

**ATTACHMENT A**  
**SETTLEMENT AGREEMENT**

Before the California Public Utilities Commission

Settlement Agreement  
In Application 05-12-030

April 5, 2006

Settlement Agreement  
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1. The parties to this Settlement Agreement in Application 05-12-030 (“Settlement Agreement”) are Southern California Edison (“SCE”), the Division of Ratepayer Advocates (“DRA”), Aglet Consumer Alliance (“Aglet”), The Utility Reform Network (“TURN”), California Cogeneration Council (“CCC”), and the Cogeneration Association of California (“CAC”) (collectively referred to herein as the “Parties”). Application 05-12-030 is an application to evaluate the reasonableness of the prices and commercial terms contained in a contract (“KRCC Contract”) between Kern River Cogeneration Company (“KRCC”) and SCE.
2. This Settlement Agreement addresses four issues to resolve all disputes in Application 05-12-030: (i) the applicability of the approved KRCC contract to other qualifying facility (“QF”) parties; (ii) conduct by SCE for future negotiations with Affiliate QF contracts; (iii) allocation of any above-market costs of the KRCC Contract to SCE’s Competition Transition Charge (CTC); and (iv) agreement by the Parties that the Commission should expeditiously approve the KRCC Contract.
3. The following terms have the following meanings:
  - a. “Eligible QF Parties” are existing QFs located in SCE’s service territory and whose firm capacity power sales contracts with SCE are set to expire before January 1, 2007 or have already expired.
  - b. The “KRCC Contract” is the contract between SCE and KRCC that is submitted for approval in Application 05-12-030.
  - c. “Avoided Cost” is the incremental cost to an electric utility of electric energy or capacity or both, which, but for the purchase from the qualifying facility or qualifying facilities, such utility would generate itself or purchase from another source, as provided in 18 C.F.R. Section 292.101 (b) (ii) (6).
  - d. “Affiliate QF” is a QF contracting with SCE for the delivery of capacity, energy or both in which SCE or an affiliate of SCE has an ownership interest.
  - e. The “Commission” is the California Public Utilities Commission.

Expedited Approval of the KRCC Contract:

4. Parties to this Settlement Agreement shall not oppose the expedited approval of the KRCC Contract in Application 05-12-030, and the Parties agree that negotiations of firm, long-term capacity contracts as provided in this Settlement Agreement or otherwise between SCE and Eligible QF Parties shall not delay the Commission's consideration of, or its decision with respect to Application 05-12-030 and the reasonableness of the KRCC Contract. Continuation of the Parties' obligations under this Settlement Agreement shall depend on the Commission issuing a final and unappealable decision approving the KRCC Contract in a form that is acceptable to each of the Parties. Pursuant to Public Utilities Code Section 311(d), the parties stipulate to shortening the time for comments on the proposed decision in this proceeding.

Good Faith Negotiation Requirements and Conditions:

5. The Parties agree that SCE is obligated to engage in good faith negotiations with respect to five-year firm-capacity power sales contracts with Eligible QF Parties. SCE's negotiation of a five-year firm-capacity power sales contract with Eligible QF Parties shall have no impact or effect upon any SCE obligation to offer as-available Standard Offer 1 or Reformed Standard Offer 1 contracts to Eligible QF Parties.
6. The timing for negotiation of an agreement in principle on commercial contract terms with Eligible QF Parties shall be 120 days from the initiation of the negotiations to the completion of negotiations. The negotiation period for purposes of calculating the 120 days referenced herein shall commence upon approval of this Settlement Agreement by the Commission; however, the Parties understand that SCE has already begun discussions with the Eligible QF Parties, and agrees to continue negotiations with several of the Eligible QF Parties and that the time spent negotiating with Eligible QF Parties prior to approval of this Settlement Agreement shall not be deducted from or diminish the negotiation time period provided herein. This participation requirement shall obligate SCE and Eligible QF Parties to make themselves available on a reasonable basis and to respond within reasonable timeframes to SCE's and Eligible QF Parties' proposals.
7. The Commission shall leave Application 05-12-030 open, or shall designate or open another proceeding, to provide Eligible QF Parties a means to bring their power sales contracts or issues regarding the negotiation of their firm-capacity power sales contracts with SCE to the Commission's attention and to allow for consideration or approval of those contracts or disallowances or sanctions, as determined by the Commission. If the Commission determines that disallowances or sanctions are warranted based on SCE's

failure to negotiate in good faith with the Eligible QF Parties, such disallowances or sanctions shall be limited to \$50/kW for each Eligible QF Party that demonstrates that SCE did not negotiate in good faith. However, in no case shall the total amount of the sanctions or disallowance exceed, in the aggregate for all Eligible QF Parties, \$2,000,000.00.

8. Nothing in this Settlement Agreement shall preclude any Party from advocating its view of Avoided Cost in Commission proceedings or in the negotiations contemplated by this Settlement Agreement.
9. SCE shall be deemed to have complied with its obligation to negotiate in good faith, and shall not be subject to a disallowance or sanction, if its proposal to the Eligible QF Party is based on (i) pricing terms derived from a benefit/cost analysis equivalent to the analysis that SCE used to evaluate the KRCC Contract, taking into account SCE's forecast of its avoided cost of generation at the time the proposal is made, the operating profile of the facility, and the start and end dates of the proposed contract and (ii) credit, collateral, and other commercial terms included in the KRCC Contract (or the economic equivalent of such terms). Nothing in this paragraph requires an Eligible QF Party to offer an operating profile identical to that offered by the KRCC project. Nothing in this paragraph shall be construed to establish a standard of review for Commission approval of pricing or commercial terms and conditions of any electric power procurement contract executed by SCE. This paragraph is limited to determinations regarding good faith negotiations, and shall have no application with respect to the Commission's consideration of the reasonableness of any contracts submitted for Commission approval.

Conduct by SCE for Future Negotiations for Affiliate QF Contracts:

10. SCE shall abide by the Commission's Affiliate Rules with respect to its negotiations of power sales contracts with Affiliate QFs. Nothing in this Settlement Agreement implies or is meant to imply that SCE acted improperly or inconsistent with the Commission's Affiliate Rules in its negotiations of the KRCC Contract.
11. Edison International Corporation (EIX) personnel, or personnel who have transferred to SCE from EIX or its subsidiaries after a date six months prior to the commencement of negotiations for an Affiliate QF Contract, shall not serve as the chief negotiator on behalf of SCE, or as the chief negotiator's direct supervisor or manager. Any EIX personnel who have transferred to SCE from EIX or its subsidiaries after a date six months prior to the commencement of negotiations for an Affiliate QF Contract, who also serve as members of SCE's Risk Management Committee shall not participate in any decision making by that committee with respect to the Affiliate QF power sales contracts. These limitations are not intended to restrict the participation of EIX or EIX subsidiary employees or transferred EIX or EIX subsidiary

employees in advising or consulting on matters related to the negotiation of Affiliate QF power sales contracts, for example, providing advice in connection with the evaluation of a counterparty's credit and financial standing.

12. In the event that SCE's Controller is also the Controller of EIX, that person is precluded from participating in decision making regarding the credit and collateral terms in any power sales contract between SCE and Affiliated QFs.

Allocation of Costs of the KRCC SCE Contract to SCE's Competition Transition Charge:

13. SCE shall allocate any above-market costs of the KRCC Contract to the CTC component of its retail rates. SCE shall recover any above-market costs of the KRCC Contract through the CTC as authorized by the Commission.

General Terms and Conditions:

14. It is the intent of the Parties and their request to the Commission that the Commission approve this Settlement Agreement on an expedited basis.
15. This Settlement Agreement is to be treated as a complete package and not as a collection of separate agreements on discrete issues. The Parties agree to oppose any modifications of this Settlement Agreement that are not agreed to by all Parties.
16. This Settlement Agreement shall become binding as of the last signature date of the Parties.
17. The Parties shall use their best efforts to obtain Commission approval of the Settlement Agreement. The Parties shall jointly request that the Commission: (i) approve the Settlement Agreement without change, and (ii) find that the Settlement Agreement is reasonable, consistent with law and in the public interest.
18. The Settlement Agreement represents a compromise of disputed claims between the Parties. The Parties have reached this Settlement Agreement after taking into account the possibility that each Party may or may not prevail on any given issue. The Parties assert that this Settlement Agreement is reasonable, consistent with law and in the public interest.
19. Consistent with Rule 51.8 of the Commission's Rules of Practice and Procedure, this Settlement Agreement is not precedential in any other proceeding before this Commission, except as expressly provided in this Settlement Agreement.

20. This Settlement Agreement contains the entire agreement and understanding between the Parties as to the subject matter of this Settlement Agreement, and supersedes all prior agreements, commitments, representations, and discussions between the Parties. In the event there is any conflict between the terms and scope of the Settlement Agreement and the terms and scope of the joint motion of the Parties asking the Commission to adopt this Settlement Agreement, the terms of this Settlement Agreement shall govern.
21. None of the provisions of this Settlement 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 provision of this Settlement Agreement or to take advantage of any of their rights under this Settlement Agreement shall not be construed as a waiver of any such provisions or the relinquishment of any such right for the future.
22. Subject headings in this Settlement Agreement are inserted for convenience only and shall not be construed as interpretations of the text.
23. This Settlement Agreement shall be interpreted, governed and construed under the laws of the State of California, including Commission decisions, orders and rules, as if executed and to be performed wholly within the State of California.
24. This Settlement Agreement is executed in counterparts, each of which shall be deemed an original. The undersigned represent that they are authorized to sign on behalf of the Party represented.

Southern California Edison Company

By: \_\_\_\_\_  
Title: \_\_\_\_\_ Date: \_\_\_\_\_

Division of Ratepayer Advocates

By: \_\_\_\_\_  
Title: \_\_\_\_\_ Date: \_\_\_\_\_

Aglet Consumer Alliance

By: \_\_\_\_\_  
Title: \_\_\_\_\_ Date: \_\_\_\_\_

The Utility Reform Network

By: \_\_\_\_\_  
Title: \_\_\_\_\_ Date: \_\_\_\_\_

California Cogeneration Council

By: \_\_\_\_\_  
Title: \_\_\_\_\_ Date: \_\_\_\_\_

Cogeneration Association of California

By: \_\_\_\_\_  
Title: \_\_\_\_\_ Date: \_\_\_\_\_

**(END OF ATTACHMENT A)**