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Exhibit Number : DRA-6  
Commissioner : Ferron  
ALJ : Wong  
Witness : Tom Renaghan



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

**Report on the Results of Operations  
for  
San Diego Gas & Electric Company  
Southern California Gas Company  
General Rate Case  
Test Year 2012**

**SDG&E/SCG  
Escalation**

San Francisco, California  
September 1, 2011

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1 **ESCALATION**

2 **I. INTRODUCTION**

3 This exhibit presents the Division of Ratepayer Advocates' (DRA) and  
4 San Diego Gas & Electric's (SDG&E) and the Southern California Gas  
5 Company (SCG) forecasts of labor, non-labor, capital, and shared services  
6 escalation for 2010, 2011, and Test Year 2012.

7 DRA agrees with SDG&E's proposed escalation methodology and  
8 results for electric and gas non-labor, electric shared services, and capital  
9 escalation. SDG&E's proposed escalation methodologies for these categories  
10 closely parallel the escalation methodologies utilized by Southern California  
11 Edison (SCE) and Pacific Gas and Electric (PG&E). DRA's and SDG&E's  
12 escalation rates for electric and gas non-labor, and capital are identical  
13 because DRA and SDG&E relied upon the first quarter 2010 Global Insight  
14 Power Planner.<sup>1</sup> DRA recommends that the escalation rates for electric and  
15 gas non-labor, shared services and capital be updated in accordance with the  
16 California Public Utilities Commission (CPUC) General Rate Case (GRC)  
17 plan.

18 DRA is proposing a labor escalation methodology which differs from its  
19 approach to labor escalation taken in past GRC's. Rather than rely upon the  
20 escalation rates for union labor embedded in SDG&E's and SCG's collective  
21 bargaining agreements, DRA proposes to base union wage escalation on  
22 forecasts taken from the Global Insight Power Planner. The rationale for  
23 DRA's approach is discussed in greater detail in Section IIIA of this testimony.

24 DRA's recommendations are summarized in Section II. Section III  
25 discuss' DRA's and SDG&E's historical and forecast estimates of labor, non-  
26 labor, capital and shared services escalation. Section IV concludes.

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<sup>1</sup> DRA's recommended escalation rate for electric shared services differs from SDG&E's because the shared services escalation index includes labor and DRA is proposing a lower labor escalation rate than SDG&E.

1 **II. SUMMARY OF RECOMMENDATIONS**

2 The following summarizes DRA's recommendations:

- 3 • For SDG&E's electric and gas labor escalation and SCG's labor escalation  
4 DRA recommends labor escalation rates 1.77% for 2010, 2.09% for 2011,  
5 and 2.61% for Test Year 2012. On a compound basis DRA recommends a  
6 Test Year labor escalation rate of 6.60%. SDG&E and SCG recommend  
7 labor escalation rates of 2.61%, 3.02%, and 2.37%, respectively, for 2010,  
8 2011, and Test Year 2012. Compounding the annual rates yields  
9 SDG&E's recommend compound escalation rate of 8.22% for Test Year  
10 2012.
- 11 • For electric non-labor O&M escalation DRA and SDG&E recommend  
12 annual escalation rates of 1.94% in 2010, 2.31% in 2011, and 2.69 % in  
13 Test Year 2012. Compounding the annual escalation rates yields a  
14 compound escalation rate of 7.10% for Test Year 2012.
- 15 • For SDG&E's gas department non-labor escalation DRA and SDG&E  
16 recommend, respectively, annual non-labor escalation rates of 1.80%,  
17 2.45%, and 2.62% for 2010, 2011, and Test Year 2012. On a compound  
18 basis this amounts to a 7.03% percent escalation rate for Test Year 2012.
- 19 • For gas non-labor O&M escalation DRA and SCG recommend annual  
20 non-labor escalation rates of 1.84% for 2010, 2.48% for 2011 and 2.64%  
21 for test year 2012. On a compound basis this is an escalation rate of  
22 7.13% for test year 2012.
- 23 • For SDG&E's O&M shared services DRA recommends annual escalation  
24 rates of 1.86% in 2010, 2.25% in 2011, and 2.64% in Test Year 2012. On  
25 a compound basis this is a 6.90% escalation rate for Test Year 2012.  
26 SDG&E recommends shared services escalation rates of 2.27% in 2010,  
27 2.71% in 2011, and 2.52% in Test Year 2012. SDG&E recommends a  
28 compound shared services escalation rate of 7.69% for Test Year 2012.
- 29 • For SCG's shared services O&M escalation, DRA forecasts escalation  
30 rates of 1.76% for 2010, 2.28% for 2011, and 2.65% for 2012. The annual  
31 increases amount to a compound rate of 6.84% for test year 2012. SCG  
32 forecasts shared services annual escalation rates of 2.16% for 2010,  
33 2.71% for 2011, and 2.54% for 2012. SCG recommends a compound  
34 shared escalation rate of 7.60% for test year 2012.

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36 Table 6-1 summarizes DRA's and SDG&E's forecasts of electric and gas  
37 labor escalation, electric O&M non-labor, gas O&M non-labor, and shared  
38 services escalation for 2010, 2011, and Test Year 2012.

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**Table 6-1**  
**Comparison of DRA's SDG&E's and SCG's Electric and Gas**  
**Labor and Non-Labor Escalation Rates**

Description	DRA Recommended			SDG&E Proposed <sup>2</sup>		
	2010	2011	2012	2010	2011	2012
Labor	1.77%	2.09%	2.61%	2.60%	3.02%	2.37%
<b>Non-Labor</b>						
Electric	1.94%	2.31%	2.69%	1.94%	2.31%	2.69%
Gas	1.80%	2.45%	2.62%	1.80%	2.45%	2.62%
Shared Services	1.86%	2.25%	2.64%	2.27%	2.71%	2.52%
Description	DRA Recommended			SoCalGas Proposed <sup>3</sup>		
	2010	2011	2012	2010	2011	2012
Labor	1.77%	2.09%	2.61%	2.60%	3.02%	2.37%
Non-Labor	1.84%	2.48%	2.64%	1.84%	2.48%	2.64%
Shared Services	1.76%	2.28%	2.65%	2.16%	3.38%	2.34%

Table 6-2 summarizes DRA's and SDG&E's compound forecasts of electric and gas labor escalation, electric O&M non-labor, gas O&M non-labor, and shared services for 2010, 2011, and Test Year 2012.

<sup>2</sup> Exh. SDG&E-38 workpapers, p. SRW-WP-1.

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**Table 6-2**  
**Comparison of DRA's SDG&E's and SCG's Electric and Gas**

**Compound Labor and Non-Labor Escalation Rates**

Description	DRA Recommended			SDG&E Proposed <sup>4</sup>		
	2010	2011	2012	2010	2011	2012
<b>Labor</b>	1.0177	1.0389	1.0660	1.0260	1.0569	1.0818
<b>Non-Labor</b>						
Electric	1.0194	1.0429	1.0710	1.0194	1.0429	1.0710
Gas	1.0180	1.0430	1.0703	1.0180	1.0430	1.0703
Shared Services	1.0186	1.0415	1.0690	1.0227	1.0503	1.0818
Description	DRA Recommended			SoCalGas Proposed <sup>5</sup>		
	2010	2011	2012	2010	2011	2012
<b>Labor</b>	1.0177	1.0389	1.0660	1.0260	1.0569	1.0818
Non-Labor	1.0184	1.0437	1.0713	1.0184	1.0437	1.0713
Shared Services	1.0176	1.0408	1.0684	1.0216	1.0493	1.0760

DRA, SDG&E and SCG also forecast capital escalation rates for Stream Production Plant, Other Production Plant, Electric Distribution Plant, Total Electric Plant, Total Gas Plant, Combined Cycle Plant, and Common Plant.<sup>6</sup>

- For Steam Production Plant, DRA and SDG&E recommend annual capital escalation rates of 0.40% for 2010, 1.80% in 2011, and 2.30% in Test Year 2012. Compounding the annual escalation rates yields a compound escalation rate of 4.56% for Test Year 2012.
- For Other Production Plant, DRA and SDG&E are forecasting annual escalation rates of 2.10% in 2010, 1.80% in 2011, and 2.10% for Test Year 2012. On a compound basis DRA and SDG&E recommend a 6.12% escalation rate for Test Year 2012.
- For 2010, 2011, and Test Year 2012, DRA and SDG&E recommend annual escalation rates for Electric Distribution Plant of 0.80%, 2.10%, and

(continued from previous page)

<sup>3</sup> Exh. SCG-31 workpapers, p. SRW-WP-1.

<sup>4</sup> Exh. SDG&E-38 workpapers, p. SRW-WP-1.

<sup>5</sup> Exh. SCG-31 workpapers, p. SRW-WP-1.

<sup>6</sup> The total electric plant, combined cycle, and common plant capital related indexes are constructed from other plant related indexes.

2.40%, respectively. For Test Year 2012 this is a compound escalation rate of 5.39%.

- DRA and SDG&E recommend annual escalation rates of 0.88%, 2.05%, and 2.36%, for Total Electric Plant in 2010, 2011 and Test Year 2012, respectively. Compounding the annual rates yields an escalation rate of 5.39% for Test Year 2012.
- For Total Gas Plant, DRA, SDG&E and SCG recommend annual escalation rates of 1.40% for 2010, 3.40% in 2011, and 2.30% in Test Year 2012. On a compound basis, DRA and SDG&E recommend a Test Year escalation rate of 7.26% for Test Year 2012.
- For 2010, 2011, and 2012 DRA and SDG&E recommend annual Combined Cycle Plant escalation rates of 0.98% in 2010, 1.80% in 2011, and 2.23% in Test Year 2012. This results in a compound escalation rate of 5.09% for Test Year 2012.
- For Common Plant, DRA and SDG&E recommend annual escalation rates of 0.70%, 2.42% and 2.40 %, respectively, for 2010, 2011 and Test Year 2012. Compounding the annual estimates yields a compound Test Year 2012 Common Plant escalation rate of 5.61%.

Table 6-3 summarizes DRA's and SDG&E's forecasts of annual capital escalation rates for 2010, 2011, and Test Year 2012.

**Table 6-3: Comparison of DRA's, SDG&E's and SCG's Electric and Gas Capital Related Escalation Rates**

Description	DRA Recommended			SDG&E Proposed <sup>7</sup>		
	2010	2011	2012	2010	2011	2012
<b>Steam Production Plant</b>	4.50%	3.00%	1.60%	4.50%	3.00%	1.60%
<b>Other Production Plant</b>	5.20%	3.00%	2.70%	5.20%	3.00%	2.70%
<b>Electric Distribution Plant</b>	4.00%	3.50%	4.60%	4.00%	3.50%	4.60%
<b>Total Electric Plant</b>	4.15%	3.41%	4.17%	4.15%	3.41%	4.17%
<b>Total Gas Plant<sup>8</sup></b>	3.70%	3.90%	1.40%	3.70%	3.90%	1.40%
<b>Combined Cycle</b>	4.74%	3.00%	1.97%	4.74%	3.00%	1.97%
<b>Common Plant</b>	3.84%	3.52%	3.90%	3.84%	3.52%	3.90%

<sup>7</sup> Exh. SDG&E-38 workpapers, p. SRW-WP-1.

<sup>8</sup> SDG&E and SCG both utilize the index JUG\_PCF to escalate gas capital plant.

1 Table 6-4 summarizes DRA's, SDG&E's and SCG's compound escalation  
2 rates for 2010, 2011, and Test Year 2012.

3 **Table 6-4**  
4 **Comparison of DRA's SDG&E's and SCG's Electric and Gas**  
5 **Compound Capital Related Escalation Rates**

Description	DRA Recommended			SDG&E Proposed <sup>9</sup>		
	2010	2011	2012	2010	2011	2012
<b>Steam Production Plant</b>	1.0040	1.0221	1.0456	1.0040	1.0221	1.0456
<b>Other Production Plant</b>	1.0210	1.0394	1.0612	1.0210	1.0394	1.0612
<b>Electric Distribution Plant</b>	1.0080	1.0292	1.0539	1.0080	1.0292	1.0539
<b>Total Electric Plant</b>	1.0088	1.0294	1.0538	1.0088	1.0294	1.0538
<b>Total Gas Plant</b>	1.0140	1.0485	1.0726	1.0140	1.0485	1.0726
<b>Combined Cycle</b>	1.0098	1.0279	1.0509	1.0098	1.0279	1.0509
<b>Common Plant</b>	1.0070	1.0314	1.0561	1.0070	1.0314	1.0561

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<sup>9</sup> Exh. SDG&E-38 workpapers, SRW-WP-1.

1 **III. DISCUSSION/ANALYSIS**

2 **A. Labor Escalation**

3 SDG&E's and SCG's forecasted electric and gas labor escalation index is  
4 based on a weighted average of three labor related indexes drawn from the Global  
5 Insight Power Planner. SDG&E explains that: "SDG&E's labor escalation index is a  
6 weighted average of three Global Insight wage and salary cost indexes:  
7 CEU4422000008, Utility Service Workers, (weighted 50.446%); ECIPWMBFNS,  
8 Managers and Administrators, (weighted 19.088%); and ECIPWPARNS,  
9 "Professional and Technical Workers, (weighted 30.466%)." <sup>10</sup> The weights are  
10 derived from recorded wage and salary expenses from the combined Sempra  
11 utilities, SDG&E and the Southern California Gas Company. For 2010 and 2011,  
12 SDG&E's labor escalation rate includes the 3.50% wage increase agreed to  
13 between the Sempra utilities and its unions. Table 6-5 below reports Sempra's labor  
14 escalation weights and the associated Global Insight proxy wage indexes.

15 DRA is proposing to replace the negotiated wage increase of 3.50% for 2010  
16 and 2011 with the first quarter 2011 Global Insight Power Planner forecast for  
17 CEU4422000008. DRA notes that SDG&E's negotiated wage increase of 3.50% is  
18 considerably higher than Global Insight's current (First quarter 2011) forecast for  
19 CEU4422000008. Currently, Global Insight is projecting increases of 1.9% in 2010  
20 and 1.8% in 2011. Similarly, Global Insight is projecting moderate wage increases  
21 for other categories of electric utility workers. For the category Electric Power,  
22 Generation, Transmission and Distribution Workers, (CEU4422110008), Global  
23 Insight is projecting wage increases of 1.7% and 2.7%, respectively, for 2010 and  
24 2011. Furthermore, in 2008 when SDG&E negotiated the 3.5% wage increase for  
25 2010 and 2011 Global Insight was forecasting wage increases of 2.4% in 2010 and  
26 2011 for Utility Service Workers, (CEU4422000008).<sup>11</sup>

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<sup>10</sup> Exh. SDG&E-38, p. SRW-2.

<sup>11</sup> SDG&E response to DRA-SDG&E-094-TMR, Q.1.

1 For the remaining components in SDG&E's labor escalation index, Managers  
 2 and Administrators (ECIPWMBFNS), and Professional and Technical Workers  
 3 (ECIPWMBFNS), DRA relied upon forecasts taken from the first quarter 2011 Global  
 4 Insight Power Planner. Global Insight forecasts the employment cost index (ECI) for  
 5 managers and administrators (ECIWMBFNS) to increase by 2.0%, 2.5%, and 2.8%,  
 6 respectively in 2010, 2011, and 2012. The ECI for professional and technical  
 7 workers (ECIWPARNS) is expected to increase by 1.4% in 2010, 2.3% in 2011, and  
 8 2.5% in 2012.

9 **Table 6-5**  
 10 **Labor Weights and Global Insight Proxy Indexes**

<b>Employee Category</b>	<b>2009 Earnings</b>	<b>Weights</b>	<b>Global Insight Variable</b>
<b>(1)</b>	<b>(2)</b>	<b>(3)</b>	<b>(4)</b>
<b>Union &amp; Associate</b>	\$ 555,014,508	50.446%	CEU4422000008
<b>Executives, Managers, &amp; Supervisor</b>	\$ 210,006,373	19.088%	ECIPWMBFNS
<b>Non-Supervisory Management (Professional and Technical)</b>	\$ 335, 190,146	30.466%	ECIPWPARNS

11 Source: Exh. SDG&E-38 workpapers, p. SRW-WP-4.

12 **B. Non-Labor Escalation**

13 **1. Electric O&M Non-Labor**

14 SDG&E's non-labor escalation index is based on a weighted average of  
 15 several O&M non-labor escalation indexes taken from the Global Insight Power  
 16 Planner. SDG&E explains that: "[R]ather than using multiple separate Global Insight  
 17 FERC-account cost escalators as has been done in the past, SDG&E has combined  
 18 various weighted Global Insight utility cost series to develop single escalation

1 indexes to develop single escalation indexes for non-labor O&M gas and non-labor  
 2 O&M expenses, JGTOTALMSX\_SD and JETOTALMSX\_SD, respectively.”<sup>12</sup>  
 3 Similar to the labor escalation index, the weights are based on 2009 recorded O&M  
 4 expense data. Table 6-6 below reports the weights and Global Insight O&M proxy  
 5 indexes used to construct the total O&M non-labor escalation index,  
 6 JETOTALMSX\_SD.

7 **Table 6-6**  
 8 **Electric Non-Labor Weights and Global Insight Proxy Indexes**

Description	FERC Account	2009 Expenses	Weight	Global Insight Index
(1)	(2)	(3)	(4)	(5)
<b>Steam Production</b>	500-514	\$5,402,493	5.67 %	JEFOMMS
<b>Other Production</b>	546-554	\$19,838,552	20.81 %	JEOOMMS
<b>Electric Distribution</b>	580-598	\$43,370,286	45.50 %	JEDOMMS
<b>Customer Accounts</b>	901-905	\$9,336,102	9.79 %	JECAOMS
<b>Customer Service &amp; Information</b>	907-910	\$,3576,069	3.75 %	JECSIOMS
<b>Admin &amp; General (excluding 926)</b>	920-935	\$13,805,593	14.48 %	JEADGOMMS_ex 926

9  
 10 Source: Exh. SDG&E-38 workpapers, p. SRW-WP-3.

11  
 12 DRA adopts SDG&E’s proposed electric non-labor O&M index methodology.

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<sup>12</sup> Exh. SDG&E-38, p. SRW-2.



1 reports the weights and the Global Insight proxy indexes used to construct the gas  
2 O&M non-labor escalation index.

3 **4. Administrative & General Escalation**

4 The electric and gas non-labor indexes exclude the impact of Account 926.  
5 SDG&E notes that this index has been excluded from the overall electric and gas  
6 non-labor escalation indexes: “Most of SDG&E’s pensions and benefits costs (FERC  
7 Account 926) are treated separately and therefore excluded from regular cost  
8 escalations...Employee medical expenses (in FERC Account 926.3) are also treated  
9 separately.”<sup>13</sup> In its most recent General Rate Case SCE followed a similar  
10 procedure to remove the impact of health care costs from its electric non-labor  
11 escalation. In that proceeding, DRA adopted SCE’s methodology. Since SDG&E’s  
12 approach is similar to SCE’s, DRA has adopted SDG&E methodology for removing  
13 the impact of Pensions and Benefits and Health Care costs from SDG&E’s electric  
14 and gas non-labor escalation indexes.<sup>14</sup>

15 **5. Shared Services**

16 SDG&E constructs an O&M escalation index for shared services and working  
17 cash. This index is “based on a weighted average of labor and non-labor O&M  
18 indexes.”<sup>15</sup> This index includes the impact of labor escalation as well as the electric  
19 and gas O&M. The O&M weights and associated electric and gas Global Insight  
20 indexes are reported in Table 6-8 below.

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<sup>13</sup> Exh. SDG&E-38, p. SRW-3.

<sup>14</sup> SDG&E’s procedure involves the assignment of weights to JEADGOMMS, electric A&G escalation and JGADGOMMS, gas A&G index. For electric A&G SDG&E weights the index JEADGOMMS by 22.8 % and the index JGADGOMMS by 36.5 %. These weights were provided to SDG&E by Global Insight.

<sup>15</sup> Exh. SDG&E-38, p. SRW-4.

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**Table 6-8  
Shared Services Weights and Global Insight Proxy Indexes**

<b>Description</b>	<b>FERC Account</b>	<b>2009 Expenses</b>	<b>Weight</b>	<b>Global Insight Index</b>
<b>(1)</b>	<b>(2)</b>	<b>(3)</b>	<b>(4)</b>	<b>(5)</b>
<b>Labor</b>	---	\$65,286,118	48.42%	JLABOR_SDGE
<b>Steam Production</b>	500-514	---	0.00%	JEFOMMS
<b>Electric Distribution</b>	580-598	\$7,008,926	5.20%	JEDOMMS
<b>Electric Customer Accounts</b>	901-905	\$12,207,415	9.05%	JECAOMS
<b>Electric Customer Service &amp; Information</b>	907-910	\$1,165,247	0.86%	JECSIOMS
<b>Electric Admin &amp; General_ex926</b>	920-935	\$23,314,359	17.29%	JEADGOMMS_ex926
<b>Gas Transmission</b>	850-867	\$1,281,463	0.95 %	JGTOMMS
<b>Gas Distribution</b>	870-894	\$12,212,202	9.06%	JGDOMMS
<b>Gas Customer Accounts</b>	901-905	\$4,069,138	3.02%	JGCAOMS
<b>Gas Customer Service &amp; Information</b>	907-910	\$374,858	0.28%	JGCSIOMS
<b>Gas Admin &amp; General (ex_926)</b>	920-935	\$7,903,138	5.86%	JGADGOMMS_ex926

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1 Source: Exh. SDG&E-38 workpapers, p. SRW-WP-3.

2  
3 As in the case of the other O&M escalation indexes discussed in this  
4 testimony, DRA adopts SDG&E shared services O&M escalation index.

### 5 **C. Capital Escalation**

6 SDG&E develops several indexes to capture the impact of inflation on capital  
7 related expenditures. Several of these indexes are taken directly from the Global  
8 Insight Power Planner while others are derived as weighted averages of Global  
9 Insight capital related indexes.

10 For construction costs associated with steam production, SDG&E relies upon  
11 the Global Insight index, JUEPPF\_PCF, Total Steam Production, Pacific Region. For  
12 Other Production Plant, construction cost inflation is proxied with JUEPPO\_PCF,  
13 Total Other Production, Pacific Region, and for distribution capital, SDG&E relies  
14 upon forecasts of JUEPD\_PCF, Total Distribution Plant, Pacific Region. The  
15 historical values of these indexes are based on the standard Handy-Whitman  
16 indexes with the forecasts taken from the Global Insight Power Planner.

17 The capital indexes for total electric generation, combined cycle plant, and  
18 common plant are based on weighted averages of existing Handy-Whitman indexes.  
19 Total electric generation escalation, for example, is based on a weighted average of  
20 JUEPPF\_PCF and JUEPPO\_PCF with JUEPPF\_PCF weighted by 66.1% and  
21 JUEPPO weighted by 33.9%. Similar to the aggregate electric and gas non-labor  
22 escalation indexes the weights “are based on SDG&E Accounting Operations’  
23 calculated acquisition values of Palomar’s asset classes.”<sup>16</sup>

24 The indexes for Common Plant is constructed by coupling the Handy-  
25 Whitman indexes for Total Gas Plant – Pacific Region (JUG\_PCF) with the index for  
26 Total Distribution Plant, (JUEPD\_PCF) with weights based on 2009 actual  
27 expenditures in these plant categories. Specifically, Total Gas Plant is weighted by  
28 22.86% and Total Distribution Plant is weighted by 65.87%.

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<sup>16</sup> Exh. SDG&E-38, p. SRW-5.

1 SCE and PG&E also rely on Handy-Whitman indexes to capture the impact of  
2 inflation on capital costs. DRA adopts SDG&E capital escalation methodology.

3 **IV. CONCLUSION**

4 This testimony has reviewed SDG&E's methodology for capturing the impact  
5 of inflation on electric and gas labor expenses, electric O&M, gas O&M, and capital  
6 related expenses in its Test Year 2012 General Rate Case.

7 DRA adopts SDG&E's methodology and results for electric and gas non-labor  
8 and capital escalation. DRA, however, recommends changes to SDG&E's labor  
9 escalation methodology. DRA recommends that the union negotiated wage increase  
10 of 3.5% for 2010 and 2011 be replaced with the most recent Global Insight Power  
11 Planner forecast for All Utility Workers.