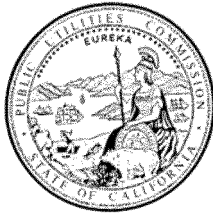


Docket:	:	<u>A.12-11-009</u>
Exhibit Number	:	<u>DRA-4</u>
Commissioner	:	<u>Florio</u>
ALJ	:	<u>Pulsifer</u>
Witness	:	<u>Kanter</u>



DIVISION OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION

**Report on the Results of Operations
for
Pacific Gas and Electric Company
General Rate Case
Test Year 2014**

Cost Escalation

San Francisco, California
May 3, 2013

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1

COST ESCALATION

2 I. INTRODUCTION

3 This exhibit presents the analyses and recommendations of the Division of
4 Ratepayer Advocates (DRA) regarding Pacific Gas and Electric Company's (PG&E)
5 forecasts of labor, non-labor, and capital related cost escalation for 2012, 2013, and
6 Test Year (TY) 2014. Escalation is a very important issue because it determines the
7 rate of inflation for ratepayers. Escalation is the rate of inflation for the costs of the
8 utility's purchase of labor, materials, and capital related items.

9 The instant testimony corresponds with part of Chapter 10 of PG&E's
10 testimony. DRA's recommendations are summarized in Section II. Sections III, IV,
11 and V discuss DRA's and PG&E's historic and forecast estimates of labor, non-
12 labor, and capital escalation rates, respectively.

13 II. SUMMARY OF RECOMMENDATIONS

14 PG&E developed labor and non-labor escalation rates for Nuclear Production,
15 Hydro Production, Electric Distribution, Gas Distribution Plant and Common Plant.
16 The results are reported in Tables 4-1, 4-2, and 4-3. DRA reviewed PG&E's labor
17 and non-labor escalation rates. The main differences between DRA's and PG&E's
18 labor and non-labor escalation rates forecasts are due to PG&E's decision to use
19 surveys it has not previously used to forecast management wage increases. DRA
20 does not oppose PG&E's non-labor and capital escalation factors.

21 Table 4-1 compares DRA's and PG&E's forecasts of labor escalation rates for
22 2012 through 2014:

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**Table 4-1
Comparison of DRA's and PG&E's Forecasts of
2012-2014 Labor Annual Escalation Rates**

Description	DRA Recommended			PG&E Proposed ¹		
	2012	2013	2014	2012	2013	2014
Labor	2.61%	2.61%	2.61%	2.79%	2.79%	2.79%

4 Table 4-2 presents PG&E's forecasts of non-labor escalation factors for 2012
5 through 2014:

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**Table 4-2
PG&E's Forecasts of
2012-2014 Non-Labor Escalation Factors**

Description	PG&E Proposed ²		
	2012	2013	2014
Administrative	2.67%	2.84%	2.88%
Electric Dist	2.40%	2.06%	2.13%
Nuclear Gen	2.48%	2.30%	2.01%
Hydro Gen	2.61%	2.72%	2.53%
Fossil Gen	2.21%	2.50%	2.76%
Gas Dist	2.48%	2.54%	2.47%

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10

¹ Ex. PG&E-10, Workpapers, p. 3-1.

² Ex. PG&E10, p. 3-5.

1 Table 4-3 presents PG&E's forecasts of capital escalation factors for 2012
2 through 2014:

3 **Table 4-3**
4 **PG&E's 2012-2014**
5 **Forecasts of Annual Capital Related Escalation**

Description	PG&E Proposed ³		
	2012	2013	2014
Electric Distribution	4.56%	2.85%	2.45%
Nuclear Generation	2.61%	2.66%	3.05%
Hydro Generation	1.52%	1.93%	3.44%
Fossil Generation	1.64%	2.35%	3.22%
Gas Distribution	2.97%	3.12%	2.28%
Common Plant	2.01%	0.90%	2.74%

6 **III. DISCUSSION / ANALYSIS OF LABOR ESCALATION**

7 **A. PG&E's Methodology**

8 PG&E's historic and forecast labor escalation rates are based on weighted
9 average wage and salary increases for PG&E's major employment categories: (1)
10 bargaining units; (2) clerical; and (3) management/administrative and technical
11 (A&T). PG&E further explains that: "The bargaining unit is comprised of International
12 Brotherhood of Electric Workers (IBEW)-represented employees, Engineers and
13 Scientists of California (ESC) represented employees, and SEIUI-represented
14 employees. The manager/supervisor group is comprised of all supervisory
15 employees (e.g. those classified as supervisors, managers superintendents, or
16 directors) as well as non-supervisor professional, administrative and technical
17 employees."⁴

³ Ex. PG&E-10, p. 3-6.

⁴ Ex. PG&E-10, p. 3-2.

1 For union-represented employees, PG&E is proposing to use labor escalation
 2 rates presented in its most recent collective bargaining agreement for the years
 3 2012 to 2014. The labor escalation rates for non-union employees are targeted at 3
 4 percent.⁵ Table 4-4 presents a summary by job category of PG&E’s proposed labor
 5 escalation rates. PG&E’s composite labor escalation rate is a weighted average of
 6 the escalation rates for union-represented and non-union represented employees.
 7 PG&E proposes to apply all of these wage increases to the forecast period 2012-
 8 2014 as well as the attrition years 2015 and 2016.

9 **Table 4-4**
 10 **PG&E’s 2012-2014 Forecasts of Labor Escalation**

BARGAINING			NON-BARGAINING		
JOB	Escalation	Count	JOB	Escalation	Count
IBEW	2.75%	8619	Executive	3.0%	37
Hiring Hall:IBEW Phy	2.75%	484	SEIU	3.0%	275
ESC	2.75%	2360	PL1	3.0%	5770
Hiring Hall:ESC	2.75%	210	PL2	3.0%	1051
Hiring Hall:IBEW			PL3	3.0%	262
Clerical	2.0%	112	Lawyer	3.0%	85
IBEW:IBEW Clerical	2.0%	2622	A&T	3.0%	592
TOTAL COUNT		14407	TOTAL COUNT		8072

11 PG&E justifies having higher labor escalation rates for Management/
 12 Administrative and Technical employees than for bargaining employees as follows:

13 “For the company’s management employees (also referred to as
 14 non-bargaining employees) merit increase budgets are the
 15 mechanism for keeping base wages in line with the external
 16 market. On an annual basis, PG&E participates in and receives
 17 multiple surveys, which it uses to benchmark wage escalation in
 18 northern California as well as the utility industry nationally. These
 19 surveys are: WorldatWork Salary Budget Survey, Mercer Pay
 20 Practices Survey CompData Salary Increase Survey, and Hewitt
 21 U.S. Salary Increase Survey. In recent years these survey have
 22 consistently reported merit budget of 3 percent. Based on that

⁵ Ex. PG&E 8, Chapter 5, Short-Term Incentive Plan and Labor Escalation Assumptions, p. 5-11.

1 information, PG&E has also established its merit budget at 3
2 percent for its non-bargaining unit employees.”⁶

3 **B. DRA’s Methodology**

4 DRA recommends that the labor escalation rate be a weighted average of
5 PG&E’s union-represented labor escalation rates. This results in an escalation rate
6 of 2.61% for the forecast and attrition period, as summarized in Table 4-5.

7 **Table 4-5**
8 **DRA Derivation of PG&E Labor Escalation for 2012 – 2014**

Category	Index	Weight	Escalation
Clerical/Physical1	Union Wage	0.180542563	1.02
Clerical/Physical2	Union Wage	0.819457437	1.0275
	Total	1.0000	1.0261

9 PG&E’s proposed labor escalation rates for non-union represented
10 employees in its last rate case were also in line with the wage increases for union
11 represented employees. Furthermore, in Southern California Edison’s (SCE) last
12 rate case, the CPUC decided to accept SCE’s proposed labor escalation rates that
13 were similarly in line with wage increase for union represented employees.⁷ Another
14 issue is that PG&E justifies its Management/Administrative and Technical
15 employees escalation rates by referring to surveys that have not previously been
16 used to forecast management escalation rates for Management/ Administrative and
17 Technical employees.

18 DRA’s recommendations are conservative. DRA checked its
19 recommendation by comparing it with the results derived by basing its wage
20 increases for the non-union groups from forecasts taken from the IHS Global Insight

⁶ Ex. PG&E-8, Chapter 5, p. 5-11.

⁷ D.12-11-051, p. 951.

1 Power Planner. (This methodology is similar to the methodology used by PG&E in its
 2 2007 general rate case.⁸)

3 Specifically, for managers and supervisors, DRA relies upon the Global
 4 Insight Index, (**ECIPWMBFNS**), Employment Cost Index-Managers and
 5 Administrators. For the Professional/Technical employee group DRA relies upon the
 6 Global Insight Index, (**ECIPWPARNS**), Employment Cost Index – Professional and
 7 Technical Workers. Forecasts of wage increases for these two indexes were taken
 8 from the Global Insight Power Planner, Fourth Quarter 2012. After applying the
 9 weightings, DRA arrives at labor escalation rates of 2.30 percent for 2012, 2.41
 10 percent for 2013, and 2.50 percent for test year 2014. This results in an average of
 11 2.40 percent per year over the period from 2012 to 2014.

12 **Table 4-6**
 13 **DRA Alternative Derivation of PG&E Labor Escalation for 2012 – 2014**

Category	Index	Weight	2012	2013	2014
	(1)	(2)	(3)	(4)	(5)
Represented	Union Wage	.6431	1.0261	1.0477	1.0739
Manager/Supervisor	ECIMBFNS	.1266	1.0175	1.0384	1.0611
Professional/Technical	ECIPWPARNS	.2303	1.0173	1.0381	1.0624
Total		1	2.30%	2.41%	2.50%

14 Source: Global Insight Power Planner – Fourth Quarter 2012.

15

⁸ Pacific Gas and Electric Company, 2007 General Rate Case, Exhibit PG&E-8 “Escalation Rates”, December 2, 2005, p. 3-5.

1 **IV. DISCUSSION / ANALYSIS OF NON-LABOR ESCALATION**

2 **A. PG&E’s Methodology**

3 PG&E’s historic and forecast non-labor escalation rates are based on indices
4 taken from the IHS Global Insight Power Planner. The indexes in the Global Insight
5 Power Planner follow the Federal Energy Regulatory Commission (FERC) Uniform
6 System of Accounts. Table 4-7 shows the functional expense categories and the
7 Global Insight Power Planner index associated with each functional category.

8 **Table 4-7**
9 **Pacific Gas and Electric O &M Expense Categories and**
10 **Global Insight Power Planner Indexes**

O&M Expense Category	Global Insight Power Planner Index
Electric Distribution	JEDOMMS
Electric Transmission	JETOMMS
Nuclear Steam Generation	JENOMMS
Hydro Generation	JEHOMMS
Fossil Steam Generation	JFOMMS
Gas Distribution	JGDOMMS
Gas Transmission	JGTOMMS
Gas Storage	JGUSOMMS
Admin and General – Electric	JEADGOMMSH
Admin and General – Gas	JGADOMMSH

11 Source: Ex. PG&E-10, p. 3-5.

12 With the exception of the administrative and general categories,
13 JEADGOMMSH and JGADOMMSH, the indexes reported in Table 4-6 were taken
14 directly from the Global Insight Power Planner.

15 The A&G indexes used by PG&E have been adjusted to account for the
16 impact of health care escalation. PG&E explains that: “To avoid the double-counting
17 of health costs escalation, the effect of healthcare cost increases is excluded from
18 the administrative non-labor escalation rates shown in this chapter. This was done

1 by requesting adjusted non-labor escalation rates from the Global Insight UCIS
2 service that excludes the effect of healthcare cost escalation.”⁹

3 **B. DRA’s Position**

4 DRA does not oppose PG&E’s non-labor escalation factors.

5 **V. DISCUSSION / ANALYSIS OF CAPITAL ESCALATION**

6 **A. PG&E’s Methodology**

7 PG&E presents capital related escalation rates for the following categories:

8 Electric Distribution, Nuclear Generation, Hydro Generation, Fossil Generation, Gas

9 Distribution, and Common Plant. With the exception of Gas Distribution plant,

10 PG&E’s capital related escalation indexes were taken directly from the Global Insight

11 Power Planner.

12 **B. DRA’s Position**

13 DRA does not oppose PG&E’s capital escalation factors.

⁹ Ex. PG&E-10, p. 3-6.