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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

Post-Test Year Ratemaking

San Francisco, California
May 3, 2013

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SB_GT&S_0050542

POST-TEST YEAR RATEMAKING

I. INTRODUCTION

This exhibit presents the analyses and recommendations of the Division of Ratepayer Advocates (DRA) regarding Pacific Gas and Electric Company's (PG&E) 2015 and 2016 Post-Test Year Ratemaking (PTYR) proposals.

PG&E seeks Commission authorization for an attrition mechanism which would yield estimated revenue increases totaling $496 million (6.1%) for 2015 and $504 million (5.9%) for 2016. Specifically, PG&E estimates the following revenue increases:

- Electric Distribution - $234 million in 2015 and $246 million in 2016;
- Gas Distribution - $187 million in 2015 and $160 million in 2016; and
- Electric Generation - $71 million in 2015 and $98 million in 2016.

II. SUMMARY OF RECOMMENDATIONS

> DRA recommends post-test year revenue increases of $168 million (2.6%) and $158 million (2.4%) in 2015 and 2016, respectively, compared to PG&E's request for increases of $496 million (6.1%) and $504 million (5.9%).

DRA does not oppose a Post-Test Year Ratemaking mechanism which will provide PG&E with some reasonable level of revenue increases in 2015 and 2016. However, the average annual increases of approximately 6% that PG&E proposes for those two attrition years are excessive.

In contrast, DRA recommends a PTYR mechanism whereby attrition revenue increases for PG&E are set at 2.3% per year for 2015 and 2016, plus additional revenues for forecasted leak repair expenses.[1] DRA's recommended percentage increases are guided by a recent forecast of the All-Urban Consumer Price Index

[1] With DRA's forecast of additional revenues for gas leak repairs, PG&E would actually receive effective post-test year revenue increases of 2.6% in 2015 and 2.4% in 2016.

(CPI-U), as well as the increases adopted by the Commission in PG&E's last two General Rate Cases (GRCs).

DRA's recommendations for PG&E's various PTYR proposals are as follows.

- Regarding other revenue requirement changes:
  - PG&E's proposed 2-way balancing account is addressed in Ex. DRA-9 (Gas Distribution Expenses), and the recommendations contained in that exhibit should apply to the post-test years.
  - DRA opposes PG&E's request for $158.1 million in 2015 and $175.2 million in 2016 for additional gas leak repair expenses, in Major Work Category (MWC) FI. DRA recommends that the Commission adopt forecasts of $55.1 million for 2015 and $61.1 million for 2016, or, more specifically, incremental increases of $19.5 million in 2015 (to DRA's 2014 forecast of $35.6 million, as discussed in Ex. DRA-9) and $6.0 million in 2016 (to DRA's 2015 forecast).
  - DOE litigation proceeds and Photovoltaic (PV) program cost savings is addressed in Ex. DRA-11 (Energy Supply Expenses), and the recommendations set forth in that exhibit should apply to the post-test years.
  - DRA does not take issue with PG&E's proposal to annually true-up differences between the estimated and actual DOE litigation proceeds.
- DRA does not oppose PG&E's proposal to update post-test year return and income taxes to reflect currently adopted debt costs, equity costs, and capital structure, if necessary.
- DRA does not take issue with PG&E's proposal to establish a Z-Factor mechanism with the same Z-factor event criteria as those used in the San Diego Gas & Electric Company's (SDG&E) mechanism authorized in Decision (D.) 05-03-023. However, DRA opposes PG&E's requests for: (1) an exception to the criteria previously adopted in D.05-03-023; and (2) Z-factor adjustments applying to the test year.
- Regarding the implementation of PG&E's PTYR mechanism, DRA does not take issue with PG&E's proposals that:
  - all escalation rates be fixed (i.e., not updated at a future date);

- attrition advice letters would only be necessary if a Z-factor event were to occur or there was a change in the adopted cost of capital; and
- annual gas and electric revenue requirement changes adopted in this proceeding be included in PG&E's Annual Electric True-Up and Annual Gas True-Up filings.

For the post-test year period, the differences between DRA's recommended and PG&E's proposed mechanisms yield the following estimated revenue increases for 2015 and 2016, as shown on Tables 22-1 and 22-2, respectively:

Table 22-1
DRA Recommended vs. PG&E Proposed
Estimated Post-Test Year Revenue Increases for 2015
(In Thousands of Dollars)

Description (a)	DRA Recommended (b)	PG&E Proposed[2] (c)	$ Amount PG&E>DRA (d=c-b)
Electric Distribution	$80,573	$234,423	$153,850
Gas Distribution	$51,222	$186,857	$135,635
Electric Generation	$36,570	$71,119	$34,549
Total	$168,364	$492,399	$324,034

Table 22-2
DRA Recommended vs. PG&E Proposed
Estimated Post-Test Year Revenue Increases for 2016
(In Thousands of Dollars)

Description (a)	DRA Recommended (b)	PG&E Proposed[3] (c)	$ Amount PG&E>DRA (d=c-b)
Electric Distribution	$82,426	$245,948	$163,522
Gas Distribution	$38,846	$159,584	$120,738
Electric Generation	$37,411	$97,981	$60,570
Total	$158,682	$503,512	$344,830

[2] Ex. PG&E-11, p. 2-7, Table 2-1, Column A, lines 8, 17, 26, and 36.

[3] Ex. PG&E-11, p. 2-7, Table 2-1, Column B, lines 8, 17, 26, and 36.

If the Commission does not adopt DRA's CPI-based recommendation, and instead decides to rely on a mechanism similar to PG&E's proposal, then DRA presents the following recommendations for such a mechanism.

- DRA does not take issue with PG&E's proposed methodology for developing 2015 and 2016 net capital additions forecasts.
- In Ex. DRA-20 (Tax Expenses and Other Financial Matters), DRA recommends that the 50% bonus depreciation rate be used in the post-test year 2015 and 2016 deferred tax calculations
- DRA does not take issue with PG&E's proposed methodology of determining post-test year increases for operational expenses by escalating adopted 2012 expense levels by applying appropriate traditional escalation factors, except for the following:
    - The Commission should adopt wage escalation rates of 1.7% in 2015 and 1.9% in 2016 in contrast to PG&E's proposed wage escalation rates of 2.79% per year for 2015 and 2016.
    - If the Commission chooses not to adopt DRA's forecasts for post-test year gas leak repair expenses (MWC FI), then DRA recommends that the Commission allow PG&E to file Tier 2 advice letters in the ensuing years, requesting incremental revenues necessary to cover the increased costs above DRA's forecast and up to, but not exceeding, a cost cap.
    - The Commission should reject PG&E's proposal to escalate medical programs costs by 8.4% in 2015 and 8.2% in 2016. DRA recommends more reasonable and modest escalation rates of 6.4% in 2015 and 6.3% in 2016 based upon a recent IHS Global Insight forecast.

III. BACKGROUND – UTILITIES ARE NOT AUTOMATICALLY ENTITLED TO POST TEST YEAR REVENUE INCREASES

Before 1982, the base revenue requirement was generally adjusted only during General Rate Case proceedings. In the period between GRC proceedings, base rates would not change, but the utilities received additional income from customer growth. Post-Test Year, or attrition, rate adjustments were implemented in the early 1980's primarily because of the unprecedented high inflation and lower rates of customer growth and sales in the late 1970's and early 1980's. Since the mid-1980's, inflation has generally declined to more modest historical levels. The utilities have also had various forms of revenue balancing account protection from sales fluctuation. Additionally, utility fuel-related costs that had high volatility, and over which utilities have limited control, were removed from base rates and are now recovered through separate mechanisms with balancing accounts.

The GRC proceeding is used to periodically review and set reasonable rates for utilities for a specific test year, in this case, 2014. For the period between GRC proceedings, the Commission has, in some cases, granted attrition-type increases and, in other cases, has not provided such increases. In the past, the Commission has stated:

> The attrition mechanism is not an entitlement. Nor is it a method of insulating the company from the economic pressures which all business experience…Neither the Constitution nor case law has ever required automatic rate increases between general rate case applications.[4]

For example, in PG&E's 1999 GRC decision, the Commission denied attrition increases for year 2000. In D.02-02-043, the Commission granted PG&E a 2001 attrition increase of approximately $151 million. In D.03-03-034, however, the Commission denied PG&E's attrition increase request for 2002. It is clear that utilities are not automatically entitled to attrition rate increases between rate cases, even though the Commission has included provisions for post-test year rate relief in some GRC decisions.

[4] D.93-12-043, 52 CPUC 2d 471, 492.

IV. OVERVIEW of PG&E's POST TEST YEAR RATEMAKING PROPOSALS

PG&E characterizes its proposed Post-Test Year Ratemaking (PTYR) mechanism for 2015 and 2016 as one which provides the utility "...with the funds it needs to provide safe and reliable service to customers, while offering offers PG&E a fair opportunity to earn the rate of return found reasonable by this Commission."[5]

PG&E is "...asking the Commission to adopt a PTYR mechanism that models capital revenue requirement growth based on adopted test year (TY) plant additions, and, with one exception, applies escalation rates to adopted TY expense amounts. The single expense escalation exception is related to gas leak repairs where PG&E expects significant cost increases in 2015 and 2016 due to the implementation of new leak survey technology."[6]

PG&E is "...also asking the Commission...to explicitly recognize that upon an appropriate showing, a cost of service utility such as PG&E should be allowed an adjustment for capital revenue requirement changes during the attrition period, irrespective of inflation. This ratemaking convention is necessary in order to provide utilities with growing rate base the revenues required to make the capital investments needed to provide safe and reliable service."[7]

A. Revenue Requirement Impact of PG&E's Proposals

Given PG&E's PTYR proposals, it estimates attrition revenue increases totaling \$492 million in 2015 and \$504 million in 2016.[8] The estimated \$492 million revenue increase in 2015 represents a 6.1% increase relative to PG&E's 2014 revenue requirement request, and the \$504 million revenue increase in 2016

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[5] Ex. PG&E-11, p. 1-1, lines 12-14.

[6] Ex. PG&E-11, p. 1-1, lines 23-28.

[7] Ex. PG&E-11, p. 1-1, line 28 thru p. 1-2, line 2.

[8] Ex. PG&E-11, p. 2-7, Table 2-1, line 36.

represents a 5.9% increase relative to PG&E's forecasted 2015 revenue requirement.

The combination of PG&E's 2014 forecasts and its post-test year proposals yield revenue requirement levels of $8.603 billion in 2015 and $9.107 billion in 2016.

B. PG&E's Proposed PTYR Mechanism Includes Increases for Expenses, Capital Additions, Rate Base, and Other Revenue Requirement Changes

PG&E's PTYR proposal "…is intended to estimate changes in the cost of providing service subsequent to 2014, due to: rate base growth; expense escalation; and exogenous cost of service changes (Z-factor events)."[9] PG&E's proposed attrition mechanism include the following seven components:[10]

- adjustments made to labor costs;
- adjustments to non-labor expenses;
- adjustments to medical benefits costs;
- adjustments to capital and rate base-related items;
- adjustments for other revenue requirement changes;
- if necessary, adjustments to reflect a revised cost of capital; and
- if necessary, adjustments for revenue requirement changes associated with approved Z-factor events.

1. Labor and Labor-Related Expenses

PG&E proposes increases to labor costs (e.g., Operations & Maintenance [O&M] and Administrative & General [A&G] wages) to reflect forecast escalation rates. Labor-related expenses subject to these adjustments also include payroll taxes and the wage-related portion of benefits (excluding pension and medical plan costs).

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9 Ex. PG&E-11, p. 2-2, lines 23-26.

10 Ex. PG&E-11, p. 2-2 line 21 thru p. 2-4, line 7.

The labor adjustments proposed by PG&E are based on 2015 and 2016 wage rate increases of 2.75% for union (operating units) employees and 2.97% for non-union (A&G) employees. Overall, PG&E forecasts company-wide escalation of 2.79% per year for 2014 through 2016.[11]

PG&E states that the "…current wage agreements with Local 1245 of the International Brotherhood of Electrical Workers and the Engineers and Scientists of California, Local 20, were ratified in July of 2012 and cover the period of January 1, 2012 through December 31, 2014. For purposes of calculating attrition increases, these agreements are assumed to set wage levels through the entire 2014 GRC period."[12]

2. Non-Labor Expenses

PG&E proposes increases to non-labor (materials and services) O&M and A&G expenses, as well as property insurance. PG&E relies on Global Insight escalation rates, ranging from 1.6% to 3.3%,[13] to estimate attrition year growth in non-labor expenses.

PG&E says it "…will not seek to adjust or true-up these rates after a final Commission decision in this proceeding."[14]

3. Medical Benefits Expenses

PG&E proposes increases to medical benefits expenses, and uses escalation rates of 8.4% in 2015 and 8.2% in 2016 for its medical programs costs,[15] as well as other cost trend forecasts for other benefit costs (e.g., dental and vision plans, disability programs, group life insurance, etc.).

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[11] Ex. PG&E-10, p. 3-4, Table 3-2.

[12] Ex. PG&E-10, p. 2-4, lines 24-29.

[13] *See* Ex. PG&E-10, p. 3-5, Table 3-3, for non-labor escalation rates by functional category.

[14] Ex. PG&E-11, p. 2-5, lines 2-5.

[15] Ex. PG&E-8, p. 6-18, lines 18-21.

4. Capital-Related Costs

PG&E proposes increases to capital-related costs. One component of the rate base growth is plant additions. PG&E proposes "…that the post test-year capital additions forecast for 2015 and 2016 is equal to the adopted 2014 net capital additions plus escalation…Escalation will be fixed based on capital cost indices described in Exhibit (PG&E-10), Chapter 3, Escalation Rates."[16] PG&E generally relies on Global Insight capital escalation rates, ranging from 1.8% to 3.7%,[17] to estimate attrition year net plant additions.

PG&E's proposed attrition mechanism yields estimated net capital additions totaling $3.048 billion in 2015 and $3.127 billion in 2016:

Table 22-3
PG&E's Forecast of Net Capital Additions for 2014 thru 2016
(in Thousands of Dollars)

Description (a)	2014 Forecast (b)	2015 Forecast (c)	2016 Forecast (d)
Electric Distribution	$1,588,708	$1,626,442	$1,672,104
Gas Distribution	$782,119	$798,453	$819,486
Electric Generation	$601,805	$622,613	$635,076
Total	$2,972,632	$3,047,508	$3,126,666

Source: Ex. PG&E-11, p. 3-4, Table 3-2, lines 1-5.

Based on these forecasts, PG&E's estimated growth in total net capital additions is $74.9 million (2.52%) from 2014 to 2015, and $79.2 million (2.59%) from 2015 to 2016.

PG&E indicates that some of the rate base growth during the attrition years is driven by changes to depreciation, and estimated changes in deferred tax liabilities. For instance, PG&E forecasts "…deferred tax reversals during the attrition years, which is attributable to bonus depreciation that has greatly inflated deferred taxes (a

[16] Ex. PG&E-11, p. 3-3, lines 5-11.

[17] *See* Ex. PG&E-10, p. 3-6, Table 3-4, for capital escalation rates by functional category.

reduction to rate base) coming into the test year."[18] Meanwhile, PG&E says that it "...is not proposing to change the rate base elements of materials and supplies, customer advances, or working cash."[19]

PG&E's proposed attrition mechanism yields estimated weighted-average rate base balances of $23.096 billion in 2015 and $24.715 billion in 2016:

Table 22-4
PG&E's Forecast of Weighted-Average Rate Base for 2014 thru 2016
(in Thousands of Dollars)

Description (a)	2014 Forecast (b)	2015 Forecast (c)	2016 Forecast (d)
Electric Distribution	$12,379,418	$13,148,522	$13,892,553
Gas Distribution	$3,843,292	$4,374,479	$4,900,779
Electric Generation	$5,216,006	$5,572,669	$5,922,122
Total	$21,438,716	$23,095,670	$24,715,454

Source: Ex. PG&E-11, pp. 3-7 thru 3-9, Tables 3-3 thru 3-5, line 28, columns b, d, and g.

Based on these forecasts, PG&E's estimated growth in total weighted-average rate base is $1.657 billion (7.73%) from 2014 to 2015, and $1.630 billion (7.06%) from 2015 to 2016.

5. Other Revenue Requirement Changes

PG&E proposes other adjustments to revenue requirement due to additional gas leak repairs costs and estimated refunds related to Department of Energy (DOE) litigation. According to PG&E:

- In Exhibit PG&E-3, Chapter 6 (Leak Survey and Repair), PG&E forecasts "...significant increases in leak repair work in 2015 and 2016 and has included these additional costs in the attrition forecast. Under PG&E's proposal, these costs would be subject to balancing account treatment and therefore any unspent funds

[18] Ex. PG&E-11, p. 3-1, lines 26-28.

[19] Ex. PG&E-11, p. 3-4, lines 15-17.

would be returned to customers."[20] PG&E forecasts leak repair expenses of $158.1 million in 2015 and $175.2 million in 2016, in MWC FI, compared to $102.4 million in 2014.[21]

- In Exhibit PG&E-6, Chapter 6 (Energy Supply Ratemaking), PG&E proposes "…to refund to customers in equal amounts over this GRC period credits related to 2013 DOE litigation proceeds and 2011-2013 Photovoltaic Program cost savings. Related to the DOE litigation proceeds, the levelized amount included in the 2014 revenue requirement does not include additional funds expected to be received by PG&E in 2014 and 2015, estimated to be about $20 million per year. As such, the 2015 attrition adjustment includes a $20 million revenue requirement reduction which is also carried into 2016. Differences between estimated and actual DOE litigation proceeds will be trued-up on an annual basis through an adjustment to generation rates in the Annual Electric True-Up."[22]

6. Changes to Cost of Capital (COC)

PG&E proposes adjustments to post-test year return and income taxes to reflect currently adopted debt costs, equity costs, and capital structure, if necessary. According to PG&E, "…[t]he calculations included in this application use the financial parameters adopted in PG&E's most recent cost of capital Decision 07-12-049 and the related 2-year extension Decision 09-10-016."[23]

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[20] Ex. PG&E-11, p. 2-5, lines 24-27. In Ex. PG&E-11, PG&E does not specifically indicate that it proposes a 2-way balancing account in Ex. PG&E-3, so while it is true that unspent funds would be returned to customers, PG&E does not point out that customers would be responsible for expenses that exceed the forecast.

[21] Ex. PG&E-11 Workpapers Supporting Chapters 2, 3, p. WP 2 and 3-23.

[22] Ex. PG&E-11, p. 2-5, line 29 thru p. 2-6, line 5.

[23] Ex. PG&E-11, p. 2-3, lines 21-24.

7. Modified Z-Factor Mechanism for Treatment of Major Exogenous Cost Changes

PG&E proposes "…a Z-factor mechanism to capture exogenous events that have a major impact on PG&E's cost of service, similar to those which have been adopted for SCE and Sempra. PG&E proposes a one-time $10 million deductible per event (positive or negative depending on the adjustment) and also proposes to allow an exception to the normal criteria for a few specific exogenous changes that are a normal part of doing business and do not have a disproportionate impact on PG&E."[24]

Under PG&E's proposal,

> "…adjustments will be made for revenue requirement changes associated with approved Z-factor events—defined as significant events that are beyond the utility's ability to control and cause large changes in its cost structure.[2] PG&E proposes the same Z-factor event criteria as those used in the San Diego Gas & Electric Company (SDG&E) mechanism (see D.05-03-023) but proposes an exception to that criteria for exogenous changes, final as a matter of law, related to: (a) postal rate changes; (b) franchise fee changes; (c) income tax rate changes and other tax changes which are part of the same or related tax legislation; (d) payroll tax changes; and (e) ad valorem tax changes. This exception is necessary because these changes are a normal part of doing business and do not have a disproportionate impact on PG&E and therefore should be excluded under SDG&E's Z-factor criteria."[25]

PG&E indicates that it is proposing "…a modified Z-factor mechanism…,"[26] where Z-factor adjustments would "…apply to all years of the rate case cycle, including the TY."[27]

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[24] Ex. PG&E-11, p. 1-7, lines 11-17.

[25] Ex. PG&E-11, p. 2-3 line 25 thru p. 2-4 line 5.

[26] Ex. PG&E-11, p. 1-4, line 9.

[27] Ex. PG&E-11, p. 2-3, footnote 2.

C. Implementation of PG&E's Proposed PTYR Mechanism

PG&E indicates that, as part of its proposed PTYR mechanism, "…all escalation rates would be fixed, and the additional gas leak repair costs and DOE litigation proceeds would be subject to balancing account true-up…"[28]

PG&E asserts that its proposed PTYR mechanism is "…a streamlined process for settling revenue requirements between GRCs. Under PG&E's proposal of fixed revenue requirement increase, attrition advice letters would only be necessary if a Z-factor event were to occur or there was a change in the adopted COC. PG&E proposes to incorporate the annual gas and electric revenue requirement changes adopted in this proceeding in PG&E's Annual Electric True-Up and Annual Gas True-Up filings."[29]

V. DISCUSSION of DRA's RECOMMENDATIONS

DRA does not oppose a PTYR mechanism in 2015 and 2016 that provides PG&E with some reasonable level of attrition revenue increases. However, PG&E's forecasted Post Test Year revenue increases of $492 million (6.1%) in 2015 and $504 million (or 5.9%) in 2016 are excessive.

DRA recommends a mechanism which would result in more reasonable post-test year revenue increases. The Commission should adopt DRA's recommendations in order to encourage PG&E to manage costs, and to operate efficiently and productively between rate cases.

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[28] Ex. PG&E-11, p. 1-7, lines 28-30.

[29] Ex. PG&E-11, p. 1-15, lines 10-16.

A. DRA's Recommended PTYR Mechanism Provides PG&E with Reasonable Base Revenue Increases

DRA recommends that the Commission set post-test year GRC revenue increases for PG&E at 2.3% for 2015 and 2016, plus additional revenues for forecasted leak repair expenses.[30] DRA's recommended percentage factors are guided by a recent forecast of the All-Urban Consumer Price Index (CPI or CPI-U), equal to 1.7% for 2015 and 1.9% for 2016,[31,32] as well as the annual attrition increases adopted by the Commission in PG&E's 2007 and 2011 GRCs (about 2.5% and 3.0%, respectively).[33]

Based on its forecast of PG&E's 2014 revenue requirement, DRA's recommended PTYR methodology yields estimated revenue increases of $168.4 million in 2015 and $158.7 million in 2016. These increases would yield revenue requirement levels of $6.640 billion for 2015 and $6.799 billion for 2016.

In many cases, DRA has supported and recommended using the CPI as a basis for determining attrition increases. The CPI indexing method is simple in that it eliminates the use of multiple indices that PG&E's proposal entails. For example, in D.06-05-016, the Commission acknowledged that the CPI methodology had "...been recently adopted by the Commission in determining attrition for PG&E and SDG&E…" and that "...in those cases, the CPI methodology would provide reasonable results."[34]

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[30] In Ex. DRA-10 (Gas Distribution Capital Expenditures), DRA has proposed a separate ratemaking mechanism which provides PG&E the opportunity to recover additional revenues in 2015 if PG&E's capital expenditures exceed DRA's forecast.

[31] IHS Global Insight Cost Planner Fourth-Quarter 2012, page 11, Purchasing Environment, Table A1, Aggregate Price and Wage Forecasts, Consumer Price Index, CPI, All Items, Urban (CPI %). (*See* Appendix 1 of this exhibit.)

[32] The IHS Global Insight Cost Planner First-Quarter 2013 now forecasts CPI at 1.6% for 2015 and 1.7% for 2016.

[33] A simple average of 1.7%, 1.9%, 2.5%, and 3.0% equals 2.275%, but DRA chooses to use 2.3%.

[34] D.06-05-016, *mimeo.*, at pp. 301 and 303.

The post-test year revenue increases proposed by DRA are reasonable and consistent with recent attrition increases granted by the Commission to California energy utilities, with the exception of Southern California Edison Company (SCE) in its 2009 and 2012 GRCs.

In contrast, PG&E's proposed 6% per year post-test year increases significantly exceed the attrition increases granted to any of the California energy utilities during the past several years, excluding SCE in its 2012 GRC.[35]

For example:

- The Commission adopted a settlement agreement in PG&E's 2007 GRC, authorizing attrition increases of $125 million (about 2.5%) per year from 2008 through 2010.[36]
- The Commission adopted a settlement agreement in PG&E's 2011 GRC, authorizing attrition increases of $180 million in 2012 and $185 million in 2013 (about 3.0% per year).[37]
- The Commission adopted a settlement agreement in San Diego Gas & Electric Company's (SDG&E) and Southern California Gas Company's (SoCalGas) 2008 GRCs, authorizing attrition increases of approximately 3.1% per year from 2009 through 2011 for each of the two utilities.[38]

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[35] D.12-11-051, *mimeo.*, at p. 3, indicates that, for SCE, the Commission adopted revenue requirement levels of $5.671 billion for 2012, $6.078 billion for 2013, and $6.426 billion for 2014. Based on DRA's calculations, this equates to revenue increases of $407 million (7.2%) in 2013 and $348 million (5.7%) in 2014. However, excluding the $188 million in revenues (see page 13, Table 6, line 3 of SCE's Advice 2826-E, dated December 19, 2012, included as Appendix 2 of this exhibit) rolled in from SCE's SmartConnect program beginning in 2013 (which were previously recovered through the Edison SmartConnect Balancing Account, or ESCBA), the net post-test year revenue increases would have been $219 million (3.9%) in 2013 and $160 million (2.7%) in 2014.

[36] D.07-03-044, *mimeo.*, at pp. 2, 10 and 11.

[37] D.11-05-018, *mimeo.*, Attachment 1, p. 1-17, Section 3.11.2.

[38] D.08-07-046, *mimeo.*, Appendix 3 (for SDG&E) and Appendix 4 (for SoCalGas).

- The Commission adopted a settlement agreement in Southwest Gas Corporation's 2009 GRC, authorizing attrition increases of 2.95% per year for the utility's Southern California and Northern California Divisions.[39]

- The Commission adopted a settlement agreement in the California Pacific Electric Company's (CalPeco) 2013 GRC, authorizing a Post-Test Year Adjustment Mechanism (PTAM) for 2014 and 2015 based on the September Global Insight "U.S. Economic Outlook" forecast of CPI less a 0.5% productivity factor.[40]

- The Commission adopted a settlement agreement in PacifiCorp's 2011 GRC, authorizing a PTAM which was a continuation of the mechanism previously authorized for PacifiCorp in its 2007 GRC (D.06-12-011) based on the Global Insight "U.S. Economic Outlook" forecast of CPI with an off-setting productivity factor of 0.5% (CPI - 0.5%) or zero.[41]

- For the SCE 2009 general rate case, the Commission authorized attrition increases of 4.25% in 2010 and 4.35% in 2011.[42]

PG&E devotes several pages of its post-test year ratemaking testimony to arguing that attrition increases based on CPI would result in revenue requirement shortfalls in 2015 and 2016. PG&E asserts that aspects of its PTYR request "…has not always been fully understood or recognized by intervenors and others who often suggest that a utility should receive a PTYR increase that solely reflects growth in the Consumer Price Index (CPI) or some other measure of inflation."[43]

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[39] D.08-11-048, *mimeo.*, Settlement Attachment 7, Sheets 1 and 2.

[40] D.12-11-030, *mimeo.*, Appendix A, pp. 7-8 and Appendix G.

[41] D.10-09-010, *mimeo.*, at pp. 9-10.

[42] D.09-03-025, *mimeo.*, at pp. 305-306.

[43] Ex. PG&E-11, p. 1-2, lines 8-11.

PG&E's proposed increase for 2015 and 2016 are excessive as compared to the increases that the Commission has granted in the majority of past GRCs.[44] As shown above, the Commission has found it reasonable to adopt PTYR mechanisms providing attrition increases for California energy utilities based on forecasted CPI rates, or similar methods. DRA proposes equitable post-test year increases of 2.3% in 2015 and 2016 for PG&E's 2014 GRC,[45] plus additional revenues for gas leak repair expenses.

B. DRA's Position on Certain PG&E PTYR Proposals

This section discusses DRA's recommendations regarding PG&E's proposals regarding revenue adjustments in 2015 and 2016 associated with: (1) other revenue requirement changes; (2) cost of capital changes; and (3) exogenous cost changes.

1. Other Revenue Requirement Changes

PG&E proposes post-test year revenue adjustments associated with gas leak repair costs, DOE litigation proceeds, and 2011-2013 Photovoltaic (PV) Program cost savings.

a. Gas Leak Repairs

PG&E proposes revenue requirement increases in 2015 and 2016, subject to balancing account treatment, to account for forecasted additional gas leak repair expenses. In Ex. DRA-9 (Gas Distribution Expenses), DRA opposes PG&E's proposal for a 2-way balancing account, and the recommendation contained in that exhibit also applies to the attrition years.

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[44] PG&E has modeled significant rate base increases for the post-test years. PG&E has not modeled the 50% bonus depreciation provision for 2014, 2015 and 2016, which impacts the deferred tax balance—this is one of the factors driving up PG&E's rate base forecast. (PG&E refers to this as deferred tax reversals.)

[45] The Proposed Decision (mailed on March 29, 2013) of Administrative Law Judge John S. Wong, for the SDG&E and SoCalGas 2012 GRCs, adopts an attrition mechanism which allows revenue requirement increases for 2013 thru 2015 based on the CPI-U. The final decision will not be issued until after May 3, 2013, the date on which DRA serves its testimony.

Regarding leak repairs, PG&E forecasts expenses of $158.1 million in 2015 and $175.2 million in 2016 in MWC FI, compared to $102.1 million in 2014. In other words, PG&E forecasts incremental costs of $56.0 million[46] in 2015 and $17.1 million[47] in 2016.

The year-to-year increases are due to cost escalation and estimated increases in leak repair activity. There is uncertainty inherent in the forecast given that PG&E relies on a new technology which is the Piccaro Surveyor. PG&E acknowledges that, "[t]he data available to forecast how many additional leaks PG&E will find using Picarro is somewhat limited."[48] PG&E also states, "…the technology is new and the data sampling is relatively small. It is possible that the Picarro Surveyor will find even more leaks than PG&E forecast. It is also possible that it will find fewer leaks. PG&E does not want customers to pay for the cost of repairing leaks that it does not actually find."[49]

In Ex. DRA-9, DRA forecasts $35.6 million of expenses for MWC FI in 2014. By using that DRA forecast as the starting point, and increasing this forecast by adding pro-rated amounts of PG&E's forecasted increases in 2015 and 2016, DRA estimates MWC FI expenses of $55.1 million in 2015, and $61.1 million in 2016, as shown below. In other words, DRA forecasts incremental costs of $19.5 million[50] in 2015 and $6.0 million[51] in 2016.

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[46] $158.1 million - $102.1 million = $56.0 million.

[47] $175.2 million - $158.1 million = $17.1 million.

[48] Ex. PG&E-3, p. 6-2, lines 26-28.

[49] Ex. PG&E-3, p. 6-38, lines 13-16.

[50] $55.1 million - $35.6 million = $19.5 million

[51] $61.1 million - $55.1 milion = $6.0 million.

Table 22-5
Comparison of PG&E's and DRA's 2015 and 2016 Forecasts
for MWC FI – Gas Leak Repairs

MWC FI	2014 Nominal$	2015 Escalation Factor	Preliminary Escalated 2015 Expense	2015 Adjustment	2015 Escalated FI Adjusted Expenses	2016 Escalation Factor	Preliminary Escalated 2016 Expense	2016 Adjustment	2016 Escalated FI Adjusted Expenses
(a)	(b)	(c)	(d=b*c)	(e)	(f=d+e)	(g)	(h=f*g)	(i)	(j=h+i)
PG&E Forecast	$102,141	1.0296	$105,167	$52,973	$158,141	1.0256	$162,192	$13,050	$175,241
DRA Forecast	$35,590	1.0296	$36,645	$18,458	$55,103	1.0256	$56,514	$4,547	$61,061

DRA recommends that the Commission adopt these estimates for the purposes of authorizing additional post-test year revenues for leak repair expenses in 2015 and 2016.

b. DOE Litigation Proceeds and PV Program Cost Savings

PG&E proposes customer refunds during the test year and attrition years for credits related to 2013 DOE litigation proceeds and 2011-2013 PV program cost savings. In Ex. DRA-11 (Energy Supply Expenses), DRA does not oppose PG&E's test year proposal as stated in the November 15, 2012 testimony; therefore, DRA also accepts PG&E's proposal for the attrition years.[52]

Finally, DRA agrees to PG&E's proposal to true-up the differences between the estimated and actual DOE litigation proceeds through an adjustment to generation rates in the Annual Electric True-Up.

[52] PG&E's April 8, 2013, Notice of Ex Parte Communication with Administrative Law Judge Thomas Pulsifer states, "…PG&E explained that it is modifying its proposal concerning the proceeds from Department of Energy litigation. PG&E's original proposal was to credit 100% of the proceeds to the Utility Generation Balancing Account (UGBA). PG&E's modified proposal is to credit the portion of the proceeds relating to the Humboldt Bay facility to the Nuclear Decommissioning Adjustment Mechanism (NDAM) thereby reducing the NDAM rate." In light of this, DRA reserves judgment on the appropriate policy for how DOE refunds should be returned to ratepayers, given that PG&E appears to have changed its proposal.

2. Cost of Capital Changes

In this application, PG&E uses the cost of capital financial parameters adopted in D.07-12-049 and D.09-10-016. PG&E proposes to update post-test year return and income taxes to reflect currently adopted debt costs, equity costs, and capital structure, if necessary. DRA does not take issue with this request. D.12-12-034, issued on December 20, 2012, has authorized the most recent 2013 cost of capital parameters (capital structure, return on common equity, preferred stock cost, and long-term debt costs) for PG&E. DRA has incorporated the most recently Commission adopted cost of capital figures in its Results of Operation model and Summary of Earnings for the Test Year 2014.

3. Exogenous Cost Changes

In this GRC, PG&E proposes "…a modified Z-factor mechanism…,"[53] where Z-factor adjustments would "…apply to all years of the rate case cycle, including the TY."[54] In other words, PG&E proposes a Z-factor mechanism which is significantly different (i.e., more generous to PG&E) than the one authorized by the Commission in PG&E's 2011 GRC.

DRA reviewed PG&E's request and does not take issue with the concept of the utility having a Z-factor mechanism in place with the same Z-factor event criteria as those used in the SDG&E mechanism authorized in D.05-03-023. In fact, in PG&E's 2011 GRC, DRA had recommended that the Commission adopt a similar mechanism for PG&E. The Commission-adopted Z-factor mechanisms are a way to protect both the utilities and the ratepayers by allowing for post-test year adjustments for unexpected and uncontrollable events.

However, DRA opposes the specific PG&E proposed modifications discussed below.

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[53] Ex. PG&E-11, p. 1-4, line 9.

[54] Ex. PG&E-11, p. 2-3, footnote 2.

a. DRA Opposes PG&E's Request for an Exception to the Z-Factor Mechanism

DRA opposes PG&E's request for an exception to the criteria set forth in D.05-03-023 for exogenous changes, final as a matter of law, related to the following five factors: (1) postal rate changes; (2) franchise fee changes; (3) income tax rate changes and other tax changes which are part of the same or related tax legislation; (4) payroll tax changes; and (5) *ad valorem* tax changes.

In PG&E's 2011 GRC, PG&E proposed a PTYR mechanism which would automatically allow revenue requirement adjustments for changes in expenses due to the five exogenous, uncontrollable factors identified above.[55] DRA took issue with PG&E's 2011 GRC proposal regarding automatic PTYR revenue adjustments because it automatically protected the utility and its shareholders, and not the ratepayers.[56] DRA recommended that the Commission adopt a Z-factor mechanism for PG&E's 2012 and 2013 post-test years, similar to those authorized for SCE,[57] SDG&E, and SoCalGas.[58]

The Commission ultimately adopted an attrition mechanism for PG&E which allowed "…2012 and 2013 revenue requirement adjustments for exogenous changes, limited to five factors (postage rate changes, franchise fee changes, income tax rate changes, payroll tax rate changes, *ad valorem* tax changes), with a $10 million deductible amount applicable to each factor each year."[59]

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[55] A.09-12-020, Ex. PG&E-9, p. 2-4, lines 7-12.

[56] A.09-12-020, Ex. DRA-21, pp. 21-22.

[57] D.09-03-025, *mimeo.*, at p. 306.

[58] D.08-07-046, *mimeo.*, Appendix 3, p. 6, Item J (for SDG&E) and Appendix 4, p. 6, Item I (for SoCalGas).

[59] D.11-05-018, *mimeo.*, Attachment 1, p. 1-17, Section 3.11.3 ("Exogenous Changes").

Any revenue adjustments associated with changes in post-test year expenses due to the five factors identified above should be part of a Z-factor mechanism subject to a deductible, not separate and distinct from it. PG&E's proposal is one-sided and is more likely to benefit the utility rather than its ratepayers. DRA recommends that the Commission reject PG&E's request for an exception to the criteria for exogenous changes.

b. DRA Opposes PG&E's Request that Z-Factor Adjustments Apply to the Test Year

DRA opposes PG&E's request that Z-factor adjustments apply to all years of the rate case cycle, including the test year. DRA is unaware of any Commission decision that has granted test year Z-factor adjustments to a major California energy utility during the test year. The Commission has granted Z-factor adjustments exclusively for attrition years.

For example, the Commission decision to which PG&E refers, D.05-03-023, authorized a Z-factor mechanism specifically for SDG&E's and SoCalGas' post-test years 2005, 2006, and 2007. Findings of Fact 52 through 55 of that decision clearly state that the Z-factor mechanism only applied to the post-test years.[60] Most recently, in SCE's 2012 GRC, the Commission approved for SCE the "…[c]ontinuation of the Z factor…in attrition years."[61]

PG&E has not provided persuasive arguments as to why the Commission should deviate from this practice. PG&E's proposal is one-sided and is more likely to benefit the utility rather than its ratepayers. DRA recommends that the Commission reject PG&E's request that Z-factor adjustments apply to the test year.

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[60] D.05-03-023, *mimeo*., at pp. 64-65.

[61] D.12-11-051, *mimeo*., at p. 876, Conclusions of Law #523 (4th bullet).

Any Z-factor mechanism which the Commission may authorize for PG&E in this GRC should:

- encompass exogenous changes that can decrease utility costs (such as tax rate changes or tax law changes), i.e., that it is not limited to changes that only increase the utility's costs;
- be consistent with the Z-factor criteria outlined by the Commission in D.05-03-023, to identify exogenous cost changes that qualify for Z-factor treatment,[62] and that there be no presumption of recovery of an identified Z-factor event until the incurred costs have been found to be reasonable; and
- only be established for and effective during the attrition years, and not for the test year.

C. DRA's Recommendations re: Implementation of a PTYR Mechanism for PG&E

DRA does not take issue with PG&E's proposals that:

- all escalation rates be fixed (i.e., not updated at a future date);
- under PG&E's proposal of fixed revenue requirement increases, attrition advice letters would only be necessary if a Z-factor event were to occur, or there was a change in the adopted cost of capital; and
- annual gas and electric revenue requirement changes adopted in this proceeding be included in PG&E's Annual Electric True-Up and Annual Gas True-Up filings.

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[62] D.05-03-023, *mimeo.*, at p. 30.

VI. DISCUSSION of DRA's ALTERNATE RECOMMENDATIONS

If the Commission does not adopt DRA's primary recommendation on PG&E's post-test year revenue increases, and instead relies on a mechanism similar to PG&E's proposal, then the Commission should adopt DRA's alternate recommendations, discussed below.

A. Post-Test Year Capital-Related Adjustments

As previously stated, PG&E proposes "…that the post test-year capital additions forecast for 2015 and 2016 is equal to the adopted 2014 net capital additions plus escalation…Escalation will be fixed based on capital cost indices described in Exhibit (PG&E-10), Chapter 3, Escalation Rates."[63] PG&E generally relies on Global Insight capital escalation rates, ranging from 1.8% to 3.7%,[64] to estimate attrition year net plant additions.

DRA does not take issue with this PG&E proposal, which is similar to the approach adopted by the Commission in SCE's test year 2006[65] and 2012[66] GRC decisions.

However, DRA is concerned with PG&E's rate base growth estimates of over 7.0% per year in 2015 and 2016. Historically, PG&E's weighted-average rate base growth has averaged about 6.1% per year during the 5-year period from 2007 thru 2011, and about 4.8% per year during the 10-year period from 2002 thru 2011.[67] According to PG&E, the estimated rate base growth during the attrition years is

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[63] Ex. PG&E-11, p. 3-3, lines 5-11.

[64] *See* Ex. PG&E-10, p. 3-6, Table 3-4, for capital escalation rates by functional category.

[65] D.06-15-016, *mimeo*., at pp. 305-306.

[66] D.12-11-051, *mimeo*., at p. 608.

[67] Calculated from data provided by PG&E in response to data request DRA-PG&E-072-CKT, Question 1.b.

caused, in part, by deferred tax reversals as the bonus depreciation provisions from the Tax Relief Act of 2010 are scheduled to expire at the end of 2013.

DRA assumes that the 50% bonus depreciation provision will be extended into 2014, and has reflected such an outcome in its Results of Operations (RO) model. This is discussed in Ex. DRA-20 (Tax Expenses and Other Financial Matters). DRA also assumes that the 50% bonus depreciation provision will be extended into 2015 and 2016 and should be appropriately modeled. If the bonus depreciation provisions are not extended, or extended but with a different bonus percentage, then PG&E should seek an appropriate adjustment to its revenue requirement by advice letter.

B. Post-Test Year Expense-Related Adjustments

DRA does not oppose the general concept of determining attrition expense increases by escalating the adopted 2014 expense levels. For instance, DRA agrees with PG&E's proposal regarding non-labor escalation rates, including PG&E's commitment of not seeking to adjust such rates after a final decision is issued.

DRA opposes PG&E's post-test year expense forecasts for MWC FI (gas leak repairs) and its proposed escalation rates for medical benefits costs and labor costs in 2015 and 2016.

1. Gas Leak Repairs

PG&E forecasts leak repair expenses of $158.1 million in 2015 and $175.2 million in 2016 in MWC FI, compared to $102.1 million in 2014. PG&E requests additional revenues in the post-test years, to cover forecasted incremental costs of $56.0 million in 2015 and $17.1 million in 2016 for leak repairs. DRA forecasts $35.6 million of expenses for MWC FI in 2014, $55.1 million in 2015, and $61.1 million in 2016, or incremental costs of $19.5 million in 2015 and $6.0 million in 2016. As discussed earlier, DRA's primary recommendation is that the Commission should adopt these DRA forecasts.

If the Commission is concerned about uncertainties[68] associated with DRA's attrition year forecasts for MWC FI, then DRA proposes an alternative mechanism. If during the post-test years PG&E incurs expenses for gas leak repairs that exceed DRA's forecasted amounts, the Commission can allow PG&E to file Tier 2 advice letters[69] in the ensuing years, requesting incremental revenues necessary to cover the increased costs up to, but not exceeding, a cost cap which the Commission deems appropriate.[70] The Commission could set DRA's forecast as a floor and the cost cap as a ceiling.

This alternative approach: (1) still allows PG&E the opportunity to recover higher revenues if warranted; (2) does not burden ratepayers with potentially higher revenue requirements in 2015 and 2016 for costs that may not materialize; and (3) does not force customers to pay for the cost of repairing leaks that PG&E does not actually find.

2. Medical Benefits Costs

PG&E proposes to escalate medical benefits costs by 8.4% in 2015 and 8.2% in 2016. DRA recommends that the medical benefits costs be escalated by 6.4% in 2015 and 6.3% in 2016,[71,72] based upon the forecasted group health insurance escalation rates appearing in the IHS Global Insight Cost Planner Fourth-Quarter

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[68] Due to PG&E's reliance on a new technology, the Piccaro Surveyor.

[69] Advice letters could be filed by January 31, to be effective March 1 of the following year. For example, PG&E would file an advice letter by January 31, 2016 for expenses incurred in 2015 which exceed the adopted 2015 amounts for MWC FI.

[70] A cost cap which blends forecasts by DRA and PG&E could be based on DRA's test year forecast and PG&E's post-test year increment forecasts. To illustrate, a cap for 2015 could be $35.6 million + $56.0 million = $91.6 million, and for 2016 could be $91.6 million + $17.1 million = $108.7 million.

[71] IHS Global Insight Cost Planner Fourth-Quarter 2012, p. 151, Additional Forecast Tables, Table A1, Corporate Expenses, Health Care Benefits, ECI, Group Health Insurance (ECIHI %). (*See* Appendix 1 of this exhibit.)

[72] The IHS Global Insight Cost Planner First-Quarter 2013 now forecasts Group Health Insurance (ECIHI %) at 5.7% for 2015 and 5.4% for 2016. DRA would not be opposed to the Commission adopting the ECIHI forecast from the IHS Global Insight Cost Planner First-Quarter 2013.

2012. DRA's recommendation is consistent with PG&E's proposed medical escalation rates of 5.4% for 2012, 6.4% for 2013, and 5.4% for 2014.[73]

Global Insight is the same source used for non-labor escalation rates by both PG&E and DRA. Also, the utilities use Global Insight's forecasted interest rates to update long term debt and preferred stock costs in the Cost of Capital proceedings.[74]

3. Wage Escalation Rates

For purposes of calculating attrition increases, PG&E has proposed labor adjustments based on 2015 and 2016 wage rate increases of 2.75% for union (operating units) employees and 2.97% for non-union (A&G) employees, and forecasts company-wide escalation of 2.79% per year for 2014 through 2016.[75]

PG&E does not have negotiated wage escalation rates in place for 2015 and 2016. Given that wage increases have yet to be established for those two post-test years, PG&E has an opportunity to control its labor costs for 2015 and 2016. The Commission should reject the proposed 2.79% per year wage rate increase. This proposed wage rate increase does not provide PG&E management with the incentive to negotiate rates more consistent with forecasted wage rate increases and to better control the level of its wages and salaries. PG&E should be properly incented by the Commission to control its labor costs given that PG&E's total compensation exceeds the comparable companies by almost 10%, and as discussed later, PG&E has granted wage rate increases well in excess of the utility industry in recent years.

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[73] Ex. PG&E-8 Workpapers Supporting Chapters 5, 6, 7, 8, 9, p. WP 6-10.

[74] D.12-12-034, *mimeo*., at p. 14.

[75] Ex. PG&E-10, p. 3-4, Table 3-2.

In the SCE 2012 GRC decision, the Commission states:

> We do not embrace SCE's premise that whatever wages and increases are included in a collective bargaining agreement with its represented workers are *ipso facto* reasonable for purposes of rate recovery or labor escalation.[76]

If the costs associated with PG&E's assumed wage increases are automatically passed-through to ratepayers, there is practically no incentive for PG&E management to aggressively negotiate, or rein in labor costs, in order to minimize ratepayer impacts.

a. DRA Recommends Tying PG&E's Attrition Wage Increases to the CPI

Instead of automatically relying on PG&E's wage increase assumptions for 2015 and 2016, the Commission should adopt a less costly alternative. Even though Global Insight forecasts wage escalation rates of 2.1% for 2015 and 2.2% for 2016 (see Table 22-6), DRA recommends a PTYR mechanism which incorporates a recent forecast of CPI-U equal to 1.7% for 2015 and 1.9% for 2016[77] as a proxy for PG&E's wage escalation.

In this case, the CPI is an appropriate proxy for wage escalation. The Bureau of Labor Statistics (BLS) website's "Addendum to Frequently Asked Questions" states the following:[78]

> The CPI is often used to adjust consumers' income payments (for example, Social Security) to adjust income eligibility levels for government assistance and to automatically provide cost-of-living wage adjustments to millions of American workers. As a result of statutory action the CPI affects the income of millions of Americans.

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[76] D.12-11-051, mimeo., at p. 598.

[77] IHS Global Insight Cost Planner Fourth-Quarter 2012, page 11, Purchasing Environment, Table A1, Aggregate Price and Wage Forecasts, Consumer Price Index, CPI, All Items, Urban (CPI %). (See Appendix 1 of this exhibit.) DRA would not be opposed to the Commission adopting the CPI forecast from the IHS Global Insight Cost Planner First-Quarter 2013.

[78] http://www.bls.gov/cpi/cpiadd.htm

> Over 50 million Social Security beneficiaries, and military and Federal Civil Service retirees, have cost-of-living adjustments tied to the CPI. In addition, eligibility criteria for millions of food stamp recipients, and children who eat lunch at school, are affected by changes in the CPI. ***Many collective bargaining agreements also tie wage increases to the CPI***. (emphasis added)

The Commission should tie PG&E's 2015 and 2016 post-test year wage increases (i.e., labor escalation rates) to the CPI-U forecast.

b. PG&E's Wage Escalation Rates Have Been Far in Excess of Those Paid by Other Utilities

Table 22-6, below, compares PG&E's historical and proposed wage escalation rates to those recommended by DRA, and to those of IHS Global Insight's "Average Hourly Earnings – Utilities" Index.

From the information presented on Table 22-6, one can calculate that PG&E's wage escalation rates during the 6 years from 2007-2012 are about 50% higher compared to the average hourly earnings increases for utilities as measured by Global Insight. By tying attrition year wage escalation rates to CPI forecasts for those years, DRA presents a reasonable alternative to PG&E's proposal.

Table 22-6
Comparison of PG&E's Wage Escalation Rates, as Proposed by PG&E and as Recommended by DRA, to IHS Global Insight's "Average Hourly Earnings – Utilities" Index

Year (a)	PG&E Wage Escalation Rates – PG&E Proposal[79] (b)	Average Hourly Earnings - Utilities[80] (c)	PG&E Wage Escalation Rates – DRA Scenario (d)	PG&E Wage Escalation Rates – Illustrative Only (e)
2007	3.8%	1.7%	3.8%	3.8%
2008	4.0%	3.4%	4.0%	4.0%
2009	4.1%	2.5%	4.1%	4.1%
2010	3.5%	1.9%	3.5%	3.5%
2011	3.5%	2.6%	3.5%	3.5%
2012	2.79%	2.5%	2.61%	2.79%
2013	2.79%	1.7%	2.61%	2.79%
2014	2.79%	1.7%	2.61%	2.79%
2015	2.79%	2.1%	1.7%	**0.93%**
2016	2.79%	2.2%	1.9%	**0.93%**
2012-2016 Compounded	14.75%	10.62%	12.07%	10.64%
2007-2016 Compounded	38.14%	24.66%	34.91%	33.17%

To illustrate, column (b) of Table 22-6, labeled "PG&E Proposal," shows PG&E's annual wage escalation rates from 2007 through 2016. Column (d), labeled "DRA Scenario," shows the annual wage escalation rates that DRA recommends for 2012, 2013, and 2014,[81] and rates equal to 1.7% for 2015 and 1.9% for 2016. The

[79] 2007 thru 2011 data from Ex. PG&E-10, p. 3-3, Table 3-1. 2012 thru 2016 data from Ex. PG&E-10, p. 3-4, Table 3-2.

[80] 2007 data from IHS Global Insight Cost Planner Fourth-Quarter 2009, p. 89, Labor, Table A1, Average Hourly Earnings – Labor Costs by Industry, Nonmanufacturing (Nonsupervisory Workers), Utilities (CEU4422000008). 2008 and 2009 data from IHS Global Insight Cost Planner Fourth-Quarter 2010, p. 77, Labor, Table A1, Average Hourly Earnings – Labor Costs by Industry, Nonmanufacturing (Nonsupervisory Workers), Utilities (CEU4422000008). 2010 thru 2016 data from IHS Global Insight Cost Planner Fourth-Quarter 2012, p. 77, Labor, Table A1, Average Hourly Earnings – Labor Costs by Industry, Nonmanufacturing (Nonsupervisory Workers), Utilities (CEU4422000008). (*See* Appendix 3 of this exhibit.)

[81] See Ex. DRA-4 (Cost Escalation).

compounded wage escalation rates over the 5-year period from 2012-2016 and the 10-year period from 2007-2016 for columns (b) and (d) are noticeably higher than that of column (c), which is the data set from IHS Global Insight.

If the Commission sets PG&E's 2015 and 2016 wage escalation rates at the rates proposed by DRA, the ratepayers would, overall, still be funding generous wage increases for PG&E's employees as viewed over a multi-year time period. If one were to take the PG&E percentages for 2007-2014 but set the wage escalation rates for 2015 and 2016 at **0.93%** per year (column (e), labeled "Illustrative Only"), PG&E's compounded increases: (1) over the 5-year period from 2012-2016 would be similar to those as measured by the Global Insight index in column (c); and, (2) over the 10-year period from 2007-2016 would still exceed those as measured by the Global Insight index in column (c) by about one-third (34%).[82]

Based on the data presented above, it is apparent that PG&E has not negotiated wage increases similar to those negotiated by other comparable utilities during the past several years. The Commission should not just automatically pass through to ratepayers PG&E's assumed wage increases for 2015 and 2016. The Commission should adopt a less costly and equitable alternative for PG&E's ratepayers, as recommended by DRA.

[82] Taking the DRA Scenario (column (d)) for 2007-2014 and setting the wage escalation rates for 2015 and 2016 at 1.43% per year yields results similar to those in column (e). DRA provides this information in the event that the Commission believes DRA's recommended wage escalation rates of 1.7% for 2015 and 1.9% for 2016 are too high.

The results of the Total Compensation study further support DRA proposed labor escalation rates. The Total Compensation Study results presented in this rate case shows that PG&E's total compensation (annual cash compensation plus the value of employee benefits) is 9.9% above market.[83] PG&E is beyond the + / - 5% margin of error assumed by the Commission for these studies.[84] These results further support limiting additional wage increases to PG&E's employees during the post-test years and would support the Commission in adopting a less costly alternative.

[83] Ex. PG&E-8, p.3-7, Table 3-2, line 7.

[84] According to D.09-03-025, *mimeo.*, at p. 127, Total Compensation "…study results indicate that the compensation levels sought by SCE are generally at market, with the overall compensation level 0.9% above market levels, well within the margin of error assumed by the Commission for these studies of + / - 5%." Also, see other references cited in Ex. DRA-14 (Human Resources Expenses, Part 1 of 2).

APPENDICES

APPENDIX 1

IHS Global Insight

Cost Planner

Fourth-quarter 2012

ihs.com

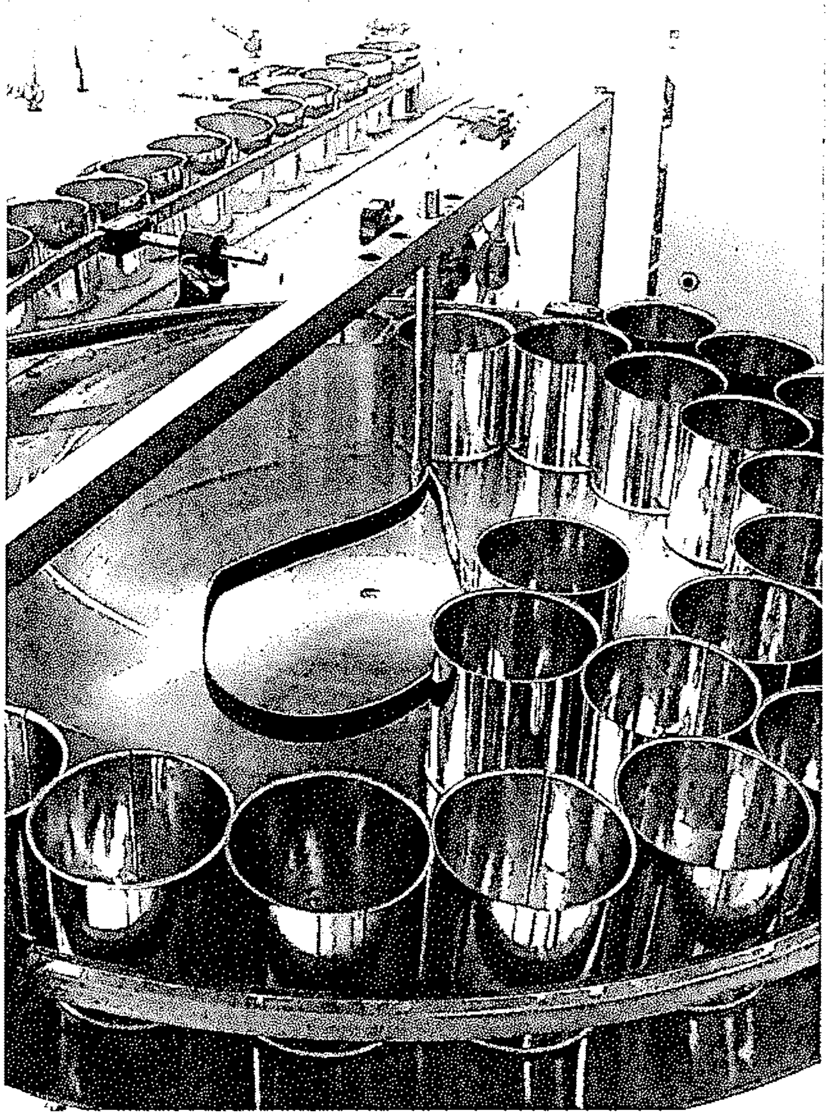

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TABLE A1

Aggregate Price and Wage Forecasts

Fourth Quarter 2012 Forecast

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Employment Cost Index, Benefits, All Private Industry Workers													
ECIPBTNS	111.3	115.1	117.7	120.7	124.6	129.0	133.6	138.3	143.0	147.8	152.8	158.0	163.5
%	2.5	3.5	2.3	2.5	3.2	3.5	3.6	3.5	3.4	3.4	3.4	3.4	3.5
Index of Compensation Per Hour, Nonfarm Business Sector (1992=1.0)*													
JWSSNF	1.2	1.2	1.2	1.2	1.3	1.3	1.4	1.4	1.5	1.5	1.6	1.6	1.7
%	1.9	2.6	2.3	2.5	3.1	3.2	3.4	3.5	3.5	3.4	3.4	3.4	3.4
Consumer Price Index (CPI - 1982 to 1984=1.0)													
CPI, All Items, Urban*													
CPI	2.181	2.249	2.296	2.326	2.367	2.407	2.452	2.499	2.549	2.599	2.650	2.702	2.755
%	1.6	3.1	2.1	1.3	1.8	1.7	1.9	1.9	2.0	2.0	2.0	1.9	2.0
CPI, All Items, Wage Earners and Clerical Workers													
CWSA0NS	2.140	2.216	2.262	2.284	2.315	2.343	2.392	2.442	2.495	2.549	2.602	2.655	2.710
%	2.1	3.6	2.1	1.0	1.4	1.2	2.1	2.1	2.2	2.2	2.1	2.0	2.0
CPI, All Items Less Food and Energy													
CUSA0L1ENS	2.213	2.250	2.297	2.337	2.374	2.414	2.458	2.503	2.549	2.596	2.643	2.690	2.739
%	1.0	1.7	2.1	1.7	1.6	1.7	1.8	1.8	1.8	1.8	1.8	1.8	1.8
CPI, Food & Beverage													
CUSAFNS	2.200	2.279	2.338	2.400	2.445	2.491	2.542	2.593	2.648	2.706	2.763	2.821	2.883
%	0.8	3.6	2.6	2.7	1.8	1.9	2.0	2.0	2.1	2.2	2.1	2.1	2.2
CPI, Housing													
CUSAHNS	2.163	2.191	2.226	2.272	2.316	2.353	2.394	2.439	2.487	2.538	2.589	2.641	2.694
%	-0.4	1.3	1.6	2.0	1.9	1.6	1.8	1.9	2.0	2.0	2.0	2.0	2.0
CPI, Apparel													
CUSAANS	1.195	1.221	1.260	1.257	1.238	1.224	1.217	1.215	1.214	1.213	1.211	1.210	1.208
%	-0.5	2.2	3.2	-0.3	-1.5	-1.1	-0.6	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
CPI, Transportation													
CUSATNS	1.934	2.124	2.170	2.100	2.089	2.069	2.118	2.164	2.211	2.258	2.300	2.338	2.374
%	7.9	9.8	2.2	-3.2	-0.5	-1.0	2.4	2.1	2.2	2.1	1.9	1.6	1.5
CPI, Medical Care													
CUSAMNS	3.884	4.003	4.153	4.283	4.418	4.587	4.757	4.931	5.098	5.263	5.427	5.592	5.762
%	3.4	3.0	3.8	3.1	3.1	3.8	3.7	3.7	3.4	3.2	3.1	3.1	3.0
CPI, Services													
CUSASNS	2.613	2.658	2.714	2.788	2.860	2.928	2.999	3.075	3.154	3.237	3.319	3.404	3.491
%	0.8	1.7	2.1	2.7	2.6	2.4	2.4	2.5	2.6	2.6	2.6	2.6	2.6
GDP Price Deflator													
Gross Domestic Product, Chain-Weighted Price Index (2005=100)*													
JPGDP	111.0	113.4	115.4	117.3	119.3	121.0	122.9	124.8	126.9	129.0	131.2	133.5	135.8
%	1.3	2.1	1.8	1.6	1.7	1.5	1.5	1.6	1.7	1.7	1.7	1.7	1.8
Productivity													
Output Per Hour, Nonfarm Business Sector (1992=1.0)*													
JQPCMHNF	1.094	1.102	1.113	1.118	1.127	1.141	1.156	1.174	1.197	1.221	1.247	1.273	1.300
%	3.1	0.7	1.1	0.4	0.8	1.2	1.3	1.6	1.9	2.1	2.1	2.1	2.1

*Seasonally Adjusted

All series are not seasonally adjusted unless otherwise noted.

SB_GT&S_0050578

TABLE A1

Corporate Expenses

Fourth Quarter 2012 Forecast

(CPI - 1982-1984=1.0)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
PPI,PassengerCar Rental (1991:12=100)													
PPI532111	186.3	180.7	175.0	181.2	181.8	188.7	193.0	199.3	205.2	213.4	224.4	234.4	242.2
%	-3.2	-3.0	-3.2	3.5	0.4	3.8	2.3	3.3	3.0	4.0	5.1	4.5	3.4
CPI,Private Transportation													
CUSAT1NS	1.887	2.076	2.124	2.047	2.031	2.004	2.050	2.091	2.133	2.175	2.212	2.246	2.279
%	8.0	10.0	2.3	-3.7	-0.8	-1.3	2.3	2.0	2.0	2.0	1.7	1.5	1.5
CPI, Automobile Insurance													
CUSETENS	3.752	3.887	4.013	4.145	4.217	4.287	4.367	4.452	4.556	4.663	4.768	4.874	4.979
%	5.1	3.6	3.3	3.3	1.7	1.7	1.9	1.9	2.3	2.4	2.2	2.2	2.2
PPI, Gasoline (1985:6=100)													
PPI3241101	255.0	334.8	342.6	288.3	274.6	259.7	273.4	285.0	296.6	308.8	318.7	327.5	335.0
%	26.2	31.3	2.3	-15.9	-4.7	-5.4	5.3	4.2	4.1	4.1	3.2	2.8	2.3
IT Services													
Wages, Custom Computer Programming Services ($/hr)													
CEU6054151108	37.8	37.8	37.5	37.8	38.8	40.0	41.3	42.2	42.9	43.6	44.6	45.7	47.0
%	1.4	-0.1	-0.7	0.8	2.5	3.1	3.2	2.3	1.7	1.5	2.3	2.5	2.8
Wages, Computer Systems Design Services ($/hr)													
CEU6054151208	38.0	37.9	37.9	38.4	39.4	40.6	41.4	42.3	43.1	44.1	45.2	46.3	47.4
%	0.3	-0.3	0.0	1.4	2.6	2.9	2.1	2.1	1.9	2.2	2.6	2.4	2.3
PPI, Computers (1984:12=100)													
PPI3341	76.5	73.4	70.8	66.8	62.2	58.5	55.4	52.6	50.1	47.9	45.8	44.0	42.4
%	-5.7	-4.0	-3.6	-5.7	-6.8	-6.0	-5.4	-5.0	-4.7	-4.5	-4.2	-4.0	-3.7
PPI, Computer Storage Devices (1998:12=100)													
PPI334112	66.1	65.2	66.4	60.4	54.5	49.7	45.7	42.1	38.8	35.9	33.2	30.8	28.6
%	-14.4	-1.3	1.8	-9.1	-9.8	-8.7	-8.1	-7.9	-7.8	-7.6	-7.4	-7.3	-7.2
PPI, Computer Terminals (1993:12=100)													
PPI334118A	77.9	73.9	74.3	73.9	73.2	72.7	72.1	71.6	71.2	70.8	70.5	70.2	70.0
%	-3.8	-5.1	0.5	-0.5	-0.9	-0.8	-0.8	-0.6	-0.5	-0.5	-0.5	-0.4	-0.3
CPI, Telephone Services													
CUSEEDNS	1.024	1.012	1.017	1.014	1.010	1.011	1.013	1.015	1.019	1.023	1.027	1.031	1.036
%	0.0	-1.1	0.5	-0.3	-0.4	0.1	0.2	0.2	0.4	0.4	0.4	0.4	0.4
PPI, Application Software Publishing (1997:12=100)													
PPI511210502	96.8	97.4	97.8	96.0	94.7	94.3	94.2	94.3	94.1	93.7	93.3	93.3	93.4
%	-0.2	0.6	0.5	-1.9	-1.4	-0.4	-0.1	0.1	-0.2	-0.5	-0.4	0.0	0.1
PPI, Private Telephone Line Service (1995:6=100)													
PPI5171103	102.3	102.3	102.5	103.6	103.8	103.9	104.2	104.4	104.6	104.8	105.0	105.2	105.5
%	0.0	0.0	0.2	1.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
PPI, Data Processing and Related Services (2000:12=100)													
PPI518210	104.4	105.2	105.7	106.1	106.2	106.6	107.1	107.5	107.7	108.0	108.2	108.5	108.9
%	0.2	0.8	0.5	0.3	0.1	0.4	0.4	0.4	0.3	0.2	0.2	0.3	0.3
Health Care Benefits													
ECI, Group Health Insurance (1982:1=1.000)													
ECIHI	7.354	7.610	7.815	8.156	8.664	9.222	9.805	10.373	10.902	11.401	11.908	12.427	12.945
%	4.8	3.5	2.7	4.4	6.2	6.4	6.3	5.8	5.1	4.6	4.4	4.4	4.2
CPI, Prescription Drugs													
CUSEMF01NS	4.078	4.250	4.413	4.544	4.684	4.868	5.018	5.154	5.302	5.447	5.597	5.760	5.904
%	4.3	4.2	3.8	3.0	3.1	3.9	3.1	2.7	2.9	2.7	2.8	2.9	2.5
CPI, Internal and Respiratory over-the-counter Drugs (2009:12=100)													
CUSEMF02NS	1.000	0.986	0.994	0.996	1.009	1.036	1.055	1.067	1.077	1.087	1.096	1.106	1.115
%	—	-1.3	0.8	0.3	1.3	2.7	1.8	1.1	1.0	0.9	0.9	0.9	0.8
CPI, Nonprescriptive Medical Equipment and Supplies													
CUSEMGNS	0.991	0.993	1.006	1.006	1.011	1.021	1.033	1.045	1.057	1.067	1.078	1.089	1.096
%	—	0.3	1.3	0.0	0.5	1.0	1.2	1.2	1.1	1.0	1.0	1.0	0.6
CPI, Professional Medical Services													
CUSEMCNS	3.282	3.357	3.423	3.521	3.626	3.752	3.879	4.005	4.123	4.243	4.365	4.493	4.627
%	2.8	2.3	2.0	2.8	3.0	3.5	3.4	3.3	3.0	2.9	2.9	2.9	3.0
CPI, Physicians Services													
CUSEMC01NS	3.313	3.403	3.477	3.581	3.684	3.808	3.931	4.053	4.160	4.269	4.381	4.496	4.618
%	3.3	2.7	2.2	3.0	2.9	3.4	3.3	3.1	2.6	2.6	2.6	2.6	2.7
CPI, Dental Services													
CUSEMC02NS	3.988	4.080	4.173	4.288	4.410	4.565	4.717	4.859	5.003	5.152	5.306	5.468	5.643
%	2.7	2.3	2.3	2.8	2.8	3.5	3.3	3.0	3.0	3.0	3.0	3.1	3.2

APPENDIX 2

SOUTHERN CALIFORNIA
EDISON
An EDISON INTERNATIONAL Company

Akbar Jazayeri
Vice President of Regulatory Operations

December 19, 2012

ADVICE 2826-E
(U 338-E)

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA
ENERGY DIVISION

SUBJECT: Implementation of the Test Year 2012 General Rate Case (GRC) Adopted Revenue Requirement, 2013 GRC Post Test Year Revenue Requirement and Ratemaking Mechanisms in Accordance with Decision 12-11-051

In accordance with the California Public Utilities Commission ("Commission" or "CPUC") Decision (D.) 12-11-051, Southern California Edison Company (SCE) hereby submits for filing the following changes to its tariff schedules. The revised tariff sheets and filed forms are listed on Attachment A and are attached hereto.

PURPOSE

The purpose of this advice filing is to (1) implement GRC-authorized revenue requirements for the 2012 Test Year and 2013 Post Test Year;[1] (2) modify the Preliminary Statement section of SCE's tariffs to establish new ratemaking mechanisms, modify existing ratemaking mechanisms, and eliminate those ratemaking mechanisms no longer needed consistent with D.12-11-051; (3) set forth the entries recorded in the 2012 GRC Revenue Requirement Memorandum Account; and (4) implement Commission-authorized Other Operating Revenue (OOR) fees.

BACKGROUND

On November 23, 2010, SCE filed Application (A.) 10-11-015 requesting, among other things, an increase in its base revenue requirements for the 2012 Test Year and 2013 and 2014 Post Test Years. SCE's base revenue requirements include the costs of operating, maintaining, and investing in SCE's generation, distribution, and general functions, and exclude costs of fuel and power procurement.

1 SCE has identified some errors in the Results of Operations model. SCE intends to work in collaboration with the Commission's Energy Division to determine if and when these errors will be corrected and filed via a subsequent advice letter.

Party Implemented Projects, Form 14-905; and On-Bill Financing Agreement Local Government/Institutional Customer Projects, Form 14-914 are revised to reflect a return check charge of $8.00.

GRC REVENUE REQUIREMENT CHANGE

Table 6 below summarizes the net revenue requirement change that will be reflected in SCE's 2012 and 2013 rate levels as the result of implementing D.12-11-051. As shown on Line No. 2 of Table 6, the 2012 Authorized Base Revenue Requirement (ABRR) is $5.671 billion. In order to determine the GRC-related revenue requirement increase, there are several adjustments that need to be made to the 2011 GRC-related ABRR. These adjustments are shown on Line Nos. 4 and 5 of Table 6. The authorized 2012 ABRR increase of $338 million is shown on line 7 of Table 6.

The 2012 ABRR increase is then adjusted for 2013 to reflect: 1) recovery of the $389 million, 2012 balance recorded in the GRC Memorandum Account; 2) an increase of $351 million to include the 2013 post test-year change pursuant to D.12-11-051; 3) the change in GRC-related balancing accounts for 2012; 4) the change in the other Commission authorized revenue requirements (e.g. ERRA) as the result of the FF&U factors adopted in D.12-11-051; and 5) a reduction for the Edison SmartConnect ™ revenue requirement included in 2012 rate levels.

Table 6
Southern California Edison Company
Revenue Requirement Change (D.12-11-051)

		($millions)	Authority
1.	**2012 Increase**		
2.	2012 Authorized Base Revenue Requirement	5,671	D.12-11-051
3.	2011 Authorized Base Revenue Requirement	5,202	D.09-03-025
4.	Plus: 2 Refuelings (2011 Rev Rqmt In 2012 Rates)	103	
5.	Solar PV Rev Rqmt In 2012 Rates	28	
6.	Subtotal (In Rates Prior To 2012 GRC Decision)	5,333	
7.	2012 Base Revenue Requirement Increase	338	(Line No. 2 - Line No. 6)
8.	**2013 Increase**		
9.	Plus: 2012 GRC Memorandum Account	389	
10.	2013 Post Test-Year Increase	351	D.12-11-051 ($6.022M for 2013 - $5.671M for 2012)
11.	GRC-Related Balancing Accounts	(2)	(Pensions, PBOP, Palo Verde, and Medical Programs)
12.	FF&U on all non-GRC Rev. Rqmts	(1)	
13.	Less: Edison SmartConnect™ in 2012 Rates	188	
14.			
15.	2013 Base Revenue Requirement Increase	549	(Sum of Line Nos. 9 through 12 - Line No. 13)
16.			
17.	Combined 2012 and 2013 Increase	887	(Line No. 7 + Line No. 15)

SCE plans to implement the authorized 2013 ABRR of $6.022 billion in rates on January 1, 2013. The overall combined 2012 and 2013 GRC-related increase above the 2011 GRC revenue requirement is $887 million.

APPENDIX 3

TABLE A1

Average Hourly Earnings - Labor Costs by Industry

(Fourth Quarter 2009 Forecast)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Utilities													
CEU4422000008	27.87	28.84	29.57	30.09	30.43	31.17	31.94	32.73	33.53	34.40	35.28	36.12	36.98
%	1.7	3.5	2.5	1.8	1.1	2.4	2.4	2.5	2.4	2.6	2.5	2.4	2.4
Electric Power Generation, Transmission & Distribution													
CEU4422110008	29.24	30.26	30.87	31.55	32.19	32.88	33.85	34.86	35.91	36.99	38.15	39.33	40.49
%	3.1	3.5	2.0	2.2	2.0	2.2	2.9	3.0	3.0	3.0	3.2	3.1	2.9
Information													
CEU5000000008	23.96	24.76	25.43	25.56	25.79	26.21	26.83	27.49	28.17	28.95	29.72	30.48	31.23
%	3.1	3.4	2.7	0.5	0.9	1.6	2.4	2.5	2.5	2.8	2.6	2.6	2.5
Telecommunications													
CEU5051700008	24.54	25.74	26.14	26.93	26.94	26.99	27.57	28.13	28.83	29.53	30.33	31.23	32.20
%	4.1	4.9	1.5	3.0	0.0	0.2	2.2	2.0	2.5	2.4	2.7	3.0	3.1
Financial Activities													
CEU5500000008	19.64	20.27	20.78	21.30	21.80	22.42	23.04	23.66	24.34	25.08	25.83	26.62	27.44
%	4.4	3.2	2.5	2.5	2.3	2.9	2.8	2.7	2.9	3.0	3.0	3.0	3.1
Professional & Business Services													
CEU6000000008	20.14	21.19	22.35	22.57	22.96	23.47	24.11	24.80	25.48	26.21	26.96	27.70	28.46
%	5.3	5.2	5.4	1.0	1.7	2.2	2.7	2.8	2.8	2.9	2.8	2.7	2.8
Professional, Scientific, & Technical Services													
CEU6054000008	26.57	27.83	28.98	29.49	29.95	30.56	31.40	32.36	33.32	34.34	35.40	36.42	37.46
%	5.2	4.7	4.1	1.8	1.6	2.1	2.7	3.0	3.0	3.1	3.1	2.9	2.9
Legal Services													
CEU6054110008	26.67	28.68	30.24	30.16	30.62	31.28	31.91	32.49	33.14	34.00	35.01	36.01	37.00
%	5.8	7.6	5.4	-0.2	1.5	2.2	2.0	1.8	2.0	2.6	3.0	2.9	2.7
Accounting, Tax Preparation, Bookkeeping, & Payroll Services													
CEU6054120008	19.24	19.86	20.71	20.94	21.37	21.71	22.19	22.76	23.33	23.93	24.52	25.07	25.66
%	6.3	3.2	4.3	1.1	2.0	1.6	2.2	2.6	2.5	2.6	2.4	2.3	2.3
Architectural, Engineering, & Related Services													
CEU6054130008	26.30	27.77	29.12	29.96	30.30	30.74	31.68	33.03	34.21	35.35	36.47	37.52	38.61
%	5.9	5.6	4.8	2.9	1.1	1.5	3.1	4.2	3.6	3.3	3.2	2.9	2.9
Computer Systems Design & Related Services													
CEU6054150008	34.94	36.09	36.69	37.09	37.66	38.98	40.54	41.86	43.19	44.54	45.89	47.22	48.68
%	5.8	3.3	1.7	1.1	1.5	3.5	4.0	3.2	3.2	3.1	3.0	2.9	3.1
Custom Computer Programming Services													
CEU6054151108	37.16	36.68	37.24	37.35	37.63	38.80	40.63	42.13	43.67	45.05	46.41	47.72	49.08
%	7.0	-1.3	1.5	0.3	0.7	3.1	4.7	3.7	3.6	3.2	3.0	2.8	2.8
Computer Systems Design Services													
CEU6054151208	34.34	37.39	37.78	38.30	39.00	40.43	41.59	42.56	43.38	44.31	45.25	46.18	47.32
%	5.7	8.9	1.0	1.4	1.8	3.6	2.9	2.3	1.9	2.1	2.1	2.1	2.5
Management, Scientific, & Technical Consulting Services													
CEU6054160008	25.57	26.09	26.89	27.80	28.29	28.68	29.18	29.99	30.88	31.81	32.77	33.68	34.55
%	1.9	2.0	3.1	3.4	1.8	1.4	1.7	2.8	3.0	3.0	3.0	2.8	2.6
Scientific Research & Development Services													
CEU6054170008	31.22	32.89	34.68	35.75	36.53	37.10	37.97	39.03	40.19	41.43	42.71	44.03	45.33
%	5.8	5.3	5.4	3.1	2.2	1.6	2.3	2.8	3.0	3.1	3.1	3.1	3.0
Advertising & Related Services													
CEU6054180008	21.16	21.74	22.83	23.37	23.80	24.29	24.84	25.40	26.00	26.64	27.28	27.92	28.58
%	1.4	2.7	5.1	2.3	1.8	2.1	2.3	2.2	2.4	2.5	2.4	2.3	2.4
Research & Development in the Physical, Engineering, & Life Sciences													
CEU6054171008	31.70	33.39	35.07	36.06	36.81	37.37	38.21	39.25	40.39	41.61	42.87	44.17	45.44
%	5.2	5.3	5.0	2.8	2.1	1.5	2.3	2.7	2.9	3.0	3.0	3.0	2.9
Other Services, Repairs & Maintenance													
CEU8081100008	15.69	16.50	16.57	16.80	16.80	17.00	17.61	18.41	19.17	19.83	20.39	20.98	21.65
%	4.1	5.2	0.4	1.4	0.0	1.2	3.6	4.5	4.2	3.4	2.8	2.9	3.2
Management Of Companies & Enterprises													
CEU6055000008	20.75	22.05	22.98	23.50	24.08	24.76	25.49	26.16	26.84	27.54	28.25	28.98	29.74
%	5.3	6.3	4.2	2.2	2.5	2.8	2.9	2.7	2.6	2.6	2.6	2.6	2.6
Temporary Help Services													
CEU6056132008	13.38	13.75	14.20	13.59	13.76	14.08	14.46	14.85	15.24	15.65	16.07	16.51	16.98
%	5.2	2.7	3.3	-4.3	1.3	2.3	2.8	2.7	2.6	2.7	2.7	2.7	2.8
Investigation & Security Services													
CEU6056160008	13.03	13.28	13.86	14.08	14.28	14.72	15.16	15.66	16.17	16.68	17.13	17.61	18.07
%	3.5	2.0	4.4	1.6	1.4	3.1	2.9	3.3	3.3	3.1	2.7	2.8	2.6
Educational & Health Services													
CEU6500000008	18.11	18.88	19.42	19.85	20.34	20.90	21.50	22.11	22.76	23.45	24.16	24.88	25.62
%	4.2	4.3	2.8	2.2	2.5	2.8	2.9	2.9	2.9	3.0	3.1	3.0	3.0

TABLE A1

Average Hourly Earnings - Labor Costs by Industry

(Fourth Quarter 2010 Forecast)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Pharmaceutical & Medicine Manufacturing													
CEU3232540008	20.10	21.11	21.83	22.45	22.78	23.22	23.77	24.47	25.15	25.93	26.69	27.51	28.30
%	-1.2	5.0	3.4	2.8	1.5	1.9	2.4	2.9	2.8	3.1	2.9	3.1	2.9
Soap, Cleaning Compound, & Toilet Preparation Manufacturing													
CEU3232560008	15.21	15.71	16.97	17.75	18.16	18.39	18.67	18.99	19.34	19.70	20.10	20.48	20.89
%	0.0	3.3	8.0	4.6	2.3	1.3	1.5	1.7	1.8	1.8	2.0	1.9	2.0
Plastics & Rubber Products Manufacturing													
CEU3232600008	15.85	16.01	15.71	15.98	16.25	16.53	16.86	17.25	17.66	18.09	18.53	18.99	19.49
%	3.0	1.0	-1.9	1.8	1.6	1.7	2.0	2.3	2.4	2.4	2.4	2.5	2.6
Plastics Products Manufacturing													
CEU3232610008	15.15	15.70	15.46	15.56	15.75	15.96	16.19	16.51	16.88	17.28	17.68	18.08	18.49
%	3.3	3.7	-1.6	0.6	1.2	1.4	1.4	2.0	2.2	2.3	2.3	2.3	2.3
MANUFACTURING (PRODUCTION WORKERS, EXCLUDING OVERTIME)													
Durable Manufacturing													
CEU3100000033	17.91	18.71	18.88	19.12	19.48	19.90	20.37	20.85	21.34	21.88	22.44	23.00	23.57
%	3.4	4.5	0.9	1.3	1.9	2.2	2.4	2.3	2.4	2.6	2.6	2.5	2.5
Non-Durable Manufacturing													
CEU3200000033	15.45	15.91	16.05	16.35	16.68	17.05	17.44	17.87	18.30	18.77	19.23	19.71	20.20
%	3.6	3.0	0.9	1.9	2.0	2.2	2.3	2.4	2.4	2.5	2.5	2.5	2.5
NONMANUFACTURING (NONSUPERVISORY WORKERS)													
Trade, Transportation, & Utilities													
CEU4000000008	16.16	16.50	16.88	17.21	17.61	18.00	18.41	18.89	19.41	19.92	20.43	20.95	21.49
%	2.4	2.1	2.3	1.9	2.3	2.3	2.2	2.7	2.7	2.6	2.6	2.6	2.6
Wholesale Trade													
CEU4142000008	20.13	20.85	21.55	22.10	22.66	23.27	23.86	24.54	25.24	25.95	26.66	27.40	28.16
%	2.8	3.6	3.3	2.6	2.5	2.7	2.5	2.8	2.9	2.8	2.7	2.7	2.8
Retail Trade													
CEU4200000008	12.87	13.02	13.27	13.54	13.88	14.19	14.51	14.92	15.33	15.74	16.14	16.56	17.00
%	0.9	1.2	2.0	2.0	2.5	2.3	2.2	2.8	2.8	2.7	2.6	2.6	2.6
Transportation & Warehousing													
CEU4300000008	18.41	18.80	19.18	19.35	19.58	19.89	20.22	20.61	21.09	21.58	22.07	22.56	23.06
%	3.9	2.1	2.0	0.9	1.2	1.6	1.6	2.0	2.3	2.3	2.3	2.2	2.2
Truck Transportation													
CEU4348400008	17.98	18.03	18.61	18.85	19.10	19.42	19.78	20.16	20.55	20.93	21.34	21.75	22.17
%	2.2	0.3	3.2	1.3	1.3	1.7	1.8	2.0	1.9	1.9	2.0	1.9	1.9
Warehousing & Storage													
CEU4349300008	15.14	15.38	15.41	15.63	15.96	16.38	16.80	17.27	17.71	18.12	18.54	18.93	19.29
%	0.2	1.6	0.2	1.4	2.1	2.6	2.6	2.8	2.6	2.3	2.3	2.1	1.9
Utilities													
CEU4422000008	28.83	29.56	30.31	30.82	31.47	32.18	32.94	33.76	34.67	35.60	36.52	37.44	38.35
%	3.4	2.5	2.5	1.7	2.1	2.3	2.3	2.5	2.7	2.7	2.6	2.5	2.4
Electric Power Generation, Transmission & Distribution													
CEU4422110008	30.25	30.86	31.58	32.56	33.22	34.05	34.99	35.99	37.07	38.20	39.34	40.48	41.64
%	3.5	2.0	2.3	3.1	2.0	2.5	2.7	2.9	3.0	3.1	3.0	2.9	2.9
Information													
CEU5000000008	24.78	25.45	25.89	26.51	27.03	27.34	27.72	28.35	29.26	30.12	31.04	31.83	32.63
%	3.40	2.70	1.70	2.40	2.00	1.10	1.40	2.30	3.20	3.00	3.10	2.50	2.50
Telecommunications													
CEU5051700008	25.73	26.10	26.19	26.71	27.09	27.35	27.90	28.56	29.18	29.77	30.38	31.07	31.73
%	4.80	1.40	0.40	2.00	1.40	0.90	2.00	2.40	2.20	2.00	2.10	2.30	2.10
Financial Activities													
CEU5500000008	20.28	20.83	21.43	22.02	22.73	23.35	23.91	24.58	25.30	26.08	26.88	27.72	28.57
%	3.3	2.7	2.9	2.7	3.3	2.7	2.4	2.8	2.9	3.1	3.1	3.1	3.1
Professional & Business Services													
CEU6000000008	21.18	22.35	22.81	23.20	23.72	24.24	24.82	25.51	26.27	27.07	27.85	28.63	29.43
%	5.2	5.5	2.1	1.7	2.2	2.2	2.4	2.8	3.0	3.0	2.9	2.8	2.8
Professional, Scientific, & Technical Services													
CEU6054000008	27.82	29.03	29.94	30.47	31.10	31.72	32.44	33.36	34.44	35.56	36.66	37.74	38.84
%	4.7	4.4	3.1	1.7	2.1	2.0	2.3	2.9	3.2	3.3	3.1	3.0	2.9
Legal Services													
CEU6054110008	28.68	30.35	31.15	31.79	32.49	33.12	33.71	34.39	35.32	36.38	37.44	38.46	39.52
%	7.5	5.8	2.6	2.1	2.2	1.9	1.8	2.0	2.7	3.0	2.9	2.7	2.7
Accounting, Tax Preparation, Bookkeeping, & Payroll Services													
CEU6054120008	19.84	20.67	21.09	21.41	21.87	22.33	22.84	23.38	23.99	24.65	25.29	25.94	26.60
%	3.1	4.2	2.0	1.5	2.1	2.1	2.3	2.3	2.6	2.7	2.6	2.6	2.5

TABLE A1

Average Hourly Earnings - Labor Costs by Industry

Fourth Quarter 2012 Forecast

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Soap, Cleaning Compound, & Toilet Preparation Manufacturing													
CEU3232560008	16.90	16.35	16.36	16.85	17.18	17.53	17.88	18.20	18.49	18.82	19.19	19.61	20.06
%	7.6	-3.3	0.1	3.0	2.0	2.0	2.0	1.8	1.6	1.8	1.9	2.2	2.3
Plastics & Rubber Products Manufacturing													
CEU3232600008	15.71	15.95	16.04	16.26	16.49	16.79	17.13	17.47	17.84	18.24	18.68	19.12	19.59
%	-1.8	1.5	0.6	1.4	1.4	1.8	2.0	2.0	2.1	2.3	2.4	2.4	2.4
Plastics Products Manufacturing													
CEU3232610008	15.47	15.60	15.74	15.84	16.02	16.29	16.60	16.94	17.29	17.63	17.98	18.35	18.72
%	-1.5	0.9	0.9	0.6	1.1	1.7	1.9	2.1	2.1	2.0	2.0	2.0	2.0
Manufacturing (Production Workers, Excluding Overtime)													
Durable Manufacturing													
CEU3100000033	18.93	19.16	19.25	19.64	20.12	20.61	21.15	21.75	22.32	22.86	23.42	24.00	24.58
%	1.1	1.2	0.5	2.1	2.4	2.4	2.7	2.8	2.6	2.4	2.4	2.5	2.4
Non-Durable Manufacturing													
CEU3200000033	16.05	16.27	16.55	16.83	17.16	17.55	17.98	18.42	18.86	19.31	19.76	20.22	20.70
%	0.9	1.4	1.7	1.7	2.0	2.2	2.5	2.4	2.4	2.4	2.3	2.3	2.3
Nonmanufacturing (Nonsupervisory Workers)													
Trade, Transportation, & Utilities													
CEU4000000008	16.82	17.15	17.46	17.80	18.21	18.67	19.15	19.65	20.13	20.59	21.07	21.56	22.08
%	2.1	2.0	1.8	2.0	2.3	2.5	2.6	2.6	2.4	2.3	2.3	2.3	2.4
Wholesale Trade													
CEU4142000008	21.54	21.97	22.20	22.61	23.18	23.86	24.53	25.18	25.81	26.44	27.10	27.78	28.49
%	3.3	2.0	1.0	1.8	2.5	2.9	2.8	2.7	2.5	2.4	2.5	2.5	2.6
Retail Trade													
CEU4200000008	13.24	13.51	13.85	14.13	14.45	14.80	15.19	15.59	15.98	16.36	16.75	17.15	17.56
%	1.8	2.0	2.6	2.0	2.3	2.5	2.6	2.6	2.5	2.4	2.4	2.4	2.4
Transportation & Warehousing													
CEU4300000008	19.16	19.50	19.59	19.86	20.28	20.72	21.21	21.71	22.19	22.63	23.05	23.48	23.93
%	1.9	1.7	0.5	1.3	2.1	2.2	2.4	2.4	2.2	2.0	1.9	1.9	1.9
Truck Transportation													
CEU4348400008	18.61	19.39	19.76	20.05	20.51	20.98	21.41	21.82	22.23	22.65	23.05	23.47	23.90
%	3.2	4.2	1.9	1.4	2.3	2.3	2.0	1.9	1.9	1.9	1.8	1.8	1.8
Warehousing & Storage													
CEU4349300008	15.50	15.92	16.08	16.44	16.86	17.24	17.67	18.15	18.52	18.83	19.11	19.38	19.65
%	0.7	2.7	1.0	2.2	2.6	2.2	2.5	2.7	2.1	1.7	1.5	1.4	1.4
Utilities													
✓ CEU4422000008	30.04	30.82	31.59	32.14	32.69	33.36	34.09	34.95	35.76	36.57	37.39	38.21	39.04
%	1.9	2.6	2.5	1.7	1.7	2.1	2.2	2.5	2.3	2.3	2.2	2.2	2.2
Electric Power Generation, Transmission & Distribution													
CEU4422110008	31.25	32.01	32.84	33.78	34.47	35.22	36.11	37.01	38.01	38.96	39.94	40.90	41.86
%	1.7	2.4	2.6	2.9	2.1	2.2	2.5	2.5	2.7	2.5	2.5	2.4	2.4
Information													
CEU5000000008	25.87	26.61	26.94	27.40	28.03	28.57	29.23	30.01	30.83	31.53	32.25	32.90	33.65
%	1.7	2.9	1.3	1.7	2.3	1.9	2.3	2.7	2.7	2.3	2.3	2.0	2.3
Telecommunications													
CEU5051700008	26.24	25.81	25.38	25.72	26.05	26.48	27.05	27.34	27.78	28.22	28.62	29.14	29.73
%	0.5	-1.6	-1.7	1.3	1.3	1.7	2.1	1.1	1.6	1.6	1.4	1.8	2.0
Financial Activities													
CEU5500000008	21.52	21.91	22.73	23.41	23.86	24.44	25.09	25.76	26.52	27.28	28.05	28.84	29.63
%	3.2	1.8	3.8	3.0	1.9	2.4	2.7	2.7	2.9	2.9	2.8	2.8	2.8
Professional & Business Services													
CEU6000000008	22.78	23.12	23.30	23.64	24.18	24.82	25.53	26.26	26.97	27.69	28.41	29.14	29.89
%	1.9	1.5	0.8	1.5	2.3	2.6	2.9	2.8	2.7	2.7	2.6	2.6	2.6
Professional, Scientific, & Technical Services													
CEU6054000008	29.94	30.28	30.69	31.10	31.82	32.68	33.67	34.69	35.68	36.68	37.70	38.69	39.71
%	3.1	1.1	1.4	1.3	2.3	2.7	3.0	3.0	2.8	2.8	2.8	2.6	2.6
Legal Services													
CEU6054110008	31.04	31.10	31.14	31.30	32.09	33.06	34.13	35.16	36.06	36.93	37.86	38.68	39.42
%	2.3	0.2	0.1	0.5	2.5	3.0	3.2	3.0	2.6	2.4	2.5	2.2	1.9
Accounting, Tax Preparation, Bookkeeping, & Payroll Services													
CEU6054120008	21.09	21.41	22.65	23.21	23.67	24.22	24.87	25.52	26.18	26.80	27.39	27.97	28.58
%	1.9	1.5	5.8	2.5	2.0	2.3	2.7	2.6	2.6	2.4	2.2	2.1	2.2