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APPENDIX A

**SETTLEMENT AGREEMENT REGARDING SAN DIEGO GAS & ELECTRIC
COMPANY'S ADVANCED METERING INFRASTRUCTURE APPLICATION,
A.05-03-015**

Pursuant to California Public Utilities Commission's Rules of Practice and Procedure, Article 12, Rule 12.1, San Diego Gas & Electric Company (SDG&E), the Division of Ratepayer Advocates (DRA), and Utility Consumers' Action Network (UCAN) (the Settling Parties) enter into this Settlement Agreement regarding SDG&E's Advanced Metering Infrastructure (AMI) proposal, submitted for Commission consideration in Application A. 05-03-015 (the Settlement).¹ The Settling Parties, who were the only active parties to the proceeding, believe that the Settlement is reasonable in light of the whole record, consistent with law, and in the public interest.

I. Introduction and Background

The Settling Parties believe that the record is sufficient to meet the burden of proof and to allow the Commission to make a reasoned decision. SDG&E filed its revised business case-in-chief on March 28, 2006, provided supplemental testimony upon the request of presiding Administrative Law Judge (ALJ) Gamson on June 16, 2006, and later updated and revised its showing on July 14, 2006 and again on September 7, 2006. DRA and UCAN propounded numerous data requests and DRA conducted an on-site audit of SDG&E's cost and benefit analysis and supporting workpapers. Both DRA and UCAN filed direct and rebuttal testimony.

¹ On January 26, 2007, the ALJ issued a ruling granting SDG&E motion to propose a settlement agreement beyond the Rule 12.1 time limit.

The Commission held eight days of evidentiary hearings, beginning September 25, 2006. Subsequently, parties filed opening briefs and reply briefs on October 27 and November 13, respectively. On December 15, 2006, ALJ Gamson issued a ruling to reopen the record to consider further information regarding alternative deployment options. SDG&E responded to ALJ Gamson's ruling on January 4, 2007 and January 11, 2007. SDG&E, DRA and UCAN submitted comments on SDG&E's response. In light of the entire record pre-dating the ALJ's December 15, 2006 ruling and the additional information submitted by all parties in response to that ruling, the record is amply developed to consider this Settlement.

Based on the foregoing, the Settling Parties submit for Commission adoption this comprehensive Settlement, which constitutes a settlement of all issues between the Settling Parties.

In summary, the Settling Parties agree that SDG&E's AMI deployment and cost recovery proposal as set forth in SDG&E's Application 05-03-015, including the supporting testimony,² is reasonable and should be adopted by the Commission with the following modifications: (1) the total AMI project costs will be increased to \$572 million to include additional AMI functionalities and extended meter warranty provisions, as described below; (2) SDG&E will purchase an extended warranty for the AMI equipment, so long as the terms described below are met; (3) SDG&E is required to issue an addendum to its Request for Proposal (RFP) as described below; (4) SDG&E will modify its AMI technology selection, as described below; (5) the risk contingencies will be shared between ratepayers and shareholders in the manner described below; (6)

² SDG&E's case-in-chief is comprised of SDG&E's March 28, 2006 submission as revised and superseded by the July 14, 2006, and September 7, 2006 updates.

the AMI revenue requirement will be allocated among customer classes, as described below; (7) Critical Peak Pricing (CPP), Peak Time Rebate (PTR) and other AMI related dynamic rates will be determined in SDG&E's January 31, 2007, General Rate Case (GRC) Phase 2 proceeding,³ (8) SDG&E will establish an AMI "Technology Advisory Panel" (TAP) as described below and in Attachment A; (9) SDG&E will report quarterly on AMI implementation progress to the CPUC Energy Division, as described below; and (10) SDG&E may recover increased costs that are the result of uncontrollable/*force majeure* events, as described below.

Each of these modifications is set forth below.

II. Settlement Agreement Provisions

The Settling Parties find reasonable SDG&E's proposal for full AMI deployment and cost recovery, as described in SDG&E's application and supporting testimony, with the following modifications:

1. The total project cost is increased to \$572 million to include the additional cost of adding Home Area Network (HAN) and Remote Connect/Disconnect functionalities and to include the cost of the extended warranty provisions, as more fully described below;
2. The Settling Parties agree that it is prudent for SDG&E to obtain bids from meter vendors for an extended warranty for the AMI meters for up to [REDACTED]. The [REDACTED] installment of the extended warranty is not to exceed [REDACTED]. Costs for the additional installments for the extended warranty beyond the [REDACTED] [REDACTED] period, if any, will be reviewed and if found reasonable will be recoverable in SDG&E's next (post Test Year 2008) and subsequent General Rate

³ A. 07-01-047.

Cases or other appropriate Commission proceedings. SDG&E will attempt to obtain as part of the [REDACTED] warranty an option and pricing for subsequent extensions.

3. SDG&E will issue an addendum to its Request for Proposal (RFP) in order to:
 - a. Ascertain the current status and viability of advancements in AMI technology and may, at its discretion, and with input from the Technical Advisory Panel described in Attachment A, accept bids from technologies excluded from the original RFP;
 - b. Determine whether project costs are significantly increased by the functional requirements of two-channel metering and 99.5% next day data availability;
 - c. Seek proposals to install the HAN and remote connect/disconnect capabilities;
 - d. Seek proposals for an extended warranty of the AMI equipment; and,
 - e. SDG&E's RFP addendum will require that all vendor bids include the following in addition to their base bid proposal:
 - i. A Home Area Network (HAN) communications system, based on an open standard capability for residential and C&I customers, which should be compatible with the HAN choice of other major California utilities;
 - ii. Separate pricing for the cost of providing a single channel of hourly meter data and the incremental cost of providing two independent channels of hourly meter data for residential customers;

- iii. Separate pricing for the cost differential of providing a minimum of 99.5% throughput of the meter data from 99.5% of AMI-enabled customers daily, versus providing a minimum of 98.5% throughput of the meter data for 98.5% of such customers daily (with a cumulative minimum of 99.5% throughput of meter data over a three day period);
 - iv. Separate pricing for the cost of providing electric remote disconnect/connect technology to all of SDG&E's residential customers; and,
 - v. Separate pricing, terms and conditions with meter vendors for [REDACTED] [REDACTED] extended AMI meter warranty provisions, with pricing for at least the [REDACTED] of the extended warranty and with a schedule for additional extensions at the option of SDG&E beyond [REDACTED] [REDACTED].
4. SDG&E will evaluate the results of the revised RFPs and will modify its selections based on the following conditions:
- a. Savings to the total meter cost can be lowered by [REDACTED] or more by reducing the two-channel capability and the minimum daily data availability requirement;
 - b. The incremental cost of remote connect/disconnect technology costs does not exceed [REDACTED]. If the cost of the remote disconnect exceed [REDACTED] SDG&E will not include the remote disconnect functionality

in the AMI meter technology and will reduce the total costs of \$572 million by [REDACTED].

- c. The HAN field tests can demonstrate that the vendor's HAN technology can meet [REDACTED].
 - d. The cost of the extended warranty for the [REDACTED] installment does not exceed [REDACTED]. If the extended warranty costs exceed [REDACTED], SDG&E is not required to purchase the extended warranty and the total cost of \$572 million will be reduced by [REDACTED].
5. Settling Parties agree to the risk contingency and sharing proposal described below:
- a. Expenditures up to the total project cost of \$572 million are deemed reasonable (inclusive of the costs of HAN, remote disconnect capabilities and extended warranty [REDACTED] as described above) and will be recovered in rates without any after-the-fact reasonableness review.
 - b. To the extent actual project costs exceed the total cost of \$572 million by up to \$50 million, then 90% of the costs that exceed \$572 million will be recovered in rates without any after-the fact reasonableness review.
 - c. To the extent actual project costs exceed the total costs of \$572 million by up to \$50 million, then 10% of the costs that exceed \$572 million will be borne by SDG&E shareholders and will not be recovered in rates.
 - d. To the extent actual project costs are below the total costs of \$572 million, then 10% of the difference between the \$572 million and the actual project costs will be awarded to SDG&E shareholders. This sharing mechanism

- will be applied to no more than the first \$50 million of expenditures that fall below the total costs of \$572 million.
- e. Any ratepayer portion of costs that exceed \$572 million will be recorded in and recovered through the through the Advanced Metering Infrastructure Balancing Account (AMIBA).⁴
 - f. Any shareholder rewards or costs will be recorded and recovered through SDG&E's Reward and Penalties Balancing Account (RPBA).
 - g. Actual project costs that exceed \$622 million may be recoverable in rates to the extent approved by the Commission following a reasonableness review of the additional amounts.
 - h. Total project costs of \$572 million may be adjusted downward as a result of the provisions described in Section 4. If total project costs were reduced, then the risk sharing mechanism would apply to the revised total project cost.
6. The Settling Parties agree that 100% of AMI revenue requirement will be allocated among customer classes utilizing the SDG&E distribution allocation in place when AMI costs are recovered in rates.
7. The Settling Parties agree that the PTR, CPP and other AMI related dynamic rates should be determined in the proceeding addressing SDG&E's GRC Phase 2 Rate Design application submitted on January 31, 2007.
8. SDG&E agrees to establish an AMI "Technology Advisory Panel" (TAP) as more fully described in Attachment A.

⁴ SDG&E's balancing account treatment of AMI project cost and benefits are described in Exhibit 34, Chapter 14 Prepared Direct Testimony of Robert Hansen.

9. SDG&E agrees to provide quarterly reports to the Energy Division on AMI implementation progress.
10. The Settling Parties agree to the following *force majeure* provisions that provide for SDG&E to recover in rates costs that exceed \$572 million without shareholder penalty due to events beyond SDG&E's control (uncontrollable events), including without limitation:
 - a. *Force majeure* events that materially affect SDG&E's ability to implement the project as planned such as: (i) landslide, lightning, earthquake, storm, hurricane, flood or other acts of nature; (ii) transportation accidents in which SDG&E is neither intentionally nor negligently responsible; (iii) riots, terrorism, war, civil disturbances, or sabotage; or (iv) changes in law;
 - b. Material changes in the scope or functionality of the AMI Project (as that scope is defined in SDG&E's application) due to governmental or regulatory actions, or due to issuance of any order, judgment, award, or decree which affects the AMI project;
 - c. Material changes in the costs of the AMI project caused by a delay in Commission approval of the project beyond April 5, 2007; and,
 - d. Significant delays before or during project deployment caused by regulatory or governmental action or inaction, including delays caused by cities and local governments or permit delays.

III. Additional Terms and Conditions

A. Performance

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

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B. Non-Precedential Effect

This Settlement Agreement is not intended by the Settling Parties to be precedent for any other proceeding, whether pending or instituted in the future. The Settling Parties have assented to the terms of this Settlement Agreement only for the purpose of arriving at the Settlement embodied in this Settlement Agreement. Each Settling Party expressly reserves its right to advocate, in current and future proceedings, positions, principles, assumptions, arguments and methodologies which may be different than those underlying this Settlement Agreement, and the Settling Parties expressly declare that, as provided in Rule 12.5 of the Commission's Rules of Practice and Procedure, this Settlement Agreement should not be considered as a precedent for or against them.

The Settlement explicitly does not establish any precedent on the issue of the form or existence of any mechanism for adjusting authorized revenues for years after a test year, sharing of earnings, or cost-of-capital mechanisms.

C. Indivisibility

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

benefits and burdens, and to exercise the right to withdraw only if such negotiations are unsuccessful.

The Settling Parties acknowledge that the positions expressed in the Settlement Agreement were reached after consideration of all positions advanced in all the testimony sponsored in the proceeding by all parties. This document sets forth the entire agreement of Settling 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 Settling Parties.

Dated this 9th day of February, 2007.

By: _____
Vicki L. Thompson for:
San Diego Gas & Electric Company

By: _____
Michael Shames for:
Utility Consumers Action Network

By: _____
Dana S. Appling for:
Division of the Ratepayer Advocates

ATTACHMENT A

AMI TECHNOLOGY ADVISORY PANEL

AMI TECHNOLOGY ADVISORY PANEL

SDG&E agrees to establish an Advanced Metering Infrastructure (AMI) “Technology Advisory Panel”, or TAP, drawing from the expertise of regulatory agencies, industry technology experts, other business partners and customer representatives across the spectrum of AMI and AMI-related technologies. The purpose of the TAP is to provide advice and input to SDG&E regarding AMI customer and program needs in a cooperative and collaborative fashion for the professional exchange of ideas, advice and feedback. The TAP also provides a forum for input and collaboration with the stakeholders served by the AMI project and its related deployment. The TAP will work with SDG&E so that SDG&E’s AMI design and deployment considers the “best available practices” and “best available technologies” and encourages customer acceptance of the new services enabled by the AMI deployment. Topics of discussion should include AMI synergies and opportunities to provide impetus for other programs and technologies, which may include, but are not limited to, the following:

- Distribution (Feeder) Automation
- Advanced Visualization Methods (POM, ROSE, FFS, OPM, etc.)
- I-Grid Monitoring System
- Advanced Grid Control Devices
- Consumer Portal
- Remote Disconnect Wattage Control

Staff from the California Energy Commission, the CPUC Energy Division, UCAN, and DRA will be invited to be members of the TAP, but are not required to serve. SDG&E may select additional TAP members, but participation will be voluntary and there will be no formal voting rules or designation of voting and non-voting members. Each TAP member will need to devote the time necessary to meet and confer with SDG&E during bidding design and program implementation and when appropriate, TAP members may provide written comments to SDG&E.

On an annual basis, the TAP will provide written feedback and recommendations in the form of an annual report to SDG&E on SDG&E’s progress in deploying AMI and the industry status of AMI-related technologies. SDG&E agrees that the TAP’s annual report will be included with SDG&E’s annual progress report that will be submitted to the CPUC Energy Division.

TAP members will provide advice and feedback to SDG&E, but will not have any independent decision-making or contracting authority. SDG&E is expected to work with the TAP throughout the AMI process and to meet with the TAP at least bi-annually. While input from the TAP will not necessarily be agreed to by SDG&E (or even among TAP members), the goal of this advisory panel is that it will serve as a forum for introducing new ideas and identifying problems specific to SDG&E’s development and deployment of AMI and AMI-related services and, thus, narrow the scope of differences considerably. Also, TAP members will not, in any way, relinquish their rights to participate in other proceedings or comment on SDG&E filings in any CPUC proceeding.

TAP meetings will be open to the public⁵ and SDG&E will establish a process for noticing these meetings and posting documents to be discussed at the meetings. TAP meetings are intended to facilitate discussion and exchange between TAP members and SDG&E, and accordingly, SDG&E should establish appropriate protocols for obtaining comments from public participants during those meetings, including taking comments or questions from the “floor.” The TAP will be in place at least through full deployment of the AMI project (expected to be the end of 2011) and will meet no less than twice per year. The TAP may be extended by mutual consent of the members.

SDG&E will provide TAP members with information on program implementation activities and proposed material program changes, and take other steps to ensure that TAP members have an opportunity to review the information and work with them to improve program implementation. It is SDG&E’s responsibility to arrange for meeting space and conference call dial-in numbers, reproduce and distribute meeting materials and provide other administrative support for these meetings to the TAP (and subgroups described below). For those TAP members who are eligible for intervenor compensation, SDG&E and DRA will not oppose any reasonable intervenor compensation requests for their participation in the AMI TAP.

In addition to the TAP process, SDG&E agrees to establish a TAP sub-group of members with non-financial interests to advise SDG&E on bid design, evaluation and administration. TAP sub-group members will have access to confidential vendor bid and pricing information and are required to commit to a non-disclosure agreement as a condition of serving on the TAP sub-group. The TAP sub-group will consist of representatives from DRA staff, the CPUC Energy Division staff, UCAN, and two other members selected by SDG&E. The TAP sub-group will meet on an as-needed basis. The TAP sub-group will advise SDG&E on bid design, evaluation and implementation for those portions of the Settlement that include, but are not limited to;

- HAN communications to be incorporated in AMI electric meters;
- Remote disconnect/connect capabilities integrated within the AMI electric meters; and,
- Extended warranty provisions.

The formation of this TAP is not precedent setting nor does it imply that this advisory structure applies to any other SDG&E initiative beyond AMI.

DRA and UCAN agree to support expedited review and approval by the Commission of SDG&E’s AMI Contract Advice Letter filings consistent with the provisions of the Settlement.

(END OF APPENDIX A)

⁵ This requirement will not apply to the TAP sub-group meetings relating to the RFP development and bid review process. These TAP sub-group meetings are purposefully intended to exclude participation by individuals or organizations with financial interests involved in the AMI RFP addendum bid or bid selection process.