal computer expenses reflects a four-year PC life cycle.

Change in Capitalization Policy

SoCalGas proposed the adoption of SOP 98-1, which would result in expensing certain costs that would be capitalized under the current policy, and also proposed a change in its capitalization policy as described in Exhibit No.15 (S. Wayland Kan) at pp. 5-7. (For example, SoCalGas "general equipment" capitalization threshold would change from $500 to $5000.) No party in its testimony expressly opposed SoCalGas adopting SOP 98-1. No party in its testimony expressly opposed SoCalGas' proposal for "harmonizing" capitalization policies (items under $5,000, footage of main replaced, etc.) FEA did propose a "phase-in" of the revenue requirement impacts for SDG&E's similar capitalization policy change. The Joint Parties agree that SoCalGas' recommendations on these items are adopted by the settlement within the settled revenue requirement. The Joint Parties agree that no "phase in" is necessary. The Joint Parties agree that SoCalGas shall not propose any further changes to its capitalization policies in any proceeding prior to its next cost of service or General Rate Case application.

Long Term Gas Resource Plans: Issues concerning long-term gas resource planning are not addressed by this Settlement.

Late Payment Charge: This Settlement adopts the recommendation for a late payment charge for non-residential customers as proposed in Exhibit No.7 at pp.203-204 (Patrick Petersilia on behalf of SoCalGas). The charge shall be equal to 1/12 of SoCalGas' authorized rate of return on rate base rounded to the nearest-one tenth of a percent. The adoption of a late payment charge for non-residential customers does not amount to any precedent for the adoption of such charges for residential customers.

IV.
ADDITIONAL TERMS AND CONDITIONS

A. PERFORMANCE

The Joint 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 a 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 Joint Parties that time is of the essence in obtaining the Commission's approval of this Settlement Agreement and that all will extend their best efforts to ensure its adoption.

B. CONTRIBUTION OF INTERESTED PARTIES

For purposes of determining intervenor compensation, the undersigned parties acknowledge that UWUA National, UWUA Local 483, and Greenlining were active parties during the discovery phase, evidentiary hearings, and the settlement negotiation process. During the discovery phase they were active parties, sponsored testimony, conducted cross-examination, and presented expert substantiation of its positions during the settlement phase of the case and participated in an informed, expert manner. SoCalGas agrees not to oppose the request to the Commission by UWUA Local 483 to be found eligible for and be granted intervenor compensation.

C. THE PUBLIC INTEREST

The Joint Parties agree jointly by executing and submitting this Settlement Agreement that the relief requested herein is just, fair and reasonable, and in the public interest.

The Joint Parties acknowledge the value of including all active participants in this case in the settlement process. Accordingly, the Joint Parties agree that in any future SoCalGas rate proceedings, reasonable efforts shall be made to include all active parties at the commencement of settlement negotiations.

D. NON-PRECEDENTIAL EFFECT.

This Settlement Agreement is not intended by the Joint Parties to be binding precedent for any future proceeding, or for resolution of any issues pertaining to SDG&E in this consolidated proceeding. The Joint 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 under-lying this Settlement Agreement, and the Joint Parties expressly declare that, as provided in Rule 51.8 of the Commission's Rules of Practice and Procedure, this Settlement Agreement should not be considered as a precedent for or against them.

The Settlement explicitly does not establish any precedent on the litigated revenue requirement issues in the case, even though the Settlement adopts revenue requirement reductions identified with specific FERC accounts and disputed items. For instance, items for which reduced funding have been agreed to, but for which no precedent is established regarding the right to record such costs in utility accounts or to recover such costs in a future case include (but are not limited to) the following: costs associated with the regional public affairs department; costs associated with incentive compensation and other benefits; costs associated with D&O insurance; costs associated with the Corporate Center or shared services; and whether interest bearing customer deposits should be considered in the calculation of working cash requirements.

Likewise, the Settlement explicitly does not establish any precedent on the litigated policy issues in the case, even though the Settlement adopts certain explicit positions on these issues, including but not limited to the following: depreciation methodology, capitalization policy, and personal computer life cycle.

Notwithstanding the foregoing, this Settlement does establish expectations with respect to the rate of replacement of certain SoCalGas gas meters and with respect to the level of leak backlogs, as set forth specifically in this Settlement above.

E. INDIVISIBILITY.

This Settlement Agreement embodies compromises of the Joint Parties' positions. No individual term of this Settlement Agreement is assented to by any Settling Party, except in consideration of the other Joint Parties' assents to all other terms. Thus, the Settlement Agreement is indivisible and each part is interdependent on each and all other parts. Any party may withdraw from this Settlement Agreement if the Commission modifies, deletes from, or adds to the disposition of the matters stipulated herein. The Joint Parties agree, however, to negotiate in good faith with regard to any Commission-ordered changes in order to restore the balance of benefits and burdens, and to exercise the right to withdraw only if such negotiations are unsuccessful.

The Joint Parties acknowledge that the positions expressed in the Settlement Agreement were reached after consideration of all positions advanced in the prepared testimony of SoCalGas, ORA, and the other interested parties, as well as proposals offered during the settlement negotiations. This document sets forth the entire agreement of Joint Parties on all of those issues, except as specifically described within the Settlement Agreement. The terms and conditions of this Settlement Agreement may only be modified in writing subscribed by all Joint Parties.

F. ATTACHMENTS

Attachments A through D to this Settlement Agreement are part of the agreement of the Joint Parties and are incorporated by reference.

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Dated this 19th day of December, 2003.

OFFICE OF RATEPAYER ADVOCATES

By:______________________________________
Robert Mark Pocta
Program Manager

SOUTHERN CALIFORNIA GAS COMPANY

By:________________________________

William L. Reed
Senior Vice President

THE UTILITY REFORM NETWORK

By:_________________________
Marcel Hawiger
Attorney

UTILITY WORKERS UNION OF AMERICA

By:_________________________
Bernardo R. Garcia
Region 5 Director

LOCAL 483, UTILITY WORKERS UNION OF AMERICA

By:__________________________
Dennis Zukowski
President

SOUTHERN CALIFORNIA GENERATION COALITION

By:________________________
Norman Pedersen
Attorney

THE GREENLINING INSTITUTE

By:____________________
Robert L. Gnaizda
General Counsel

ATTACHMENT A TO SETTLEMENT AGREEMENT FOR SOCALGAS IN A.02-12-027

PENSION BALANCING ACCOUNT – SOCALGAS

The Joint Parties recognize that Internal Revenue Service ("IRS") Code Section 412 as amended by the Employee Retirement Income Security Act of 1974 ("ERISA") obligates SoCalGas to make minimum contributions to its pension trust ("ERISA minimum contribution") and that the amount of the required ERISA minimum contribution can fluctuate over time based on factors not subject to management control such as market return on invested assets, interest rates and federal legislative changes. To protect both ratepayers and shareholders, the Joint Parties therefore support adoption of a two-way balancing account to address the difference between forecasted and actual minimum contributions.

Specifically, this settlement provides a test year authorized expense for SoCalGas of $4 million. The agreed-upon test year authorized expense is somewhat lower than SoCalGas had originally requested ($4.3 million), which reflects slightly improved equity market conditions (which lower the amount of needed contributions), but also the continuation of low interest rates (which increase the amount of needed contributions). The balancing account will operate in accordance with the following provisions:

- Beginning in 2004, and in each subsequent year of the period covered by this agreement,[3] SoCalGas shall record in its pension balancing account the difference between the test year 2004 funding level set forth above ($4 million) and the customers' share of the actual contribution made to the pension fund for that year, as described below. The

[3] The period covered by this agreement shall be from the effective date of the decision in this proceeding through the effective date of the decision in SoCalGas' next cost-of-service proceeding.

contribution recorded in the account shall not exceed the ERISA minimum contribution for any given year, if any, as set forth in IRS Code Section 412.

- The customers' share of the pension contribution shall be equal to the ERISA minimum except as follows. If the ERISA minimum contribution in any given year exceeds the amount forecasted in the bottom line of Appendix III of Exhibit 12 ($4.3 million in 2004, $7 million in 2005, $11 million in 2006, $15 million in 2007 and $20 million in 2008), SoCalGas' customers will fund the forecasted amount plus 80% of the excess of the actual ERISA minimum above the forecasted amount; SoCalGas' shareholders will fund the remaining 20% of the excess amount. For example, if the ERISA minimum contribution for 2005 is $12 million, instead of the forecasted amount of $7 million, SoCalGas' customers will fund $11 million ($7 million plus $4 million, which represents 80% of the $5 million difference between the ERISA minimum and the forecasted amount); SoCalGas' shareholders will fund the remaining $1 million (20% of the $5 million difference between the ERISA minimum and the forecasted contribution).
- Each year, SDG&E shall provide to ORA, at or near the time the contribution is paid, an explanation of the amount contributed. The material provided to ORA would include all supporting workpapers (e.g., actuarial valuations) for the development of the minimum ERISA payment.
- The account will be maintained on a monthly basis and will be interest-bearing. The pension contribution will be reflected in the month in which such contribution is made to the pension trust fund for that year. The balancing account will accrue interest at the three-month commercial paper rate through the term of this agreement. Any accumulated credit balance shall be returned to ratepayers through a revenue/rate decrease and any

accumulated debit balance shall be recovered by SoCalGas through a revenue/rate increase. SoCalGas may request that any filings and rate changes required by this provision be consolidated with other appropriate filing(s).

ATTACHMENT B TO SETTLEMENT AGREEMENT FOR SOCALGAS IN A.02-12-027

SUMMARY OF EARNINGS COMPARISON
Settlement Agreement Summary

Line	Description	SoCalGas End-of-Hearings	ORA End-of-Hearings	Settlement
1	Base Margin	1,527,444	1,396,897	1,457,008
2	Miscellaneous Revenues	45,025	45,025	45,025
3	Revenue Requirement	1,572,470	1,441,922	1,502,033
	Operating and Maintenance Expenses			
4	Clearing Accounts	58,664	58,053	57,291
5	Underground Storage	23,370	22,131	23,370
6	Transmission	38,321	36,671	38,321
7	Distribution	135,422	128,461	132,450
8	Customer Services	277,604	253,027	261,987
9	Uncollectables ('04: 0.329%)	5,869	4,762	4,932
10	Administrative & General	379,209	330,253	349,714
11	Franchise Fees ('04: 1.5534%)	24,175	22,147	23,081
12	Subtotal (2001$)	942,634	855,504	891,145
13	Labor Escalation Amount	39,384	26,299	33,709
14	Non-Labor Escalation Amount	11,934	10,335	11,815
15	Subtotal (2004$)	993,952	892,138	936,670
16	O&M Reassignments	(58,088)	(49,702)	(54,330)
17	Total O&M Expenses	935,863	842,436	882,340
18	Depreciation	266,034	254,600	260,394
19	Taxes on Income	105,516	95,714	101,147
20	Taxes Other Than on Income	60,109	56,223	57,869
21	Total Operating Expenses	1,367,522	1,248,973	1,301,749
22	Return	204,948	192,949	200,284
23	Rate Base	2,361,149	2,222,909	2,307,420
24	Rate of Return	8.68%	8.68%	8.68%
	Derivation of Base Margin			
25	O&M Expenses	935,863	842,436	882,340
26	Depreciation	266,034	254,600	260,394
27	Taxes	165,625	151,937	159,016
28	Return	204,948	192,949	200,284
29	Revenue Requirement	1,572,470	1,441,922	1,502,033
30	Less: Miscellaneous Revenues	45,025	45,025	45,025
31	Base Margin	1,527,444	1,396,897	1,457,008

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Gas Company for Authority to Update its Gas Revenue Requirement and Base Rates. (U 904 G)	Application 02-12-027 (Filed December 20, 2002)
Application of San Diego Gas & Electric Company for Authority to Update Its Gas and Electric Revenue Requirement and Base Rates. (U 902 M)	Application 02-12-028 (Filed December 20, 2002)
Investigation on the Commission's Own Motion Into the Rates, Operations, Practices, Service and Facilities of Southern California Gas Company and San Diego Gas & Electric Company.	Investigation 03-03-016 (Filed March 13, 2003)

SETTLEMENT AGREEMENT

REGARDING SAN DIEGO GAS & ELECTRIC COMPANY

Keith W. Melville
Glen J. Sullivan
Steven C. Nelson
101 Ash Street
San Diego, CA 92101
Attorneys for Southern California Gas Company

James Scarff
Paul Angelopulo
505 Van Ness Avenue
San Francisco, CA 94102
Attorneys for Office of Ratepayer Advocates

Robert Gnaizda
Itzel Berrio
785 Market Street, Third Floor
San Francisco, CA 94103
Attorneys for Greenlining Institute

John Leslie
Luce, Forward, Hamilton & Scripps LLP
600 West Broadway
San Diego, CA 92101
Attorney for Coral Energy Resources, L.P.

Marc D. Joseph
Adams Broadwell Joseph & Cardozo
651 Gateway Blvd., Suite 900
South San Francisco, CA 94080
Attorney for Coalition of California Utility Employees

December 19, 2003

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Gas Company for Authority to Update its Gas Revenue Requirement and Base Rates. (U 904 G)	Application 02-12-027 (Filed December 20, 2002)
Application of San Diego Gas & Electric Company for Authority to Update Its Gas and Electric Revenue Requirement and Base Rates. (U 902 M)	Application 02-12-028 (Filed December 20, 2002)
Investigation on the Commission's Own Motion Into the Rates, Operations, Practices, Service and Facilities of Southern California Gas Company and San Diego Gas & Electric Company.	Investigation 03-03-016 (Filed March 13, 2003)

SETTLEMENT AGREEMENT
REGARDING SAN DIEGO GAS & ELECTRIC COMPANY

Pursuant to the California Public Utilities Commission ("Commission") Rules of Practice and Procedure, Section 51.3 ("Rule 51.3"), the Commission's Office of Ratepayer Advocates ("ORA"), San Diego Gas & Electric Company ("SDG&E"), the Coalition of California Utility Employees ("CCUE"), Coral Energy Resources, L.P., and the Greenlining Institute ("Greenlining") [collectively referred to hereafter as "Joint Parties"] respectfully submit to the Commission this Settlement Agreement. In this Settlement Agreement, the Joint Parties provide to the Commission a recommended resolution of the vast majority of the issues applicable to SDG&E that have been designated for consideration in Phase 1 of this proceeding, including the revenue requirement for SDG&E for Test Year 2004. Greenlining is joining in the Settlement Agreement only as to issues raised in Greenlining's testimony (see Attachment C to this Settlement Agreement) and takes no position on the remaining issues.

Certain topics designated for Phase I of this proceeding are not resolved by this Settlement Agreement and will be litigated unless resolved by subsequent agreement. These unresolved matters include the method of recovery of fumigation-related costs, and SDG&E's gas resource plan (except as specifically provided below with respect to receipt of gas at Otay

Mesa). In addition, issues designated for consideration in Phase II of this proceeding pertaining to performance based ratemaking are not addressed in this Settlement Agreement. Accompanying this Settlement Agreement is the Motion of the Joint Parties requesting that the Commission adopt the terms of this Settlement Agreement in its decision on Application No. 02-12-028.

Attached to this Settlement and incorporated as integral parts of the Settlement are the following attachments:

Attachment A: Pension Balancing Account – SDG&E

Attachment B: Summary of Earnings Table (reflecting Settlement results)

Attachment C: Settlement Agreement between the Greenlining Institute and SoCalGas and SDG&E

Attachment D: Joint Comparison Exhibit, Results of Operations; Settlement Agreement for SDG&E

I.
INTRODUCTION AND BACKGROUND

SDG&E filed A.02-12-028 on December 20, 2002, which requested an increase in its authorized base rate revenues for electric service of $59 million in 2004 over the 2002 authorized level and for gas service of $22 million in 2004 over the 2002 authorized level. Also, on December 20, 2002, Southern California Gas Company ("SoCalGas") filed A.02-12-027, requesting an increase in its authorized base rate revenues for gas service. The assigned ALJ consolidated the applications in light of the similarities of the filings, including many of the same witnesses, use of the same ratemaking calculations or "models," and the fact that the two companies are operated in large part by the same management. On March 13, 2003 the Commission issued a companion order instituting investigation (I) 03-03-016, stating that the proceeding will "determine whether the companies are properly organized, managed and controlled so as to provide safe, reliable and cost effective gas and/or gas and electric retail service to their customers." (I.03-03-016, mimeo, pg. 3.) On April 2, 2003 Assigned Commissioner Wood issued a Ruling Establishing Scope, Schedule and Procedures For

Proceeding (Scoping Memo). On May 22, 2003, the Assigned Commissioner and ALJ issued a further ruling, modifying the procedural schedule and deferring to a second phase of the proceedings issues related to performance-based ratemaking.

ORA's examination of an appropriate revenue level for SDG&E's 2004 Test Year began only days after the SDG&E filing. ORA issued to the Applicants data requests consisting of over 250 questions and requests for information. Over the next ten months, ORA continued its in-depth discovery, propounding over 1,000 questions and requests for information. These requests probed virtually every element of SDG&E's prepared testimony addressing Phase 1 issues. ORA also assigned financial examiners who reviewed the financial, accounting and operating records of SDG&E. Other interested parties also engaged in substantial discovery of SDG&E.

On August 8, 2003, ORA served its testimony on the parties to this proceeding, including detailed reports on SDG&E gas results of operations, and other reports. On September 5 or September 12 other interested parties served their prepared testimonies. Twenty days of hearings were held between October 7 and November 14, 2003. Following a fully litigated proceeding, and based upon the positions expressed in SDG&E's direct and rebuttal testimony, ORA's reports and the prepared testimony of other parties, the Joint Parties perceived a potential to reach compromises on various issues. Accordingly, the parties began intensive discussions of potential settlement positions. On November 10, 2003, SDG&E, SoCalGas, and ORA sent to all parties a Notice of Settlement Conference, which was held on November 17, 2003 at the Commission's offices in San Francisco, California. Numerous subsequent meetings of parties were held, resulting in the instant Settlement Agreement.

Compared to SDG&E's final, close-of-hearings position requesting a 2004 revenue requirement of $1,065,547,000 ($841,785, 000 for electricity and $223,761,000 for gas), this Settlement Agreement provides for a 2004 revenue requirement in the amount of $1,002,263,000 ($788,258,000 for electricity and $214,005,000 for gas), or over $63 million less than proposed by SDG&E for electricity and gas combined. Furthermore, the settlement 2004 revenue requirement represents a decrease of approximately $20 million from the Commission-authorized electric revenue requirement in 2003 for the same costs, and a very modest increase of approximately $1.8 million from the Commission-authorized gas revenue requirement in 2003.

II.
REASONABLENESS OF THE SETTLEMENT

The Joint Parties believe this Settlement Agreement complies with the Commission's requirements that settlements be reasonable, consistent with law, and clearly in the public interest. The Joint Parties have recognized that there is risk involved in litigation, and that no party was likely to be 100% successful in supporting its filed case. The Joint Parties have vigorously argued their positions in this matter, and have reached compromise positions that they believe are appropriate in light of the litigation risks. Furthermore, the Joint Parties have specifically considered the potential litigated outcome of issues raised by parties other than SDG&E and ORA. In the process of reaching these compromises, the Joint Parties in certain instances have considered some smaller issues in the aggregate rather than item by item. The Joint Parties believe that this approach was used appropriately given the multiplicity of issues addressed. The level of revenues agreed to in this Settlement Agreement reflects the Joint Parties' best judgments as to the totality of all parties' positions and risks, and their agreement herein is explicitly based on the bottom line result achieved.

Forecast Methodology

Both SDG&E and ORA based their respective test year expense forecasts largely on analyses of historical data. In many instances the differences in their forecasts are the result of employing different forecast methodologies, such as: 1) trends, 2) averages, 3) zero-based estimating, 4) adjustments to recorded expenses, and 5) varying historical time periods. The Joint Parties agree that the proper application of forecast methodologies requires the use of judgment and that, as in any forecasting exercise; there is a range of reasonable outcomes. The Joint Parties also agree that different methodologies can produce results within this range and that no single methodology will produce the sole reasonable result in every instance.

The level of test year expenses recommended by the Joint Parties is based upon their individual judgments regarding the strengths and weaknesses of competing forecasting methodologies, including those proposed by parties other than SDG&E and ORA, and the resulting compromises each party felt were reasonable. Except as specifically identified in this Settlement Agreement, the substantial differences among the Joint Parties' initial positions in each major expense area were resolved through such judgments and compromises.

III.

SETTLEMENT AND STIPULATIONS

Appendix B to this Settlement Agreement contains a Summary of Earnings table. This table sets forth the positions expressed in SDG&E's application and testimony, as revised during the proceeding, and in ORA's reports, by FERC functional account area.[1] The final column on each table, labeled "Settlement", presents the levels of expense (by functional area), revenue and rate base agreed upon by the Joint Parties, subject to adjustments described in this Settlement Agreement.

In addition to the agreements expressed in the "Settlement" column on the Summary of Earnings table, the Joint Parties agree as follows:

A. BASE MARGIN

The Joint Parties agree on a 2004 SDG&E base margin of $760,107,000 for electricity and $205,032,000 for gas, for a total of $965,139,000.

B. MISCELLANEOUS REVENUES

The Joint Parties agree to miscellaneous revenues of $28,150,000 for electricity and $8,972,000 for gas for the 2004 Test Year, a total of $37,122,000. SDG&E in its testimony forecast miscellaneous electric revenues of $26,731,000, whereas ORA forecast miscellaneous electric revenues of $29,386,000. This difference is in large part attributable to the different treatment of the gain on sale associated with the sale of the former Sundesert nuclear plant site near Blythe. ORA proposed an allocation of the gain on sale of this property that allocated more of the gain to ratepayers (Ex. 301 at pp. 2-2ff). The miscellaneous revenue forecast adopted in the settlement reflects a compromise of the litigation positions of SDG&E and ORA of the Blythe gain on sale issue based on each party's perception of the litigation risk associated with their position. The settlement does not adopt either party's position of allocating gain on sale of this property.

[1] All operations and maintenance expenses set forth in this Settlement Agreement are expressed in 2001 dollars unless otherwise specified. Capital related costs reflect SDG&E's currently authorized rate of return.

C. REVENUE REQUIREMENT

The Joint Parties agree to a TY 2004 Revenue Requirement for SDG&E of $1,002,261,000 ($788,257,000 for electricity and $214,004,000 for gas).

D. OPERATIONS AND MAINTENANCE ("O&M") EXPENSE

Authorized O&M Expense. The Joint Parties agree that the amount of O&M expenses that SDG&E should be allowed to recover in rates in the 2004 Test Year is $431,278,000 ($336,029,000 for electricity and $95,250,000 for gas), before escalation to 2004 dollars, and $453,312,000 after escalation to 2004 dollars ($351, 710,000 for electricity and $101,601,000 for gas). Details are set forth below regarding Clearing Accounts, Nuclear Generation, Procurement, Gas Transmission, Distribution, Uncollectibles, Customer Services, Administrative & General, and Franchise Fees.

E. CLEARING ACCOUNTS

The Joint Parties agree to a total for clearing accounts of $12,731,000 ($8,795,000 for electric and $3,936,000 for gas).

F. NUCLEAR GENERATION – SONGS

Most of SDG&E's 2004 revenue requirement with respect to its 20% ownership in the San Onofre Nuclear Generating Station ("SONGS") is being litigated in Phase 1 of Southern California Edison Company's ("SCE") General Rate Case ("GRC") (A.02-05-004), which still is pending. The Joint Parties agree that SDG&E's level of electric production expense adopted in the final revenue requirement in this proceeding should reflect SDG&E's share of the actual SONGS costs the Commission authorizes in its decision in Phase 1 of the SCE GRC. For purposes of this settlement agreement, the Joint Parties have used ORA's proposed level of nuclear expenses, but agree upon issuance of a final decision in Phase 1 of the SCE GRC to serve a late-filed exhibit showing SDG&E's share of the SONGS costs the Commission authorizes in A.02-05-004. With respect to the SONGS costs that SDG&E presented in this proceeding that SCE does not directly bill to SDG&E or that were not addressed in SCE's GRC showing, the Joint Parties have agreed to use SDG&E's forecast of these costs, which total $8 million. These costs include U.S. Department of Energy uranium enrichment plant decontamination and decommissioning fees attributable to SONGS 1, 2 and 3, Spent Fuel Storage costs attributable to SONGS 1, SONGS site easement fees paid to the U.S. Department of the Navy and other SONGS-related costs for depreciation expenses (including AFUDC), taxes and franchise fees, nuclear insurance, uncollectibles and return on rate base. These costs also include the SONGS costs SDG&E identified in Exhibit 96 to comply with new security orders the Nuclear Regulatory Commission ("NRC") issued on April 29, 2003, although nothing in this agreement is intended to preclude parties from proposing adjustments to these NRC security costs in SCE's next GRC proceeding.

The SONGS revenue requirement will be recovered in SDG&E's electric energy commodity rate and will be subject to balancing account treatment in a proposed new regulatory account, the Non-Fuel Generation Balancing Account ("NGBA"). SDG&E has sought authorization to establish the NGBA in A.03-06-002.[2]

G. PROCUREMENT

SDG&E requested $5,544,000 for labor and non-labor expenses related to purchasing and scheduling gas and electricity for bundled customers. ORA recommended downward adjustments totaling $476,000 based on lower staffing in this area, and $494,000 related to consulting expenses. UCAN also recommended a reduction, on the grounds that demands on this group would be lower after SDG&E's recent RFP and consultant costs would decline because consultants' models had already been developed and would need only to be maintained in 2004. In this Settlement, the Joint Parties accept ORA's proposed reductions, resulting in a total funding level of $4,574,000. SDG&E pledges to expend whatever is required to effectively procure gas and electricity for its customers, regardless of the particular amount that is authorized by the Commission for this function.

[2] A decision approving this application was issued by the Commission on December 18, 2003. The decision number was not available as of the time this Settlement was prepared.

H. GAS TRANSMISSION

The Joint Parties agree to SDG&E's estimated test year costs of $5,216,000.

I. ELECTRIC DISTRIBUTION

The Joint Parties agree to Electric Distribution expense of $79,319,000. Reductions have been made for several items, including: growth-related reduction to tree-trimming expense ($500,000); elimination of SDG&E's requested funding for New Business Construction Managers ($174,000); and a reduction of $901,000 in O&M expense for SDG&E's Sustainable Communities project.

J. GAS DISTRIBUTION

The Joint Parties agree to Gas Distribution expense of $14,116,000. The Joint Parties agree to reductions from the amount originally requested by SDG&E in the areas of maturing work force ($75,000) and in funding sought to comply with stricter permitting and work rules ($19,000).

K. UNCOLLECTIBLES

The uncollectibles portion of O&M expense has been calculated using a rate of 0.266%, the rate proposed by ORA. This rate is acceptable to the Joint Parties. It should be noted that, because franchise fees and uncollectibles are calculated based on total revenues, they are stated in 2004 dollars throughout the Settlement Agreement.

L. CUSTOMER SERVICES

The Joint Parties agree to customer service expenses of $92,401,000 ($62,331,000 for electricity and $30,070,000 for gas). This compares to SDG&E's final litigation position of $100,822,000 and ORA's final litigation position of $90,433,000.

The Settlement revenue requirement for Customer Services was arrived at by accepting essentially all ORA recommendations in the area, except for retaining SDG&E's proposed revenue requirement for Electric Meter Testing training and approximately $1 million of SDG&E's request for approximately $4 million for incremental customer outreach programs. Furthermore, the Settlement's Customer Service revenue requirement also reflects adoption of approximately $2 million in further reductions by accepting in whole 17 issues and in part one issue UCAN raised regarding Customer Service. Thus, this Settlement reflects a reasonable assessment of litigation risk with respect to issues raised by all parties, not just ORA.

Fumigation: The Settlement reflects the expense level recommended by SDG&E in its final position, but leaves for the Commission to determine in a decision in Phase 1 of this proceeding whether this cost should be recovered through base rates or through a separate fee that would be charged per fumigation to fumigators or SDG&E customers of record at locations being fumigated.

M. ADMINISTRATIVE & GENERAL (A&G)

The Joint Parties agree to A&G expenses of $122,307,000 ($86,387,000 for electricity and $35,920,000 for gas). In response to SDG&E's request in A.02-12-027, interested parties sought large A&G reductions, and the Settlement reflects $37 million less than SDG&E's final litigation position. The Settlement therefore reflects the litigation risks but also protects against some of SDG&E's major concerns, such as pension contribution requirements and medical cost increases:

Incentive Compensation: Only 50% of SDG&E's forecast for costs associated with the incentive compensation plan, the long-term incentive plan and spot cash awards is included in the Settlement. This represents a reduction of $18,086,000 from SDG&E's proposal.

D&O Liability Insurance: The Joint Parties agree to an amount in D&O liability insurance funding $1,055,000 less than requested by SDG&E. This amount reflects a compromise among the parties on both the reasonable cost of future D&O liability insurance as well as the appropriate sharing of this expense between shareholders and ratepayers. The Settlement does not adopt any specific policy on whether these costs should be shared between shareholders and ratepayers.

Pension Expense: The Joint Parties recognize that Internal Revenue Service ("IRS") Code Section 412 as amended by the Employee Retirement Income Security Act of 1974 ("ERISA") obligates SDG&E to make minimum contributions to its pension trust and that the amount of the required minimum contribution can fluctuate over time based on factors not subject to management control such as market return on invested assets, interest rates and federal legislative changes. To protect both ratepayers and shareholders, the Joint Parties therefore support adoption of a two-way balancing account to address the difference between forecasted and actual minimum contributions. The two-way balancing account allows SDG&E to recover required pension contributions, subject to one exception: if the minimum required contribution in any year exceeds the estimate for that year that SDG&E provided in its testimony, shareholders will have to pay 20% of the excess. The test year authorized pension expense for SDG&E will be $17 million, $8.1 million below SDG&E's forecasted amount. Attachment A provides the details on how the balancing account will operate. The wording of Attachment A is controlling on this issue.

Supplemental Pensions: In Account 926, the Joint Parties agree to funding for supplemental pensions of $277,000. This represents 50% of the amount requested by SDG&E.

Post-Retirement Benefits Other Than Pensions ("PBOPS"): The Joint Parties agree to SDG&E's PBOPs forecast of $7.1 million, subject to a two-way balancing account (consistent with the approach the Commission employs for all California utilities).

Medical, Dental and Vision: The Joint Parties agree to SDG&E's updated cost estimates for medical, dental and vision benefits (set forth in Exhibit 102), subject to the generic adjustment identified below for reduced workforce projections.

Benefits Adjustment – FTE Projections: The Joint Parties agree to a $2.2 million downward adjustment in benefits costs. This is attributed to reduced workforce (281 fewer incremental full-time equivalents or FTEs) compared to SDG&E's original request and is intended to resolve concerns raised by ORA and other interested parties about workforce levels, vacancy rates and synchronizing benefits costs to payroll.

Other Benefits Adjustment: The Joint Parties agree to a $1.174 million downward adjustment in benefits costs to reflect concerns raised by ORA and other interested parties regarding the appropriateness of including in rates certain benefits such as executive life insurance, employee recognition, etc.

Regional Public Affairs: The Joint Parties agree to a $396,000 adjustment to RPA funding. This adjustment consists of a decrease in Account 920 of $276,000 (from SDG&E's request) and a decrease in Account 921 of $120,000 (from SDG&E's request).

N. CORPORATE AND SHARED SERVICES

Corporate Center charges: In Corporate Center charges, the Joint Parties agree to a $7.475 million reduction to the SDG&E's forecast; which addresses both the settlement's inclusion of only 50% of costs associated with the incentive compensation plans and supplemental pensions, and significant reductions of the costs requested to provide other benefits. It also reflects compromise regarding disputed positions at the Corporate Center and certain expense allocations from the Corporate Center, without adopting any specific positions on those disputed issues individually.

Utility Shared Services: In Utility Shared Services the Joint Parties agree to a $1.2 million reduction from the SDG&E forecast. This resolves concerns about the ability of ORA and other interested parties to reconcile some of these costs, and also to account for reductions in these charges that would occur due to other reductions in the Settlement Agreement.

The Joint Parties agree that an adjustment shall be made in the shared services billings area of $1,196,000 at SDG&E ($620,000 in Account 920 and $576,000 in Account 921). This

adjustment to the shared services forecast is a compromise based on two factors: 1) reduced FTEs and 2) impacts on other shared services due to other portions of this Settlement Agreement. The Joint Parties agree that the utilities shared services presentation was difficult to follow, but when provided with all necessary information the parties were able to confirm that the shared service credits and debits ultimately reconciled. The ORA recommendation for shared services revenues being subject to refund is no longer necessary and herein eliminated.
Applicants shall work with ORA and any other interested parties who chose to participate to develop a reasonable and more easily understood shared services presentation for the next base rate proceeding for SDG&E and SoCalGas.

O. FRANCHISE FEES

Franchise Fees: Consistent with the Joint Recommendation of SDG&E and ORA (Exhibit 145), the franchise fees portion of O&M expense has been calculated using a franchise fee rate of Electric: 3.67%; Gas: 2.13% (the franchise fee factor used to calculate customer bills will differ depending on whether the customer is inside or outside the City of San Diego; these figures represent the system average). Because franchise fees are calculated based on total revenues, they are stated in 2004 dollars throughout the Settlement Agreement.

P. COST ESCALATION

Cost Escalation. The Joint Parties agree to use an escalation rate of 1.106 for escalating labor expenses from 2001 dollars to 2004 dollars. For escalating non-labor O&M expenses, the Joint Parties mutually agree to use 1.076. The labor, non-labor and other expense allocations for purposes of escalating from 2001 dollars to 2004 dollars are set forth in Appendix C hereto.

Q. DEPRECIATION.

The Joint Parties agree upon the method for calculating depreciation and that depreciation and amortization expense shall be $214,776,000 ($166,680,000 for electric and $48,096,000 for gas). The Joint Parties agree with SDG&E's proposed change in service lives used to calculate depreciation, which was not contested, and the amount of depreciation expense provided for in this Settlement is consistent with that change. The amount of depreciation expenses allowed in this Settlement is lower than what SDG&E had requested. The lower amount is due to two factors. First, the Joint Parties have agreed to a lower amount of capital additions than SDG&E had requested. Second, the Settlement reflects a compromise between SDG&E's and ORA's positions on net salvage rates. ORA had argued to leave unchanged the net salvage rates the Commission adopted in SDG&E's 1999 Cost of Service Case; in contrast, SDG&E submitted testimony updating its net salvage rates. The Settlement reflects a net salvage expense that is in the mid-range between what SDG&E had requested and ORA had proposed, and reflects parties' perceptions of litigation risk on this issue. Finally, the Settlement reflects SDG&E's position with respect to the amortization of land rights.

R. TAXES ON INCOME

The Joint Parties agree to an income tax expense of $103,956,000 ($84,296,000 for electricity and $19,660,000 for gas). This amount is consistent with the method for computing taxes on income and the weighted average deferred tax amounts to be deducted from rate base for test year 2004 that SDG&E, ORA, and UCAN agreed to in their Joint Recommendation on taxes (Exhibit 145).

S. TAXES OTHER THAN ON INCOME

The Joint Parties agree to a tax expense, for taxes other than on income, of $39,154,000 ($30,670,000 for electricity and $8,484,000 for gas). This amount is consistent with the methods for computing payroll taxes and ad valorem taxes that SDG&E, ORA and UCAN agreed to in their Joint Recommendation on taxes (Exhibit 145).

T. TOTAL OPERATING EXPENSES

The Joint Parties agree to Total Operating Expenses of $811,198,000 ($633,357,000 for electricity and $177,841,000 for gas).

U. RETURN

The Joint Parties agree to Return of $191,063,000 ($154,900,000 for electric and $36,163,000 for gas), assuming the currently-authorized rate of return on rate base of 8.77%.

V. RATE BASE

<u>Rate Base:</u> The Joint Parties agree to rate base for SDG&E of $2,178,593,000 ($1,766,246,000 for electricity and $412,347,000 for gas). This is a reduction of approximately $31,809,000 from SDG&E's request. This Settlement explicitly includes the Otay Mesa pressure betterment project within capital additions authorized in rate base, within the above total rate base amount.

<u>Working Capital</u>: ORA recommended reductions of approximately $3,216,000 from SDG&E's proposed level of working capital. UCAN also recommended reduction by approximately $47 million of SDG&E's proposed working capital (and, therefore, rate base) on a variety of grounds. Joint Parties have taken into consideration the positions of UCAN as well as of SDG&E and ORA, and a downward adjustment to SDG&E's proposed working cash of $16.8 million is made by this Settlement.

<u>Capital Additions</u>: The Joint Parties agree to an approximate $15 million reduction in capital additions compared to SDG&E's position in the proceeding.

W. RATE OF RETURN

The Settlement assumes SDG&E's authorized rate of return on rate base at 8.77%, as last authorized by the Commission. The Settlement does not address when or how the Commission may revise this authorized rate of return.

X. SALES AND CUSTOMER LEVELS

The parties agree that the Commission should adopt the forecasts of number of gas and electric customers (811, 934 and 1,311,434, respectively) and electric sales (19,069 Gwh), set forth in Exhibit No. 50 (Greg Katsapis), which is SDG&E's uncontested testimony on this issue.

Y. MISCELLANEOUS

General Ledger Reconciliation

The Settlement reflects the agreement of ORA and SDG&E during hearings to an adjustment in the amount of $3.356 million in SDG&E's requested revenue requirement to reflect the results of ORA's review of the reconciliation between SDG&E's general ledger and SDG&E's 2001 base year starting point. No further review of reconciliation is required.

Audit

The Joint Parties agree that no further audits are necessary in this proceeding, and do not support any proposals in this proceeding for further audits.

Term of Rate Case: The term of the rate case cycle starting with Test Year 2004 and ending with SDG&E next cost of service or General Rate Case application shall be no less than 4 years; i.e., the next Test Year shall be no earlier than 2008, provided that the Commission may in a decision in Phase 2 of this proceeding adopt such provisions as it sees fit for the timing of the next rate case not inconsistent with the provisions of this Settlement.

Next GRC: SDG&E agrees to file a notice of intent (NOI) as a part of the processing of its next cost of service or GRC application, in a manner and on a schedule consistent with the provisions of the Rate Case Plan adopted in D.89-01-040, as modified by the Commission.

Personal Computer (PC) Life Cycle:

The Joint Parties agree to use for ratemaking purposes of a life cycle of four years for personal computers, which represents a compromise between SDG&E's position of three years and

UCAN's position of five years. The revenue requirements provided by this Settlement for each account including personal computer expenses reflects a four-year PC life cycle.

Change in Capitalization Policy:

SDG&E proposed the adoption of SOP 98-1, which would result in expensing certain costs that would be capitalized under the current policy, and also proposed a change in its capitalization policy (especially as to the threshold for capitalization of "general equipment" and certain pipeline replacements) as described in Exhibit No.39 (S. Wayland Kan) at pp.4-7. No party in its testimony expressly opposed SDG&E adopting SOP 98-1. No party in its testimony expressly opposed SDG&E's proposal for "harmonizing" capitalization policies. FEA did propose a "phase-in" of the revenue requirement impacts for SDG&E's capitalization policy change. The Joint Parties agree that SDG&E's recommendations on these items are adopted by the settlement within the settled revenue requirement. The Joint Parties agree that no "phase in" is necessary. The Joint Parties agree that adoption of this accounting policy in this Settlement is not precedential.

Long Term Gas Resource Plans and Otay Mesa gas receipt point: Issues concerning long-term gas resource planning are not addressed by this Settlement; provided, however, that SDG&E: (1) commits to placing the Otay Mesa pressure betterment project in service by December 31, 2004, subject only to matters beyond SDG&E's control[3]; (2) agrees to propose in an appropriate Commission approval process to establish Otay Mesa as a gas receipt point by December 31, 2004; and (3) agrees to put forth its best efforts to file with the Commission the necessary proposal to accomplish this result by January 31, 2004, and in any event no later than February 27, 2004.

[3] As noted in the section on Rate Base above, this Settlement explicitly includes the Otay Mesa pressure betterment project within capital additions authorized in rate base.

IV.
ADDITIONAL TERMS AND CONDITIONS

A. PERFORMANCE

The Joint 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 a 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 Joint Parties that time is of the essence in obtaining the Commission's approval of this Settlement Agreement and that all will extend their best efforts to ensure its adoption.

B. THE PUBLIC INTEREST

The Joint Parties agree jointly by executing and submitting this Settlement Agreement that the relief requested herein is just, fair and reasonable, and in the public interest.

C. NON-PRECEDENTIAL EFFECT.

This Settlement Agreement is not intended by the Joint Parties to be binding precedent for any future proceeding. The Joint 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 under-lying this Settlement Agreement, and the Joint Parties expressly declare that, as provided in Rule 51.8 of the Commission's Rules of Practice and Procedure, this Settlement Agreement should not be considered as a precedent for or against them.

The Settlement explicitly does <u>not</u> establish any precedent on the litigated revenue requirement issues in the case, even though the Settlement adopts revenue requirement reductions identified with specific FERC accounts and disputed items. For instance, items for which reduced funding have been agreed to, but for which no precedent is established regarding the right to record such costs in utility accounts or to recover such costs in a future case include (but are not limited to) the following: costs associated with the regional public affairs department; costs associated with incentive compensation and other benefits; costs associated with D&O insurance; and whether interest bearing customer deposits should be considered in the calculation of working cash requirements.

D. INDIVISIBILITY.

This Settlement Agreement embodies compromises of the Joint Parties' positions. No individual term of this Settlement Agreement is assented to by any Settling Party, except in consideration of the other Joint Parties' assents to all other terms. Thus, the Settlement Agreement is indivisible and each part is interdependent on each and all other parts. Any party may withdraw from this Settlement Agreement if the Commission modifies, deletes from, or adds to the disposition of the matters stipulated herein. The Joint Parties agree, however, to negotiate in good faith with regard to any Commission-ordered changes in order to restore the balance of benefits and burdens, and to exercise the right to withdraw only if such negotiations are unsuccessful.

The Joint Parties acknowledge that the positions expressed in the Settlement Agreement were reached after consideration of all positions advanced in the prepared testimony of SDG&E, ORA, and the other interested parties, as well as proposals offered during the settlement negotiations. This document sets forth the entire agreement of Joint Parties on all of those issues, except as specifically described within the Settlement Agreement. The terms and conditions of this Settlement Agreement may only be modified in writing subscribed by all Joint Parties.

E. ATTACHMENTS.

Attachments A through D to this Settlement Agreement are part of the agreement of the Joint Parties and are incorporated by reference.

//

Dated this 19th day of December, 2003.

OFFICE OF RATEPAYER ADVOCATES

By:____________________________________

Robert Mark Pocta
Program Manager

SAN DIEGO GAS & ELECTRIC COMPANY

By:______________________________

William L. Reed
Senior Vice President

THE COALITION OF CALIFORNIA UTILITY EMPLOYEES

By:_______________________

Marc D. Joseph
Attorney

CORAL ENERGY RESOURCES, L.P

By:__________________________

John W. Leslie
Attorney

THE GREENLINING INSTITUTE

By:__________________

Robert L. Gnaizda
General Counsel

ATTACHMENT A TO SETTLEMENT AGREEMENT FOR SDG&E IN A.02-12-028

PENSION BALANCING ACCOUNT – SDG&E

The Joint Parties recognize that Internal Revenue Service ("IRS") Code Section 412 as amended by the Employee Retirement Income Security Act of 1974 ("ERISA") obligates SDG&E to make minimum contributions to its pension trust ("ERISA minimum contribution") and that the amount of the required ERISA minimum contribution can fluctuate over time based on factors not subject to management control such as market return on invested assets, interest rates and federal legislative changes. To protect both ratepayers and shareholders, the Joint Parties therefore support adoption of a two-way balancing account to address the difference between forecasted and actual minimum contributions.

Specifically, this settlement provides a test year authorized expense for SDG&E of $17 million. The agreed-upon test year authorized expense is somewhat lower than SDG&E had originally requested ($25.1 million), which reflects slightly improved equity market conditions (which lower the amount of needed contributions), but also the continuation of low interest rates (which increase the amount of needed contributions). The balancing account will operate in accordance with the following provisions:

- Beginning in 2004, and in each subsequent year of the period covered by this agreement,[4] SDG&E shall record in its pension balancing account the difference between the test year 2004 funding level set forth above ($17 million) and the customers' share of the actual contribution made to the pension fund for that year, as described below. The contribution recorded in the account shall not exceed the ERISA minimum contribution for any given year, if any, as set forth in IRS Code Section 412.
- The customers' share of the pension contribution shall be equal to the ERISA minimum except as follows. If the ERISA minimum contribution in any given year exceeds the amount forecasted in the bottom line of Appendix III of Exhibit 34 ($25.1 million in 2004, $28 million in 2005, $31 million in 2006, $33 million in 2007 and $34 million in 2008), SDG&E's customers will fund the forecasted amount plus 80% of the excess of the actual ERISA minimum above the forecasted amount; SDG&E's shareholders will

[4] The period covered by this agreement shall be from the effective date of the decision in this proceeding through the effective date of the decision in SDG&E's next cost-of-service proceeding.

fund the remaining 20% of the excess amount. For example, if the ERISA minimum contribution for 2005 is $33 million, instead of the forecasted amount of $28 million, SDG&E's customers will fund $32 million ($28 million plus $4 million, which represents 80% of the $5 million difference between the ERISA minimum and the forecasted amount); SDG&E's shareholders will fund the remaining $1 million (20% of the $5 million difference between the ERISA minimum and the forecasted contribution).

- SDG&E shall provide to ORA, at or near the time the contribution is paid, an explanation of the amount to be contributed. The material provided to ORA would include all supporting workpapers (e.g., actuarial valuations) for the development of the minimum ERISA payment.
- The account will be maintained on a monthly basis and will be interest-bearing. The pension contribution will be reflected in the month in which such contribution is made to the pension trust fund for that year. The balancing account will accrue interest at the three-month commercial paper rate through the term of this agreement. Any accumulated credit balance shall be returned to ratepayers through a revenue/rate decrease and any accumulated debit balance shall be recovered by SDG&E through a revenue/rate increase. SDG&E may request that any filings and rate changes required by this provision be consolidated with other appropriate filing(s).

ATTACHMENT B TO SETTLEMENT AGREEMENT FOR SDG&E IN A.02-12-028

SUMMARY OF EARNINGS COMPARISON

Settlement Agreement

($000)

No.	Description	SDG&E End-of-Hearings	ORA End-of-Hearings	Settlement
1	Base Margin	$ 1,029,746	$ 934,410	$ 965,141
2	Miscellaneous Revenues	35,801	38,358	37,122
3	Revenue Requirement	1,065,547	972,768	1,002,263
	Operating and Maintenance Expenses			
4	Clearing Accounts	12,864	12,731	12,731
5	Nuclear Generation (SONGS)	72,974	65,849	65,849
6	Procurement	5,544	4,574	4,574
7	Gas Transmission	5,216	5,216	5,216
8	Distribution	96,744	88,421	93,383
9	Uncollectibles ('04: 0.266%)	2,739	2,411	2,567
10	Customer Services	100,822	90,433	92,401
11	Administrative & General	148,352	117,435	122,307
12	Franchise Fees (Electric: 3.67%; Gas: 2.13%)	34,485	31,215	32,263
13	Subtotal (2001$)	$ 479,742	$ 418,286	$ 431,292
14	Labor Escalation Amount	18,343	12,284	16,274
15	Non-Labor Escalation Amount	6,108	4,936	5,753
16	Subtotal (2004$)	$ 504,192	$ 435,506	$ 453,319
17	Depreciation	219,342	206,836	214,776
18	Taxes on Income	108,042	101,549	103,956
19	Taxes Other Than on Income	40,382	38,503	39,149
20	Total Operating Expenses	871,957	782,393	811,200
21	Return	193,589	190,375	191,063
22	Rate Base	2,207,402	2,170,750	2,178,593
23	Rate of Return	8.77%	8.77%	8.77%
24	Derivation of Base Margin			
25	O&M Expenses	504,192	435,506	453,319
26	Depreciation	219,342	206,836	214,776
27	Taxes	148,424	140,051	143,105
28	Return	193,589	190,375	191,063
29	Revenue Requirement	1,065,547	972,768	1,002,263
30	Less: Miscellaneous Revenues	35,801	38,358	37,122
31	Base Margin	$ 1,029,746	$ 934,410	$ 965,141

APPENDIX I
SETTLEMENT AGREEMENT BETWEEN THEGREENLINING INSTITUTE AND
SOCALGAS & SDG&E

**ATTACHMENT C TO SETTLEMENT AGREEMENT
FOR SOCALGAS IN A.02-12-027**

SETTLEMENT AGREEMENT BETWEEN THE GREENLINING INSTITUTE AND SOCALGAS AND SDG&E

Southern California Gas Company (SoCalGas) and San Diego Gas and Electric (SDG&E) together, the "Utilities" – enter into this agreement with the Greenlining Institute (Greenlining) for the next five years, with the possibility of renewal for an additional five years.

Workforce Diversity

SoCalGas and SDG&E will report annually the race, ethnicity and gender of Sempra's external Board of Directors and the Utilities' workforce. This report will be to Greenlining in the same format that this information is provided to Fortune Magazine in connection with Fortune Magazine's annual diversity survey. It is understood that if the CPUC requires a format that seeks essentially the same objective, Greenlining will agree to that CPUC-required information instead. Similarly, as part of this commitment, both Utilities agree to discuss efforts in each of these areas in an oral presentation to be held at each of the annual meetings agreed to below. All diversity information shall be subject to confidentiality agreements to the extent that this information will not be used in media releases or similar public relations pieces unless mutually agreed upon, but may be used for discussion purposes with Greenlining member organizations.

The Utilities and/or Sempra commit to making their very best good faith efforts to be among the top ten "Best Companies for Minorities" in the Fortune Magazine annual diversity survey. The Utilities also commit to their best good faith efforts to be leaders among major California utility companies in each of the reported categories.

The Utilities will take a leadership role in Greenlining's Corporate Community Diversity Partnership, in which approximately two-dozen Fortune 500 Companies – including several major utility companies – work together to promote diversity in the University of California system, California State University system and Corporate America.

Supplier Diversity

Regarding supplier diversity, the Utilities commit to good faith efforts to being national leaders among all utility companies. The Utilities recognize that Greenlining sees 25% minority suppliers as an important objective and other utilities are seeking this objective. Although the Utilities view their efforts to be leaders in Supplier Diversity in an even broader context, and therefore, the Utilities will continue to discuss the viability of this objective and other related objectives in light of our external contract requirements, as well as the demographics in the communities in which they operate. The Utilities' annual reports regarding contracting with diverse business enterprises will be filed pursuant to the CPUC's GO 156 requirements.

Philanthropy

The Utilities will continue to abide by the CPUC's General Order 77K relating to the detailed reporting of philanthropy. The Utilities will also provide Greenlining with a description of each relevant organization as provided by the organizations themselves. SoCalGas and SDG&E remain committed to continuing and improving upon their philanthropic stewardship within the communities each utility serves. In 2002 alone, SoCalGas and SDG&E gave over $4 million in charitable contributions to a variety of worthy organizations. SoCalGas and SDG&E also are committed to continuing and improving upon their outreach to racial and ethnic minority groups, including low income and underserved communities. In addition, both Utilities will agree to continue to strive to be leaders in philanthropy to low-income and minority non-profits amongst all the major utility companies operating in California. The Utilities will provide to Greenlining the total charitable contribution amounts as well as the percent of pre-tax income such contributions represent. Similarly, as part of this commitment, both Utilities agree to discuss efforts in each of these areas in an oral presentation to be held at each of the annual meetings as agreed to below.

Annual Meetings

Both Utilities will meet annually with Greenlining to discuss workforce diversity, supplier diversity and philanthropy. The Chief Executive Officer of both Utilities and/or the Utilities' President, as well as Sempra's Senior Vice President of Human Resources, will attend these meetings.

Other Issues

This agreement resolves any and all other issues Greenlining raised in A.02-12-027/A.02-12-028.

Robert L. Gnaizda, General Counsel
Itzel D. Berrio, Deputy General Counsel
The Greenlining Institute

William L. Reed, Senior Vice President
Regulatory Affairs
SDG&E and SoCalGas

Southern California Gas Company (SoCal Gas) and San Diego Gas & Electric Company (SDG&E) Cost of Service Phase 1 Concurrence of Commissioners Carl Wood and Loretta Lynch

We will vote to support the Brown alternate because we believe it produces a more realistic outcome. However, we continue to have significant reservations about this order. First, the alternate unnecessarily relieves the parties of the obligation of producing a record on a number of issues identified in the scoping memo for this proceeding. These include an assessment of each utility's activities and plans related to Investment Planning, Safety and Reliability, Customer Service, Utility Operations, and Gas Resource Plans. The utilities produced unenthusiastic showings on these issues, and all other active parties offered little comment or related testimony. It is too late to do anything about ensuring an adequate record in this phase. We would have sent the parties back to improve the record in a third phase of the proceeding. Commissioner Brown has rejected that proposal, which we think is a mistake. The issues are important, and so is the integrity of the scoping process. Letting the parties slide on significant issues that were to be addressed in a proceeding delivers a bad message.

Second, for no apparent reason, the alternate ignores testimony and proposals offered by various intervenors. We offer just two examples. Utility Workers Union Local 483 offered several proposals that were not addressed in the settlement with SoCalGas, one way or the other. One proposal seems particularly logical and potentially of great value. Local 483 suggests that the Commission direct SoCalGas to prepare a plan for its utilization of storage facilities and compression stations. This makes sense. SoCalGas appears to have ignored the proposal, the settlement does not refer to it, and the alternate ignores it, as well. We would have adopted this suggestion and directed SoCalGas to comply.

The second example relates to the very extensive contributions of the Utility Consumer Action Network. UCAN presented expert testimony on various subjects and actively opposed the SDG&E settlement. The alternate ignores UCAN's expert testimony and related proposals. While the alternate acknowledges UCAN's "aggressive" opposition to the settlement, it does not even mention most of the reasons UCAN states for rejecting the settlement. Instead, it merely lists four examples of substantive concerns raised by UCAN but then does not address them at all. This is inconsistent with the clear intent of Rule 51, which provides an opportunity for active opposition to a proposed settlement. That opportunity means little if the Commission ignores the concerns that are raised.

Finally, it is important to address the issue of the adequacy of the settlement. Early in this proceeding, both the ALJ and Assigned Commissioner warned the parties not to produce what could be described as a "black box". There are two ways that a settlement could convey the mystery of a sealed black box. One way is by offering a lump-sum dollar settlement, as opposed to detailed breakdown of proposed revenues by program or account type. In this regard, the settlements offered, here, are superior to many that we have recently reviewed. The parties prepared a detailed exhibit comparing and explaining their litigation positions, and then stating, for each program or major account, the proposed settlement figure. This will be helpful for future commissions interested in understanding what revenues were approved in the settlement.

The other ways that a settlement can be opaque is if the proposed budget amounts are not explained. In this regard, the settlements proposed here take us only part of the way out of the dark. In many instances, the settlements support a proposed budget item with a specific rationale. This is the most helpful approach to assisting our decision making process. However, in far too many instances, the settlements offer no explanation at all, simply stating that a certain dollar amount was the product of the give-and-take of negotiations. We believe that if the Commission approves a revenue amount simply because the parties agree to it, the Commission is abdicating its responsibility to protect the public interest. As a rule, settlements should be rejected when they do not offer a specific rationale, consistent with the record as a whole, for adopting their results. The settlements offered here are better than most, and we will support them. However, as a matter of ongoing policy, there is still room for improvement to make these settlements acceptable.

Carl Wood
Commissioner

Loretta M. Lynch
Commissioner

San Francisco, California
December 2, 2004