

**ATTACHMENT 1  
SETTLEMENT AGREEMENT**

SETTLEMENT OF ISSUES RELATED TO THE APPLICATION OF SOUTHERN  
CALIFORNIA EDISON COMPANY (U 338-E) FOR AUTHORIZATION TO RECOVER  
COSTS INCURRED IN 2004 AND RECORDED IN THE BARK BEETLE  
CATASTROPHIC EVENT MEMORANDUM ACCOUNT – A.05-12-018  
(SETTLEMENT AGREEMENT)

Dated: **August 11, 2006**

## SETTLEMENT AGREEMENT

This Settlement Agreement (Agreement or Settlement Agreement) is entered into by and among the undersigned Parties hereto, with reference to the following:

**1. Parties**

The Parties to this Agreement are Southern California Edison Company (SCE) and the Division of Ratepayer Advocates (DRA) (hereinafter collectively referred to as Settlement Parties, Parties or individually as Party).

**2. Recitals**

- a. SCE is an investor-owned public utility and is subject to the jurisdiction of the California Public Utilities Commission (Commission or CPUC) with respect to providing electric service to its CPUC-jurisdictional retail customers.
- b. DRA is a division of the Commission that represents the interests of public utility customers. Its goal is to obtain the lowest possible rate for service consistent with reliable and safe service levels. Pursuant to Public Utilities Code Section 309.5(a), the DRA is directed to primarily consider the interests of residential and small commercial customers in revenue allocation and rate design matters.

**3. Background**

- a. On December 16, 2005, SCE filed and served the Application of Southern California Edison Company (U 338-E) for Authorization to Recover Costs Incurred in 2004 and Recorded in the Bark Beetle Catastrophic Event Memorandum Account and its initial prepared testimony (Application). In the Application, SCE requested that the Commission (i) find reasonable the \$129.5 million of incremental Operation and Maintenance (O&M) expenses recorded in SCE's Bark Beetle Catastrophic Event Memorandum Account (Bark Beetle CEMA) for the period January 1, 2004, through December 31, 2004; and (ii) authorize the transfer of the recorded December 31, 2004

balance in the Bark Beetle CEMA O&M Cost Subaccount of \$130.5 million, including interest, to the Base Revenue Requirement Balancing Account (BRRBA) for recovery in rates.

- b. On January 20, 2006, DRA filed a protest to the Application.
- c. SCE filed a reply to DRA's protest on January 30, 2006.
- d. The Assigned Commissioner and the assigned Administrative Law Judge issued a scoping memo on March 3, 2006, which included a procedural schedule. Such procedural schedule was subsequently amended by the Commission on March 22, 2006, resetting the First Mandatory Settlement Conference to be held on or before July 14, 2006.
- e. On July 7, 2006, SCE and DRA provided notice to all parties to this proceeding of their intent to conduct a telephonic First Mandatory Settlement Conference on July 14, 2006, related to potential settlement of issues in this proceeding. The telephonic First Mandatory Settlement Conference was held on July 14, 2006, and SCE and DRA were the only participants.
- f. DRA concluded that the incremental O&M costs SCE incurred for the period January 1, 2004, through December 31, 2004, in responding to the bark beetle infestation and the extreme fire hazard created by such infestation are reasonable.
- g. DRA concluded that SCE has strong internal controls over the bark beetle project (Bark Beetle Project) costs and that all of its bark beetle related actions taken in 2004 were reasonable and necessary to mitigate the unprecedented fire hazard caused by the bark beetle infestation, thus meeting the standard for prudent managerial actions. Specifically, DRA found that SCE adequately controlled the work performed by contractors and complied with the Commission's requirements for catastrophic event memorandum accounts.

- h. DRA concluded that no adjustments or reductions are necessary to SCE's request in this proceeding after having conducted an extensive investigation of the Application, SCE's prepared testimony and SCE's processes and procedures related to SCE's Bark Beetle Project. DRA's investigation included, among other things, the following:
  - i. DRA reviewed SCE's prepared testimony and workpapers filed with the Application and conducted discovery through data requests and the interviews of State and County fire officials and SCE personnel involved in the Bark Beetle Project.
  - ii. From May 22, 2006, through May 26, 2006, DRA conducted an on-site audit of SCE's bark beetle operations. SCE's bark beetle operations are managed, and its project related files are maintained, at SCE's bark beetle office located in Redlands, which is centrally located within the bark beetle infestation areas within SCE's service territory.
  - iii. During the on-site audit, DRA conducted an extensive review and detailed testing of SCE's processes and procedures related to SCE's Bark Beetle Project. The examination included interviews with the following individuals: the SCE Vice President responsible for overseeing the Bark Beetle Project during 2004, the Bark Beetle Project manager, the Bark Beetle Project office manager, field personnel involved in the tree removal process, office staff involved in the documentation related to tree removal and reimbursement processes, and others for verification of the reasonableness of SCE's request.
  - iv. A tour of the bark beetle infested area was conducted which included, among other things, a helicopter fly over, a ground tour, observation of tree-felling and tree removal processes, and a drive through the burned-out areas impacted by the devastating 2003 firestorms.

- v. DRA met with Peter Brierty, the Fire Marshal for the County of San Bernardino, and Glenn Barley, the San Bernardino Unit Forester for the California Department of Forestry, to get their views and insights on the status of the bark beetle infestation and the extreme fire hazard that existed in 2004; the critical need to remove dead and dying trees as quickly as possible; and SCE's involvement in the multi-agency Mountain Area Safety Taskforce (MAST).
- vi. DRA observed the removal of a bark beetle infested tree that had died within a three-week period of time.
- vii. To verify the accuracy of SCE's tree removal process, DRA reviewed SCE's tree removal records and tested and verified the accuracy of SCE's documentation.
- viii. DRA found that all of the costs recorded in SCE's Bark Beetle CEMA are CPUC-jurisdictional.
- ix. DRA examined the bark beetle costs to verify that they were incremental, tested accounting treatment of the tree removal invoices of Phillips and Jordan and other tree removal contractors, and tracked in detail the property owner reimbursement process.
- x. DRA reviewed the tree removal process, including all documentation, from start to finish for a particular tree, identified as Tree Number 34. DRA visited the remaining stump for Tree Number 34 and followed the entire process, from initial inventorying of the tree to the invoice documenting its removal and finally to the record of the payment for the removal of Tree Number 34.
- xi. DRA tested a number of tree removal invoices and property owner reimbursement payments.

- xii. DRA examined SCE's internal auditors' report on 2004 bark beetle costs and verified that the findings contained in the report were acted upon timely and completed as recommended in the report.

4. **Agreement**

In consideration of the mutual obligations, covenants and conditions contained herein, the Parties agree to the terms of this Agreement. Nothing in this Agreement shall be deemed to constitute an admission or an acceptance by any Party of any fact, principle, or position contained herein and this Agreement is subject to the limitations described in Section 10 with respect to the express limitation on precedent. The Parties, by signing this Agreement, acknowledge that they pledge support for Commission approval and subsequent implementation of all the provisions of the Agreement.

- Terms of Settlement

DRA has determined that SCE's recorded 2004 bark beetle related O&M costs are reasonable.

SCE and DRA agree that no adjustments or reductions are necessary to SCE's request.

SCE and DRA agree that DRA does not need to prepare and submit an audit report to the Commission because it has found that no adjustments or reductions are necessary to SCE's request.

SCE and DRA agree that the following amount is the basis for determining entries to the Bark Beetle CEMA:

- Incremental O&M costs in the amount of \$129.49 million for the period January 1, 2004, through December 31, 2004.

DRA and SCE agree that SCE will transfer the December 31, 2004 balance in the Bark Beetle CEMA O&M Cost Subaccount of \$130.54 million, including interest, to the Distribution Subaccount of the Base

Revenue Requirement Balancing Account (BRRBA) for recovery in rates upon the effective date of a final Commission decision in this proceeding. SCE will recover the recorded amounts in the Bark Beetle CEMA in its consolidated distribution revenue requirement that will be filed in SCE's Energy Resource Recovery Account (ERRA) Forecast proceeding filed subsequent to the issuance of a final Commission decision in this proceeding.

Table 1, below, summarizes by major category the incremental O&M costs of the Bark Beetle CEMA for the period January 1, 2004, through December 31, 2004. During this period, SCE recorded \$130.54 million (including associated interest) in O&M expenses.

**Table 1 – SETTLEMENT AGREEMENT  
SOUTHERN CALIFORNIA EDISON COMPANY  
Catastrophic Event Memorandum Account (CEMA) – 2004  
Bark Beetle (\$Millions)**

Line	O&M Cost Subaccount	Total
1	O&M Incremental Costs	
2	- Project Management	1.230
3	- Stakeholder Communications	0.219
4	- Mitigation Inspection	0.335
5	- Tree Removal	92.937
6	- Other Operational	5.789
7	- Property Owner Reimbursement Related Costs	28.984
8	Total O&M Incremental Costs	129.494
9	Interest	1.046
10	Ending Balance – O&M Cost Subaccount	130.540



5. **Implementation of Agreement**

Following the issuance of a final Commission decision approving this Agreement, SCE will transfer the December 31, 2004 balance in the Bark Beetle CEMA O&M Cost Subaccount of \$130.54 million, including interest, to the BRRBA for recovery in rates. SCE will recover the recorded amounts in the Bark Beetle CEMA in its consolidated distribution revenue requirement that will be filed in SCE's ERRRA Forecast proceeding filed subsequent to the issuance of a final Commission decision in this proceeding.

6. **Incorporation of Complete Agreement**

This Agreement is to be treated as a complete package and not as a collection of separate agreements on discrete issues. To accommodate the interests related to diverse issues, the Parties acknowledge that changes, concessions, or compromises by a Party resulted in changes, concessions, or compromises by the other Party. Consequently, the Parties agree to oppose any modification of this Agreement not agreed to by all Parties.

7. **Signature Date**

This Agreement shall become binding on the signature date.

8. **Regulatory Approval**

The Parties shall use their best efforts to obtain Commission approval of the Agreement. The Parties shall jointly request that the Commission: (1) approve the Agreement without change; and (2) find the Agreement to be reasonable, consistent with law and in the public interest.

9. **Reasonableness of Agreement**

The Parties assert that this Agreement is reasonable, consistent with law and in the public interest.

10. **Non Precedent**

Consistent with Rule 51.8 of the Rules, this Agreement is not precedential in any other proceeding before this Commission, except as expressly provided in this Agreement.

11. **Previous Communications**

The Agreement contains the entire agreement and understanding between the Parties as to the subject matter of this Agreement, and supersedes all prior agreements, commitments, representation, and discussions between the Parties. In the event there is any conflict between the terms and scope of the Agreement and the terms and scope of the accompanying motion for adoption of settlement agreement, the Agreement shall govern.

12. **Non Waiver**

None of the provisions of this Agreement shall be considered waived by any Party unless such waiver is given in writing. The failure of a Party to insist in any one or more instances upon strict performance of any of the provisions of this Agreement or to take advantage of any of their rights hereunder shall not be construed as a waiver of any such provisions or the relinquishment of any such rights for the future, but the same shall continue and remain in full force and effect.

13. **Effect Of Subject Headings**

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

14. **Governing Law**

This Agreement shall be interpreted, governed and construed under the laws of the State of California, including Commission decisions, orders and rulings, as if executed and to be performed wholly within the State of California.

15. **Number Of Originals**

This Agreement is executed in counterparts, each of which shall be deemed an original. The undersigned represent that they are authorized to sign on behalf of the Party represented.

SOUTHERN CALIFORNIA EDISON COMPANY

By: /s/

Title: Maricruz Prado, Attorney, 08/11/06

OFFICE OF RATEPAYER ADVOCATES

By: /s/

Title: James R Wuchl, Program and Project Supervisor,  
08/11/06

(END OF ATTACHMENT 1)