

MEMORANDUM

Date : June 17, 2014

To : D. Sanchez, Program Manager, ORA; R. Kahlon, Director, Water Division

From : M. Kanter, Regulatory Analyst, ORA Energy Cost of Service & Natural Gas Branch
M. Conklin, Financial Examiner, ORA Water Branch

File No. : S-2559

Subject: Office of Ratepayer Advocates: Estimates of Non-labor and Wage Escalation Rates for 2014 through 2018 from the May 2014 IHS Global Insight U.S. Economic Outlook

The purpose of the monthly Escalation Memorandum is to inform division management of the trends in the general price level of utility non-labor expenses and wage contracts. Data are provided for 13 years, which include eight historic years, the estimated current year, and four forecasted years.

The following table summarizes the major changes in forecasted labor and non-labor inflation for years 2014 through 2018. Data for 2013 are provided as benchmarks. The factors for April 2014 are presented for comparison.

	FORECASTED INFLATION			
	Labor		Non-labor	
	<u>05/14</u>	<u>04/14</u>	<u>05/14</u>	<u>04/14</u>
2013	2.1%	2.1%	0.5%	0.5%
2014	1.5%	1.5%	1.6%	1.9%
2015	1.9%	1.8%	1.5%	1.2%
2016	1.5%	1.6%	1.6%	1.4%
2017	1.5%	1.5%	1.4%	1.4%
2018	1.8%	1.9%	1.2%	1.3%
Compounded	10.8%	10.8%	8.1%	7.9%

A more extensive explanation of the derivation and use of the above factors and a complete presentation of the escalation factors from 2006 through 2018 are provided in the attached appendix.

APPENDIX: EXPLANATION OF ESCALATION RATES

The recommended NON-LABOR ESCALATION RATES for 2014 through 2018 are presented in Table A. The values for 2006 through 2013 are provided for comparison.

TABLE A

Year	Non-Labor Inflation Rate*
2006	5.5%
2007	3.0%
2008	6.2%
2009	-3.6%
2010	4.8%
2011	5.5%
2012	0.7%
2013	0.5%
2014	1.6%
2015	1.5%
2016	1.6%
2017	1.4%
2018	1.2%

* Revised 07/17/97 based on 1995 re-weighted purchases. [Source: BLS, Supplement to Producer Price Indexes, 1995, Table 12]

These escalation rates represent the calendar year average, or alternatively stated, the 12-month-ended spot rate at mid-year. These price factors have not been adjusted for real growth of expensed materials and services. The escalation factors are generated from a composite index of 10 Wholesale Price Indexes (WPI) for materials and supplies expenses and the CPI-U weighted 5% for services and consumer-related items. **These non-labor rates are not applicable to plant, contracted services, loans, insurance, rents, and pensions and other utility employee benefits. Escalation of these expenses is addressed on pages 10-15 of D.04-06-018/R.03-09-005 (Water Rate Case Plan).**

The WAGE ESCALATION RATES in Table B are based on recorded utility labor settlements for 2006 through 2013 and Global Insight projections of the U.S. CPI for All Urban Consumers (CPI-U) for 2014 through 2018.

TABLE B

<u>Year</u>	<u>Wage Increases</u> <u>1/</u> <u>2/</u>
2006	3.75%/3.75%/3.50% -PG&E/SCE/SoCal
2007	3.75%/3.50%/3.75% -PG&E/SCE/SoCal
2008	3.75%/4.00%/3.75% -PG&E/SCE/SoCal
2009	3.75%/3.75%/3.50% -PG&E/SCE/SoCal
2010	(0.3)% -CPI <u>3/</u>
2011	1.6% -CPI <u>3/</u>
2012	3.1% -CPI <u>3/</u>
2013	2.1% -CPI <u>3/</u>
2014	1.5% -CPI <u>3/</u>
2015	1.9% -CPI <u>3/</u>
2016	1.5% -CPI <u>3/</u>
2017	1.5% -CPI <u>3/</u>
2018	1.8% -CPI <u>3/</u>

1/ Wage increases are not adjusted for changes in hours worked or the number of employees. The labor requirement is a separate issue related to the calculation of total payroll.

2/ If the proposed increase is reasonable, witnesses should use the particular utility's actual settlement on the date it becomes effective. The above recorded wage increases are for benchmark purposes only.

3/ CPI-U lagged one year to be consistent with union contracts.

The generally accepted method in labor contracts is to peg a wage increase to the rate of increase in the CPI-U for the previous year. Consequently, these wage escalation rates are based on the previous year's CPI escalation. If the utility is using an index other than U.S. CPI-U, please contact me for directions. The witnesses should familiarize themselves with the actual wage contracts for 2006 through 2018 to ascertain the correct wage formulas, reasonableness, and the effective date of increase for the particular proceeding. The annualized wage increase should reflect the percentage changes in wages weighted by the number of months individual wage rates were in effect.

In compliance with D.04-06-018 (pp. 12-13), Water Division staff, who need to obtain the CPI-U for the most recently available 12 months, should access the BLS website:

<http://www.bls.gov/news.release/cpi.nr0.htm> . **All above data are provided on a limited, as-needed basis to recipients.**

cc: M. Pocta D. Sanchez R. Kahlon C. Tang