

Application	:	<u>A.05-12-002</u>
Exhibit Number	:	<u>DRA-4</u>
Commissioner	:	<u>Bohn</u>
Admin. Law Judges	:	<u>Kenney, Econome</u>
Witness	:	<u>Reneghan</u>



**DIVISION OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION**

**Report on the Results of Operations
Electric and Gas Distribution
Electric Generation
for
Pacific Gas and Electric Company**

**General Rate Case
Test Year 2007**

Cost Escalation

San Francisco, California
April 14, 2006

1 **COST ESCALATION**

2
3 **I. INTRODUCTION**

4 This exhibit presents DRA’s analysis and recommendations regarding PG&E’s
5 cost escalation. DRA’s recommendations are summarized in Section II. Section III
6 discusses DRA’s and PG&E’s historic and forecast estimates of labor and non-labor
7 escalation rates.

8
9 **II. SUMMARY OF RECOMMENDATIONS**

10 DRA recommends that for purposes of this GRC that PG&E’s labor and non-
11 labor escalation rates be accepted as reasonable. DRA further recommends that the
12 labor and non-labor escalation rates be updated in accordance with the Commission
13 Rate Case Plan. The Standard Update filing is submitted on Day 280 of the
14 Commission Rate Case Plan.

15
16 **III. DISCUSSION**

17 **A. Labor Escalation**

18 PG&E’s forecast labor escalation rates are obtained from the Global Insight,
19 “Power Planner,” First Quarter 2005. Based on historic wage and salary data PG&E
20 developed a set of weights which are then coupled with indexes drawn from the
21 Global Insight “Power Planner.” For the bargaining unit, Physical and Clerical,
22 escalation is proxied by CEU4422000006, Utility Service Workers, the
23 Manager/Supervisor class is proxied with ECIWSPWMGRNS, Employment Cost
24 Index, Managers and Administrators and the Professional/Technical class is proxied
25 with ECIWSPWP&TNS, Employment Cost Index, Professional and Technical
26 Workers. PG&E explains that, “The weights used in constructing the weighted
27 average are the proportions of each employee category represents of PG&E’s total

1 2005 labor force.”¹ This approach to measuring labor escalation was also used by
2 Southern California Edison (SCE) in its most recent General Rate Case filing.

3

4 **B. Non-Labor Escalation**

5 PG&E historic and forecast non-labor escalation rates are drawn directly from
6 the Global Insight “Power Planner,” First Quarter 2005 forecast. The Global Insight
7 “Power Planner” reports non-labor O&M cost indexes for the following functional
8 categories: hydraulic production, steam production, nuclear production, other
9 production, transmission, distribution and administrative and general (A&G). For the
10 gas department, indexes are reported for gas storage, gas transmission, gas
11 distribution, and gas transmission, and A&G. The historic and forecast A&G indexes
12 reported by Global Insight include the impact of health care escalation. PG&E,
13 however, has removed the impact of health care escalation from its electric and gas
14 A&G indexes. Health care escalation is discussed in Exhibit PG&E-6. As in the case
15 of labor escalation, DRA notes that PG&E’s non-labor escalation methodology,
16 including the removal of health care, is analogous to the approach adopted, and
17 accepted by DRA, in SCE’s most recent GRC.

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¹ Pacific Gas and Electric Company, 2007 General Rate Case, Exhibit PG&E-8, “Escalation Rates”, December 2, 2005, p. 3-5