BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of San Diego Gas & Electric Company (U 902 M) for Authority, Among Other Things, to Increase Rates and Charges for Electric and Gas Service Effective on January 1, 2016.	Application No. 14-11-003 (Filed November 14, 2014)
Application of Southern California Gas Company (U 904 G) for Authority to Update its Gas Revenue Requirement and Base Rates Effective on January 1, 2016.	Application No. 14-11-004 (Filed November 14, 2014)

REPLY OF SAN DIEGO GAS & ELECTRIC COMPANY, SOUTHERN CALIFORNIA GAS COMPANY AND OFFICE OF RATEPAYER ADVOCATES TO COMMENTS ON JOINT MOTION FOR ADOPTION OF SETTLEMENT AGREEMENT REGARDING THE POST-TEST YEAR PERIOD

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I. INTRODUCTION

Pursuant to Rule 12.2 of the Commission's Rules of Practice and Procedure, San Diego Gas & Electric Company (SDG&E), Southern California Gas Company (SoCalGas) (jointly, Applicants) and the Office of Ratepayer Advocates (ORA) (collectively, Settling Parties) jointly submit this Reply to Comments on their Joint Motion for adoption of a settlement agreement regarding the post-test year period in this General Rate Case (GRC) proceeding (PTY Settlement). [1]

As described in the Joint Motion, the PTY Settlement provides for a post-test year period that will encompass a 2019 attrition year, reflecting a four-year GRC cycle, and an attrition year escalation factor for 2019 of 4.3%, contingent upon Commission adoption of (1) SDG&E's and SoCalGas' concurrently filed revenue requirement settlement agreements and (2) four-year GRC cycles for all major California investor-owned utilities (IOUs, i.e., Southern California Edison Company (SCE)), Pacific Gas & Electric Company (PG&E), SDG&E and SoCalGas). The Settling Parties are jointly requesting the latter relief in a petition for modification (PFM) of the Commission's Rate Case Plan (RCP) in Rulemaking (R.) 13-11-006 (the Risk Rulemaking).

[1] The PTY Settlement is attached as an Appendix to the Joint Motion.

Comments opposing the PTY Settlement were filed by The Utility Reform Network (TURN), Utility Consumers Action Network (UCAN), Southern California Edison Company (SCE), Pacific Gas & Electric Company (PG&E), Coalition of California Utility Employees (CUE), and Southern California Generation Coalition (SCGC). As shown below, the opposing comments have failed to show that the PTY Settlement is not "reasonable in light of the whole record, consistent with law, and in the public interest," as required by Rule 12.1(d). In particular, many of the alleged problems with the PTY Settlement are procedural in nature and do not outweigh the substantial benefits of the PTY Settlement Agreement, which include:

- Minimizing the potential for delays in GRC proceedings and achieving a more efficient use of the CPUC's and Applicants' resources by managing the increase in the Settling Parties' workload due to new regulatory requirements set forth in the Commission's decision (D.14-12-025) integrating the Safety Model Assessment Proceeding (S-MAP) and the Risk Assessment Mitigation Phase (RAMP) into the Commission's RCP.
- Minimizing delays will also avoid impacting the timing of work and capital projects, many of which are for critical safety and reliability efforts.
- Minimizing delays also reduces rate shock and creates greater rate stability, to the benefit of customers.

Moreover, the settled-upon escalation factor for 2019 of 4.3% is well-supported by the record and recent Commission decisions, and represents the product of negotiations between the Settling Parties. The Settling Parties believe this amount will allow SDG&E and SoCalGas the revenue requirement needed to maintain and operate their system safely, reliably, and efficiently, while keeping customer rates reasonable through 2019. Finally, the Settling Parties understand and ORA agrees that if the Commission adopts a four-year GRC cycle in this proceeding, ORA will conduct an audit of SDG&E's and SoCalGas' 2016 recorded costs, notwithstanding the four-year GRC cycle.

For all these reasons, the PTY Settlement should be approved without modification as reasonable in light of the whole record, in the public interest and consistent with the law.

II. The PTY Settlement Is Procedurally Sound, Complies with Law, Is Reasonable, and Is In the Public Interest

A. The Procedural Arguments of SCE and PG&E are Groundless

SCE and PG&E argue that the PTY Settlement violates Rule 12.1(a), which states: "Resolution shall be limited to the issues in that proceeding and shall not extend to substantive issues which may come before the Commission in other or future proceedings." However, the PTY Settlement does not resolve the substantive issue of whether SCE and PG&E (as well as SDG&E and SoCalGas) will have a four-year GRC cycle. Rather, the PTY Settlement provides that the Settling Parties will file a petition for modification on the issue and the Commission will determine the issue presented to it. But the Settling Parties have not asked the Commission to approve a settlement resolving the issue in this case. SCE and PG&E also argue that "the Settling Parties attempt to defer resolution of the four-year cycle to a petition for modification in R.13-11-006 runs afoul of the bar in Rule 12.1(a) against resolving issues 'which may come before the Commission in other or future proceedings.'"[2] Again, the PTY Settlement does not resolve this issue, it merely sets the 4-year GRC issue up for consideration by the full Commission when it addresses the petition for modification, which was filed on October 22, 2015.

B. TURN and UCAN Have Failed to Show that a 4-year Cycle is Not Reasonable

TURN and UCAN argue that:

> D.14-12-025 issued last December adopted a 3-year cycle as one component of a new overall approach to timing, presentation and processing of GRC applications that has yet to be fully tested. If that new approach works, the Commission should be better able to achieve timely decisions within the 3-year cycle. The Sempra Utilities and ORA are effectively declaring the new effort a failure before it has had a chance to succeed.[3]

TURN and UCAN are being extremely optimistic; there is no evidence whatsoever that the addition of recurring and time-consuming S-MAP and RAMP dockets, and the addition of risk assessment and risk mitigation to the already very complex and hectic GRC schedule and list of issues has any chance of speeding up proceedings to the point that they will become timely. They are not timely now, even ignoring these new proceedings and issues. The Commission has

[2] SCE/PG&E Comments at 2.

[3] TURN/UCAN Comments at 3.

budgetary and resource constraints that should not be ignored in the hope that somehow the regulatory world will move at a faster pace.

TURN and UCAN also question the record's support for a 4.3% attrition rate and request that if the PTY Settlement is approved, then it should be modified to include a 3.5% attrition rate for 2019, as opposed to the settled figure of 4.3%. However, other than to say that 3.5% is equal to the settled figures for 2017 and 2018, TURN/UCAN fail to show that 3.5% is reasonable for 2019. As stated in the Joint Motion, however, an attrition rate of 4.3% is consistent with past approved rates and represents a reasonable compromise for a fourth attrition year:

> The PTY Settlement Agreement represents a favorable outcome for ratepayers. In recent GRCs, IOUs have received annual post-test year revenue increases ranging from 3.0% to 4.5%. In the most recent GRC decision, for PG&E, the Commission authorized attrition increases of 4.57% for 2015 and 5.0% for 2016. Thus, the PTY Settlement increase of 4.3% for attrition year 2019 falls squarely within the range of recently authorized PTY revenue increases, but is still much lower than the most recently authorized escalation factor for an attrition year. Moreover, the PTY Settlement Agreement will promote administrative efficiency by allowing parties time to implement new S-MAP and RAMP procedures, while recognizing the additional risks that will be shouldered by SDG&E and SoCalGas shareholders during an extra attrition year.[4]

Moreover, although the record shows that the Settling Parties originally presented different positions on the fourth attrition year issue, it is the undeniable nature of settlements that they will produce unique compromise positions somewhere between the parties' original positions. As stated by the Commission in D.11-05-018, "In assessing settlements we consider individual settlement provisions but, in light of strong public policy favoring settlements, we do not base our conclusion on whether any single provision is the optimal result. Rather, we determine whether the settlement as a whole produces a just and reasonable outcome."[5] For all the reasons outlined above and in the Joint Motion, Settling Parties believe that a 4.3% attrition rate for 2019 is a reasonable outcome.

C. CUE's Objections are Based on Misinterpretations of a Commission Decision and Statutory Law

CUE argues that the PTY Settlement should be rejected based on allegations that there are inadequate explanations as to how the PTY Settlement is reasonable and in the public interest, and compares this case to D.14-01-002, which rejected one of two settlements in a rate

[4] Joint Motion at 7-8 (internal footnotes omitted).

[5] D.11-05-018 at 16.

design proceeding. However, the settlement rejected in that rate design proceeding was not adequately supported by its own signatories: "While we do not require the signatories of a settlement to support the settlement enthusiastically, the fact that signatories may have reservations about a settlement, combined with strong opposition by non-signatories, lead us to conclude in this instance that the settlement is not reasonable." [6] That fact pattern is not applicable in this proceeding; SDG&E, SoCalGas and ORA have expressed nothing less than full and unqualified support for the PTY Settlement. The PTY Settlement is not an all-party settlement, but the simple fact that some parties did not sign it and oppose its adoption does not equate to the settlement automatically being found to be either not in the public interest, or unreasonable, despite CUE's suggestion to the contrary.

CUE also argues that the PTY Settlement is "inconsistent" with law and states: "Public Utilities Code section 314.5 requires the Commission to audit the IOUs every three years. The Settling Parties correctly note that the Commission generally complies with this statutory obligation during a utility's general rate case."[7] CUE agrees that the Commission "generally complies" with this statute during GRCs, so it also at least implicitly admits that GRC proceedings are not required by law to be the locus of the required audit. Nor does CUE point to any decision or order interpreting 314.5 as requiring audits to be performed in GRCs. Thus the PTY Settlement is not "inconsistent" with the law, since the law does not require the audits to be done in any particular docket (even if that has been the custom in the past, and even if it is convenient). Neither does the law specify that ORA is the only branch of the Commission that can perform audits. CUE's claim that the PTY Settlement somehow violates Section 314.5 is simply wrong, and the PTY Settlement's "silence" on how audits will be performed on the other utilities is irrelevant.

CUE also claims that the issue of a four year GRC is somehow not "ripe for reconsideration" because the S-MAP and RAMP have "not been incorporated into the GRC process."[8] This statement lacks any foundation and is incorrect. The S-MAP applications have been filed, are underway, and a major topic of discussion in the consolidated proceeding is how

[6] D. 14-01-002 at 33 (emphasis added).

[7] CUE Comments at 5.

[8] *Id*. at 6.

to provide guidance to the utilities soon enough to allow them to file their RAMPs in 2016.[9] CUE has been an active participant in the S-MAP proceeding and has knowledge of all these pertinent facts.

D. SCGC's Arguments are Inaccurate and Fail to Show that the PTY Settlement is Unreasonable

SCGC claims that if the three year GRC cycle is continued, the Commission can "continue to process only one large utility GRC per year."[10] This is hardly accurate. The PG&E GRC and the PG&E GT&S proceeding are not processed together, and with a three year cycle the GT&S proceeding will always overlap with another GRC. In addition, there are now S-MAP and recurring RAMP proceedings that also overlap with multiple GRCs on a three year cycle. SCGC's claim that the rate case cycle is finally synchronized is extremely unrealistic because of the proceedings SCGC chooses to ignore. There will *not* be just three GRCs in three years; there will be the three major IOU GRC applications, plus PG&E's GT&S application, plus three S-MAP applications, plus a RAMP proceeding for each utility as well.

In the alternative, SCGC urges the Commission to cherry-pick the Settlement and modify it to include a lower attrition rate adjustment (3.5%) for the final year of the GRC cycle because it will "keep costs down."[11] As set forth above with respect to TURN/UCAN's similar request, Settling Parties urge the Commission to adopt the Settlement as a whole and to not modify its terms; the Commission's long-held and strong public policy favoring settlements weighs heavily in favor of not modifying good faith and reasonable agreements reached between opposing litigants in a settlement.

III. CONCLUSION

For all the foregoing reasons, Settling Parties urge the Commission to approve the PTY Settlement without modification.

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[9] SDG&E and SoCalGas are already doing preliminary work in support of their RAMP filing, as they must because of the very tight time deadlines, new issues, and analysis required for risk assessment and mitigation plans to be developed in time for use in the next GRC.

[10] SCGC Comments at 4.

[11] *Id*. at 5.

SDG&E represents that it has been authorized by ORA to sign this reply on its behalf, consistent with Rule 1.8(d) of the Commission's Rules of Practice and Procedure.

Respectfully submitted,

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