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Commissioner	:	Simon
ALJ	:	Darling
Witness	:	Bower

DIVISION OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION

Report on the Results of Operations for Southern California Edison Company General Rate Case Test Year 2012

Administrative and General Expenses and Capitalization Rates

PUBLIC VERSION

San Francisco, California
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ADMINISTRATIVE AND GENERAL EXPENSES AND CAPITALIZATION RATES

I. INTRODUCTION

This exhibit presents the analyses and recommendations of the Division of Ratepayer Advocates (DRA) regarding Southern California Edison Company's (SCE) Administrative and General Expenses (A&G) and Capitalized expenses for Test Year (TY) 2012. In terms of the Federal Energy Regulatory Commission (FERC) Uniform System of Accounts,[1] A&G expenses are operations and maintenance expenses that are recorded to Accounts 920 through 930. Many of SCE's departments' record expenses in A&G accounts. SCE states that these SCE departments were responsible for justifying their own Test Year 2012 A&G forecast. SCE has grouped these A&G expenses in various exhibits in SCE's filing.

This exhibit addresses those A&G expenses, Capitalized Software, and Capitalized expenses specifically reflected in SCE-07, Volume 1 - Summary and Financial Organizations, and Risk Control, SCE-07, Volume 2 – Legal And Ethics And Compliance, and SCE-07, Volume 3 - Regulatory Policy and Affairs, Corporate Membership Dues and Fees, Corporate Communications, and Property and Liability Insurance Expense.

II. SUMMARY OF RECOMMENDATIONS

The following summarizes DRA's recommendations associated with SCE-07 Volume 1 (Financial Organizations and Risk Control) A&G expenses for 2012 and capital expenditures for 2010 through 2012:

1. That the Controller's Organization forecast be reduced by $16.503 million for the following reasons:
   a. Labor costs should be based on a five average which results in reduction of $893,000 for the Test Year 2012.

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[1] See Exhibit SCE-07, Volume 1, Chapter I, page 1-2.

b. Non-labor costs should be based on a five average which results in reduction of $85,000 for the Test Year 2012.

c. Outside Services costs should be reduced by $15.525 million for the Test Year 2012. xxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx.

2. That the Audit Services' Department forecast be reduced by $1.252 million for the following reasons:

   a. Labor costs should be based on a five average which results in reduction of $748,000 for the Test Year 2012. This reflects removal of $629,000 for seven additional auditors for which SCE has not sufficiently justification.

   b. Non-labor costs should be based on a five average which results in reduction of $504,000 for the Test Year 2012.

3. That the Treasurer's Department forecast be reduced by $4.250 million for the following reasons:

   a. Labor costs should be based on a five average which results in reduction of $894,000 for the Test Year 2012. This reflects removal of $484,700 for two vacancies and three additional auditors for which SCE has not sufficiently justification.

   b. Non-labor costs should be based on a five average which results in reduction of $87,000 for the Test Year 2012.

   c. Bank fees should be based on a five year average (2006-2010) which results in reduction of $3.268 million for Test Year 2012.

4. That the Tax Department forecast be reduced by $990,000 for the following reasons:

   a. Labor costs should be based on a five average which results in reduction of $756,000 for the Test Year 2012. This reflects removal of $335,800 double counting backfilling vacancies and full costs of filling these vacancies in the Test Year 2012.

   b. Non-labor costs should be based on a five average which results in reduction of $234,000 for the Test Year 2012.

5. That the Risk Control Group's forecast be reduced by $2.208 million for the following reasons:

   a. Labor costs should be based on a five average which results in reduction of $2.092 million for the Test Year 2012. This reflects removal of $655,000 to fill five vacancies and hire one additional employee for Test Year 2012 for which SCE has not sufficiently justification.

   b. Non-labor costs should be based on a five average which results in reduction of $117,000 for the Test Year 2012.

The following summarizes DRA's recommendations associated with SCE-07, Volume 2 (Legal & Ethics and Compliance) A&G expenses for 2012 and capital expenditures for 2010 through 2012:

1. That the Law Department forecast be reduced by $8.909 million for the following reasons:

   a. Labor costs should be reduced by $1.716 million for 15 additional employees for the Test Year 2012 as SCE has not provided sufficiently justification for these additional positions.

   b. Non-labor costs should be reduced by $313,000 to reflect the reduction in labor costs forecast for Test Year 2012.

   c. Outside Counsel costs should be reduced by $4.492 million xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx.

   d. Corporate Governance & Miscellaneous Expenses should be xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxx.

2. xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxx

   a. Xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxx.

   b. Xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx

3. That the Workers Compensation forecast be reduced by $2.222 million for the following reasons:

   a. Labor costs should be reduced by $723,000 for additional employees for the Test Year 2012 as SCE has not provided sufficient justification for these additional positions for Test Year 2012.

   b. $1.352 million should be removed from the Workers Compensation Reserves Test Year 2012 forecast and 2009 recorded costs of $13.747 million should be used for the 2012 forecast.

4. That the Ethics & Compliance forecast be reduced by $983,00 for the following reasons:
   a. Labor costs should be reduced by $870,000 for two vacancies and five additional employees for the Test Year 2012 as SCE has not provided sufficient justification for these additional positions for Test Year 2012.
   b. Non-labor costs should be reduced by $93,000 associated with removal of labor costs from Test Year 2012 forecast.
   c. Outside Services costs should be reduced by $167,000 for Test Year 2012.

The following summarizes DRA's recommendations associated with SCE-07 Volume 3 (Regulatory Policy & Affairs, Corporate Membership Dues & Fees, Corporate Communications, and Property Liability Insurance & Expense) A&G expenses for 2012:

1. That the Regulatory Policy and Affairs Department's forecast be reduced by $3.223 million for the following reasons:
   a. Labor costs should be based on a five average which results in reduction of $3.223 million for the Test Year 2012 as SCE has not provided sufficient justification for these funding three vacancies and 13 additional positions for Test Year 2012. This also reflects removal of Affiliate Transaction Rules labor costs.
2. That the Corporate Communications forecast be reduced by $4.052 million for the following reasons:
   a. Labor costs should be based on a 2009 recorded expenses which results in reduction of $3.025 million for the Test Year 2012 as SCE has not provided sufficient justification for these filling nine vacancies and 19 additional positions for Test Year 2012.
   b. Non-labor costs should be reduced by $561,000 associated with removal of labor costs from Test Year 2012 forecast and stipend for Community Partnerships that should not be paid for by ratepayers.
   c. Corporate Communications Account 930 should be reduced by $52,000 for the Test Year 2012.
   d. Corporate Communications Account 923 should be reduced by $414,000 for the Test Year 2012.

3. That Property Liability Insurance & Expense be reduced by $24.506 million for the following reasons:

    a. Property Insurance costs should be based on 2010 recorded expenses which results in reduction of $309,000 for the Test Year 2012.

    b. Liability Insurance costs should be based on 2010 recorded expenses which results in a reduction of $24.197 million for the Test Year 2012.

The following summaries DRA's recommendations associated with A&G related capital expenditures for 2010 through 2012:

1. That SCE's Financial Organization Capitalized Software request of $14.5 million in capital expenditures for 2012 through 2014 should not be authorized for lack of supporting documentation.

2. That SCE's Law Department's capital project for Electronic Discovery request of $4.882 million for 2010 through 2012 should not be authorized for lack of supporting documentation.

The following summaries DRA's recommendations associated with A&G and Pensions & Benefits (P&B) capitalization rates for 2012:

1. That Capitalized A&G rate should be 19.4%.

2. That Capitalized P&B rate should be 37.7%.

Table 12-1 compares DRA's and SCE's TY2012 forecasts of A&G expenses:

Table 12-1
DRA's and SCE's Test Year 2012 Administrative and General Expenses
(In Thousands of 2009 Dollars)

Description (a)	DRA Recommends (b)	SCE Proposed (c)	Amount SCE>DRA (d=c-b)	Percentage SCE>DRA (e=d/b)
Financial Organizations				
Controllers	$ 35,257	$ 51,760	$ 16,503	31.9%
Audits	$ 9,033	$ 10,285	$ 1,252	12.2%
Treasurer's	$ 9,417	$ 13,667	$ 4,250	31.1%
Tax	$ 2,942	$ 3,932	$ 990	25.2%
Risk Control	$ 3,847	$ 6,055	$ 2,208	36.5%
Sub total	**$ 60,495**	**$ 85,699**	**$ 25,204**	**29.4%**
Law	$ 38,920	$ 47,829	$ 8,909	18.6%
Claims	$ 41,696	$ 50,289	$ 8,593	17.1%
Workers Compensation	$ 20,060	$ 22,282	$ 2,222	10.0%
Ethics	$ 2,137	$ 3,120	$ 983	31.5%
Sub Total	**$ 102,813**	**$ 123,520**	**$ 20,707**	**16.8%**
Regulatory Policy & Affairs	$ 12,223	$ 15,446	$ 3,224	20.9%
Corp. Membership Dues	$ 1,989	$ 1,989	$ -	0.0%
Corporate Communications	$ 12,802	$ 16,854	$ 4,052	24.0%
Property/Liability Insurance	$ 43,474	$ 67,980	$ 24,506	36.0%
Sub Total	**$ 70,488**	**$ 102,269**	**$ 31,781**	**31.1%**
Total	**$ 233,963**	**$ 311,486**	**$ 77,523**	**33.1%**

Table 12-2 compares DRA's and SCE's 2010-2012 forecasts of A&G-related capital expenditures:

Table 12-2
A&G-Related Capital Expenditures for 2010-2012
(In Thousands of Nominal Dollars)

Description	DRA Recommended			SCE Proposed[2]			
	2010	2011	2012	2010	2011	2012	2013
SCE-07 Volume 1	$0	$0	$0	$0	$0	$2,900	$11,600
SCE-07 Volume 2	$0	$0	$0	$821	$2,441	$1,620	$0
Total	$0	$0	$0	$821	$2,441	$4,520	$11,600

[2] Ex. SCE-07 Volume 1 Chapter VIII page 49 and SCE-07 Volume 2, Chapter II, Page 32.

III. OVERVIEW OF SCE'S REQUEST

SCE is requesting a total of $311.487 million in Test Year 2012 expenses, an increase of $74.546 million or 31.5% over 2009 recorded adjusted expenses of $236.94 million. The following table shows a comparison between SCE’s 2009 Adjusted Recorded and 2012 Test Year Proposal:

Table 12-3
Southern California Edison Company
Comparison between 2009 Adjusted Recorded and 2012 Test Year Request

	SCE			
	2009	**2012**		
Description (a)	**Adjusted Recorded (b)**	**Test Year (c)**	**Increase (d=c-b)**	**Percentage (e=d/b)**
Financial Organizations				
Controllers	$ 49,825	$ 51,760	$ 1,935	3.7%
Audits	$ 9,106	$ 10,285	$ 1,179	11.5%
Treasurer's	$ 9,527	$ 13,665	$ 4,138	30.3%
Tax	$ 3,365	$ 3,932	$ 567	14.4%
Risk Control	$ 3,847	$ 6,055	$ 2,208	36.5%
SCE-07 Vol. 1 Sub Total	**$ 75,670**	**$ 85,697**	**$ 10,027**	**11.7%**
Law	$ 44,884	$ 47,829	$ 2,945	6.2%
Claims	$ 42,552	$ 50,289	$ 7,737	15.4%
Workers Compensation	$ 20,392	$ 22,282	$ 1,890	8.5%
Ethics	$ 2,304	$ 3,120	$ 816	26.2%
SCE-07 Vol. 2 Sub Total	**$110,132**	**$123,520**	**$ 13,388**	**10.8%**
Regulatory Policy & Affairs	$ 12,992	$ 15,446	$ 2,454	15.9%
Corporate Membership Dues	$ 1,748	$ 1,989	$ 241	12.1%
Corporate Communications	$ 12,781	$ 16,854	$ 4,073	24.2%
Risk Management/Insurance	$ 23,617	$ 67,980	$ 44,363	65.3%
SCE-07 Vol. 3 Sub Total	**$ 51,138**	**$102,269**	**$ 51,131**	**100.0%**
Total	**$236,940**	**$311,486**	**$ 74,546**	**31.5%**

IV. DISCUSSION / ANALYSIS OF SCE-07 VOLUME 1: FINANCIAL ORGANIZATIONS AND RISK CONTROL

This section presents DRA's analyses and recommendations regarding SCE's Financial Organizations, which includes SCE's Controller's Organization, Audit Services Department, Treasurer's Department, and Tax Department. SCE's Financial Organizations is requesting a total of $79.644 million in Test Year 2012 expenses, an increase of $7.821 million over 2009 recorded expenses. This is a 10.9% increase from 2009 Adjusted Recorded costs of $71.823 million. SCE's Risk Control Group is requesting $6.055 million in Test Year 2012 expenses, an increase of $2.208 million from 2009 recorded costs. This is a 36.5% increase from 2009 Adjusted Recorded costs of $3.847 million. DRA's 2012 forecast for this area is $60.495 million. The following table shows a comparison between SCE's 2009 Adjusted Recorded and 2012 Test Year Proposal:

Table 12-4
Financial Organizations and Risk Control Group
Comparison between 2009 Adjusted Recorded and 2012 Test Year Request
(In thousands of 2009 Dollars)

	SCE			
	2009	**2012**		
Description (a)	**Adjusted Recorded (b)**	**Test Year (c)**	**Increase (d=c-b)**	**Percentage (e=d/b)**
Financial Organizations				
Controllers	$ 49,825	$ 51,760	$ 1,935	3.9%
Audits	$ 9,106	$ 10,285	$ 1,179	12.9%
Treasurer's	$ 9,527	$ 13,667	$ 4,140	43.5%
Tax	$ 3,365	$ 3,932	$ 567	16.8%
Sub Total	$ 71,823	$ 79,644	$ 7.821	10.9%
Risk Control	$ 3,847	$ 6,055	$ 2,208	36.5%
Total	$ 75,670	$ 85,697	$10,027	11.7%

The following table shows a comparison between DRA's recommendations and SCE's Test Year 2012:

Table 12-5
DRA's and SCE 2012 Forecast – Financial Organization and Risk Control
(In Thousands of 2009 Dollars)

Description (a)	DRA Recommends (b)	SCE Proposed (c)	Amount SCE>DRA (d=c-b)	Percentage SCE>DRA (e=d/b)
Financial Organizations				
Controllers	$ 35,257	$ 51,760	$ 16,503	31.9%
Audits	$ 9,033	$ 10,285	$ 1,252	12.2%
Treasurer's	$ 9,417	$ 13,665	$ 4,248	31.1%
Tax	$ 2,942	$ 3,932	$ 990	25.2%
Risk Control	$ 3,847	$ 6,055	$ 2,208	36.5%
Total	**$ 60,495**	**$ 85,697**	**$ 25,202**	**29.4%**

A. Controller's Organization

SCE's Controller's Organization is forecasting $51.76 million for Test Year 2012.[3] This represents an overall increase of 3.7% over 2009 Adjusted Recorded costs of $49.825 million. SCE's Controller's Organization used 2009 recorded method for labor and non-labor to forecast for Test Year 2012. DRA's Test Year 2012 forecast is $35.257 million.

The Controller's Organization is also requesting a total of $14.5 million in capital expenditures for 2012 and 2013,[4] which is for a capitalized software project to comply with International Financial Reporting Standards (IFRS). The following table shows the Controller's Organization costs for the record period 2005-2009 and 2012 Test Year Proposal:

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[3] See Exhibit SCE-07, Volume 1, Chapter IV, page 13.

[4] See Section E of this Exhibit for discussion.

Table 12-6
Controller's Organization Summary
2005-2009 Recorded and 2012 Forecast for FERC Account 920/921/923/926
(In Thousands of 2009 Dollars)

Description	2005	2006	2007	2008	2009	SCE 2012	DRA 2012
Labor	$16,561	$16,362	$15,480	$15,819	$17,416	$17,216	$16,323
Non-Labor	$21.493	$20,233	$24.851	$25,602	$32,409	$34,544	$18,934
Total	$38,054	$36,595	$40,331	$41,421	$49,825	$51,760	$35,257

Source: 2005-2009 data from Exhibit SCE-07, Volume I, Chapter IV, page 14

1. Controller's Organization Account 920/921

During the record period, the Controller's labor costs increased $996,000 from $16.002 million in 2005 to $16.999 million in 2009.[5] This represents a 6.2% increase in labor costs. The increase in labor costs in 2009 is attributable to staff assigned to Enterprise Resource Planning (ERP) project returning to the Controller's organization, the addition of six positions and filling of vacancies. In addition, SCE says its Controller's Organization reduced its reliance on contractors as well as other organizational changes.[6] The following table shows the Controller's Organization labor and non-labor costs for the record period 2005-2009 and 2012 Test Year Proposal:

Table 12-7
Controller's Organization Labor/Non-Labor
2005-2009 Recorded / 2012 Forecast
(In Thousands of 2009 Dollars)

Description	2005	2006	2007	2008	2009	SCE 2012	DRA 2012
Account 920	$16,002	$15,908	$15,037	$15,361	$16,999	$16,799	$15,906
Account 921	$ 2,231	$ 2,625	$ 2,710	$ 2,731	$ 3,225	$ 2,750	$ 2,665
Total	$18,223	$18,533	$17,747	$18,092	$20,224	$19,549	$18,571

Source: 2005-2009 data from Exhibit SCE-07, Volume I, Chapter IV, page 19

[5] See Exhibit SCE-07, Volume 1, Chapter IV, page 19.

[6] See Exhibit SCE-07, Volume 1, Chapter IV, page 20.

The Controller's Organization forecast its labor costs for Test Year 2012 using recorded 2009 as its base estimate[7] and adjusted it by $200,000 to reflect its expected labor needs with the organizational structure implemented in 2009. DRA has reviewed this forecast and recommends that a forecast for Test Year 2012 be based on a five year average. Labor costs did not vary significantly from year to year. Using a five year average takes into consideration the variance in labor costs over the record period and the changes implemented in the Controller's Organizational structure during 2009. DRA's 2012 forecast is $15.906 million for labor costs. DRA recommends that the labor costs for the Test Year 2012 be reduced by $893,000.

During the record period, the Controller's Organization non-labor costs increased $994,000 from $2.231 million in 2005 to $3.225 million in 2009.[8] This represents a 44.6% increase in non-labor costs. The increase in labor costs in 2009 is attributable to increased temporary agency staffing costs in Accounts Payable to assist with the transition to the SAP-based invoice processing system. The Controller's Organization forecast its non-labor costs for Test Year 2012 by using 2009 recorded data as its base estimate[9] and adjusting it by $475,000 to reflect decline in temporary agency personnel needed for the Accounts Payable function.

DRA has reviewed this forecast and recommends that a forecast for Test Year 2012 be based on a five year average. As shown in the above table non-labor costs were highest in 2006 and 2009. There were minor increases in non-labor costs in 2007 and 2008. Using a five year average takes into consideration the variance in non-labor costs over the record period and the changes implemented in the Controller's Organizational structure during 2009. DRA 2012 forecasts $2.665 million for non-labor costs. DRA recommends that the non-labor costs for the Test Year 2012 be reduced by $85,000.

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[7] SCE relies on D. 89-12-057 for its use of last recorded year (2009) as its base estimate.

[8] See Exhibit SCE-07, Volume 1, Chapter IV, page 19.

[9] SCE relies on D. 89-12-057 for its use of last recorded (2009) as its base estimate.

2. Controller's Organization Account 923

During the record period, the Controller's Organization Outside Services costs increased, $9.95 million, from $19.229 million in 2005 to $29.179 million in 2009.[10] This represents a 51.7% increase in outside services costs. The increase is due to increases in tax and accounting review work on complex issues and compliance with new tax and accounting rules. The Controller's Organization forecast its Outside Services costs for Test Year 2012 using recorded 2009 expenses as its base estimate[11] and adjusted it by a net of $2.604 million to reflect decline in Outside Services of $2.229 million and an incremental increase for International Financial Reporting Standards (IFRS)[12] project, $4.833 million. The following table shows the Controller's Organization's Outside Services costs for the record period 2005-2009 and 2012 Test Year Proposal:

Table 12-8
2005-2009 Recorded / 2012 Forecast
(In Thousands of 2009 Dollars)

Description	2005	2006	2007	2008	2009	SCE 2012	DRA 2012
Account 923	$19,220	$17,601	$22,134	$22,847	$29,179	$31,783	$16,258

Source: 2005-2009 data from Exhibit SCE-07, Volume I, Chapter IV, page 21

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[10] See Exhibit SCE-07, Volume 1, Chapter IV, page 21.

[11] SCE relies on D. 89-12-057 for its use of the last recorded (2009) as its base estimate.

[12] IFRS refers to the International Financial Reporting Standards which SCE describes as a "single set of global accounting standards development by the International Accounting Standards Board" (Exhibit SCE-07, Vol. 1 chapter VII, footnote 25.) See Section E of this Exhibit.

[13] See xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx.

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3. Controller's Organization Account 926

During the record period, the Controller's Organization Benefits Accounting labor costs decreased $142,000, from $559,000 in 2005 to $417,000 in 2009.[14] This represents a 25.4% decrease in labor costs. SCE is forecasting labor costs for Test Year 2012 to be $417,000. DRA has reviewed the forecast and takes no exception.

The non-labor costs decreased from $9,000 in 2005 to $5,000 in 2009. This represents a 44.4% decrease in non-labor costs. SCE is using a five average to forecast the non-labor costs for Test Year 2012 of $11,000. DRA has reviewed the forecast and takes no exception.

B. Audit Services

SCE's Audit Services Department is forecasting $10.285 million for the Test Year 2012.[15] This represents an overall increase of 12.9% over 2009 Adjusted Recorded costs of $9.106 million. DRA's Test Year 2012 forecast is $9.033 million.

Audit Services forecast increase is due to filling five vacancies, adding two additional Information Technology auditors, experts or consultants to train auditors in specialized technical areas, and increased travel costs associated with non-utility company audits. The following table shows the Audit Services costs for the record period 2005-2009 and the forecasts for 2012 Test Year Proposal:

[14] See Exhibit SCE-07, Volume 1, Chapter IV, page 22.

[15] See Exhibit SCE-07, Volume 1, Chapter V, page 24.

Table 12-9
Audit Services Summary
2005-2009 Recorded / 2012 Forecast
(In Thousands of 2009 Dollars)

Description	2005	2006	2007	2008	2009	SCE 2012	DRA 2012
Account 920	$8,733	$8,681	$9,203	$9,441	$9,106	$10,285	$7,704
Account 921	$1,323	$1,175	$1,448	$1,418	$1,283	$1,833	$1,329
Total	$8,733	$8,681	$9,203	$9,441	$9,106	$10,285	$9,033

Source: 2005-2009 data from Exhibit SCE-07, Volume 1, Chapter V, page 24.

1. Audit Services Account 920

Audit Services is forecasting an increase of $629,000 in labor costs for Test Year 2012,[16] $410,000 to fill five vacancies and $228,000 for two additional Information Technology Auditors. SCE claims that Audit Services "need to be at full staff in 2010 in light of increased work due to items such as Edison Smart Connect™, NERC/CIP cyber-security requirements, energy trading, and emerging environmental regulations (e.g., Green House Gas emissions)."[17] During the record period 2005-2009 Audits Services staff ranged from xxxxxxxxxxxxxxxxxxxxxx.[18] This results in an average staffing of xx for the record period. Audit Services has not justified its need for seven additional auditors. DRA recommends that $629,000 be removed from Test Year 2012 forecast.

Audit Services forecast labor using 2009 recorded as the basis for estimating Test Year 2012. To the base Audit Services added the incremental labor cost of $629,000 as discussed above. DRA has reviewed SCE's method of forecasting and disagrees with it. As shown in Table 12-9 above, labor costs have fluctuated in minor amounts over the record period 2005-2009. DRA recommends using a five year average to forecast the labor costs for the Test Year 2012. Using a five year average results in the labor forecast being reduced by $119,000. DRA's 2012

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[16] See Exhibit SCE-07, Volume 1, Chapter V, page 27.

[17] Ibid.

[18] See confidential response to DRA-SCE-056-DFB, Question 2.

forecast is $7.704 million for labor costs. DRA recommends that Audit Services Test Year 2012 labor forecast be reduced by a total of $748,000.

2. Audit Services Account 921

Audit Services is forecasting $1,833,000 in non-labor costs for the Test Year 2012. Audit Services forecast non-labor using the 2009 recorded, $1,283,000, as the basis for estimating Test Year 2012. To the base Audit Services added incremental non-labor costs of $550,000. Non-labor costs are related to the amount of labor costs. Disallowing the increase in labor costs has an impact on the forecast of non-labor costs. DRA has reviewed SCE's method of forecasting and disagrees with it. As shown in Table 12-9 above, non-labor costs have fluctuated in minor amounts over the record period 2005-2009. DRA recommends using a five year average to forecast the labor costs for the Test Year 2012. DRA removed the $550,000 for non-labor incremental costs before calculating the five year average forecasting method. DRA's 2012 forecast is $1.329 million for non-labor costs. DRA recommends that Audit Services Test Year 2012 non-labor forecast be reduced by $504,000

C. Treasurer's

SCE's Treasurer's Organization is forecasting $13.667 million for the Test Year 2012.[19] This represents a 43.5% increase over 2009 Adjusted Recorded costs of $9.527 million.[20] SCE's Treasurer's Organization is forecasting labor to increase by $484,700 for five new positions, non-labor to increase by $32,000, and $3.623 million for banking and operating fees.[21] DRA's Test Year 2012 forecast is $12.683 million. The following table shows the Treasurer's costs for the record period 2005-2009 and forecast for 2012 Test Year Proposal:

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[19] See Exhibit SCE-07, Volume 1, Chapter VI, page 29.

[20] See Exhibit SCE-07, Volume 1, Chapter VI, page 29.

[21] See Exhibit SCE-07, Volume 1, Chapter VI, pages 39.

Table 12-10
Treasurer's Organization
2005-2009 Recorded / 2012 Forecast
(In Thousands of 2009 Dollars)

Description	2005	2006	2007	2008	2009	SCE 2012	DRA 2012
Account 920	$3,953	$4,184	$3,893	$3,759	$4,459	$ 4,944	$ 4,050
Account 921	$ 410	$ 489	$ 378	$ 444	$ 499	$ 531	$ 444
Account 930	$4,120	$5,096	$5,316	$4,760	$4,569	$ 8,192	$ 8,190
Total	$8,483	$9,769	$9,587	$8,963	$9,527	$13,667	$12,684

Source: 2005-2009 data from Exhibit SCE-07, Volume 1, Chapter VI, pages 33 and 35

1. Treasurer's Department Account 920

The Treasurer's Department seeks to increase labor costs by $484,700 to fill two vacancies and three additional positions to respond, it says, "to additional work resulting in large part from SCE's unprecedented capital investment program."[22] The Treasurer's Department has not provided sufficient justification for the addition of these positions. The Treasurer's Department forecasted labor using recorded 2009 expenses as the basis for estimating Test Year 2012 expenses. The Treasurer's Department added the incremental labor cost of $484,700 to the 2009 level of expenses. DRA has reviewed this method of forecasting and disagrees with it. As shown in Table 12-10 above, labor costs have fluctuated in minor amounts over the record period 2005-2009. DRA recommends using a five year average to forecast the labor costs for the Test Year 2012. Using a five year average results in the labor forecast being reduced by $409,000. DRA's 2012 forecast is $7.05 Million for labor costs. DRA recommends that Treasurer's Department Test Year 2012 labor forecast be reduced by a total of $894,000.

2. Treasurer's Department Account 921

The Treasurer's Department is forecasting $531,000 in non-labor costs for the Test Year 2012. The Treasurer's Department forecasted non-labor using the recorded 2009 expense level of $499,000 as the basis for estimating Test Year 2012 expenses. According to SCE, non-labor costs "are approximately 11 percent of the

[22] See Exhibit SCE-07, Volume 1, Chapter VI, page 34.

labor costs."[23] To the base, the Treasurer's Department added incremental non-labor costs of $32,000.

Non-labor costs are related to the amount of labor costs. DRA's recommended adjustments to the Treasurer's Department labor costs has an impact on the forecast of the Treasurer's non-labor costs. DRA has reviewed SCE's method of forecasting and disagrees with it. DRA recommends using a five year average to forecast the labor costs for the Test Year 2012. After removing the $32,000 for non-labor incremental costs and using a five year average forecasting method, this results in the Test Year 2012 forecast of $444,000. DRA's 2012 forecast is $444,000 for non-labor costs. DRA recommends reducing non-labor 2012 forecast by $87,000.

3. Treasurer's Department Account 930

Costs charged to Account 930 include bank service operating fees, credit line operating fees, and bond-related fees. The following table shows Treasurer's Department Account 930 for the record period 2005-2009 and 2012 Test Year Proposal:

Table 12-11
Treasurer's Department Summary Account 930
2005-2009 Recorded / 2012 Forecast
(In Thousands of 2009 Dollars)

Description	2005	2006	2007	2008	2009	2012
Bank Service Fees	$3,953	$4,184	$3,893	$3,759	$2,974	$3,314
Credit Line Fees	$ 277	$ 636	$ 645	$ 976	$ 884	$3,928
Bond-Related Fees	$ 996	$1,664	$1,669	$ 732	$ 711	$950
	$4,120	$5,096	$5,316	$4,760	$4,569	$8,192

Source: 2005-2009 data from response to DRA-SCE-059-DFB, Question 9 and 2012 from Exhibit SCE-07, Volume 1, Chapter VI pages 35

[23] See Exhibit SCE-07, Volume 1, Chapter VI, page 35.

SCE's Treasurer's Department used budget based, $8.192 million, methodology to forecast bank fees, credit line fees and bond-related fees. DRA has reviewed SCE's Treasurer's Departments method of forecasting and disagrees with it. As shown in Table 12-11 above, costs have fluctuated in minor amounts over the record period 2005-2009. In addition, the 2010 recorded costs were $4.889 million.[24] DRA recommends using a five year average (2006-2010) to forecast these costs for the Test Year 2012. Using a five year average results in the forecast being reduced by $3.268 million. DRA's 2012 forecast is $4.924 Million for bank fees costs. DRA recommends that Treasurer's Department Test Year 2012 forecast be reduced by a total of $3.268 million.

D. Tax Department

SCE's Tax Department is forecasting $3.932 million for Test Year 2012.[25] This represents an overall increase of 16.8% over 2009 Adjusted Recorded costs of $3.365 million. SCE's Tax Department used last recorded method for labor and non-labor to forecast for Test Year 2012. DRA's 2012 forecast is $2.924 million. The following table shows the Audit Services costs for the record period 2005-2009 and 2012 Test Year Proposal:

Table 12-12
Tax Department Summary
2005-2009 Recorded Data for FERC Account 920/921
(In Thousands of 2009 Dollars)

Description	2005	2006	2007	2008	2009	SCE 2012	DRA 2012
Labor	$2,011	$2,321	$2,934	$2,772	$2,811	$3,378	$2,622
Non-Labor	$ 168	$ 237	$ 290	$ 349	$ 554	$ 554	$ 320
Total	$2,179	$2,558	$3,224	$3,121	$3,365	$3,932	$2,942

Source: 2005-2009 data from Exhibit SCE-07, Volume I, Chapter VII, page 40

24 See response to DRA-SCE-237-DFB, Question 3.

25 See Exhibit SCE-07, Volume 1, Chapter IV, page 13.

1. Tax Department Account 920

SCE's Tax Department is forecasting an increase in labor costs of $567,000 in Test Year 2012 to fill two vacancies and two new positions.[26] During 2009 outside consultants were utilized to temporarily backfill the vacant positions.[27] The cost of the outside consultants was $280,000[28] and is included in an adjustment to the Tax Department's recorded 2009 labor.[29] The Tax Department then adds $336,000 to the 2009 base year "to fill two vacancies."[30] Therefore, SCE has included both the costs of backfilling the vacancies and the full costs of filling the vacancies in the Test Year 2012. This is double counting the costs of these vacancies in the Test Year. DRA recommends that $336,000 be removed from the Test Year 2012 forecast.

SCE states: "The two new tax positions will support the following activities: (1) monitoring and complying with changing federal and state laws and regulations as mentioned above, (2) preparing schedules to meet additional IRS audit scrutiny and increased filing requirements, including Schedule UTP (for uncertain tax positions, as described below), (3) meeting increased Sarbanes-Oxley requirements in the tax area, and (4) complying with current accounting standards for computing income taxes under FIN 48."[31] DRA specifically asked SCE how it determined the need for two new tax positions, to which SCE stated: "The need for the two new tax positions was based primarily on hours spent by outside consultants to complete

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[26] See Exhibit SCE-07, Volume 1, Chapter VII, page 44.

[27] Ibid.

[28] See response to DRA-SCE-060-DFB, Question 3.

[29] See workpapers for Exhibit SCE-07, Volume 1, Chapter VII, page 193, Business Adjustment 2.

[30] See workpapers for Exhibit SCE-07, Volume 1, Chapter VII, page 183.

[31] See Exhibit SCE-07, Volume 1, Chapter VII, page 45.

these duties when there were new filing requirements in prior years."[32] SCE provided no quantitative justification for the need for two new tax positions. DRA recommends that $231,000 in labor costs be removed from Test Year 2012 forecast.

In forecasting its labor costs for the Test Year 2012, SCE's Tax Department used 2009 recorded expenses as its basis. To the 2009 base year SCE added $566,800 to arrive at its labor forecast of $3.378 million. DRA disagrees with this methodology in that the labor costs in this area have not been stable for the past five years. The labor costs have fluctuated from $1.346 million in 2005 to $1.742 million in 2009, with the highest in 2007 of $1.949 million. When costs have significant fluctuations from year to year it is more appropriate to use an averaging methodology. Therefore, DRA has forecasted labor costs in the Tax Department using a five year average (2005-2009). This results in a further reduction to the Tax Department's labor costs of $189,000 for the Test Year 2012. DRA's 2012 forecast is $2.622 million for labor costs. DRA recommends a total removal of $756,000 from the Test Year 2012 forecast.

2. Tax Department Account 921

SCE's Tax Department is forecasting $554,000 in non-labor costs for the Test Year 2012. The Tax Department forecasted non-labor using the recorded 2009 expense level for Test Year 2012 expenses. According SCE, non-labor costs "are approximately 11 percent of the labor costs. Non-labor costs are related to the amount of labor costs. DRA has reviewed this forecast and recommends that a forecast for Test Year 2012 be based on a five year average. As shown in the above table non-labor costs were highest in 2009. There were minor increases in non-labor costs in 2005 to 2008. DRA believes that using a multi-year average for forecasting the test year labor costs is more appropriate. Using a five year average takes into consideration the variance in non-labor costs over the record period. DRA's 2012 forecast is $320,000 for non-labor costs. DRA recommends reducing non-labor 2012 forecast by $234,000.

[32] See response to DRA-SCE-060-DFB, Question 4.

E. Capitalized Software

SCE's Financial Organizations are requesting a total of $14.5 million in capital expenditures, $2.9 million for 2012 and $11.6 million for 2013, for a capitalized software project, allegedly, to comply with International Financial Reporting Standards (IFRS). SCE's estimation methodology was based on a survey conducted by Accenture.[33] SCE has not provided sufficient supporting documentation for the $14.5 million in capital expenditures for the IFRS project. SCE's supporting workpapers for this project consisted of a single page[34] which is insufficient documentation to review and analyze.[35] SCE does not expect to solicit vendor bids for this IFRS project until after the Securities and Exchange Commission (SEC) issues its implementation rules for IFRS. DRA recommends that SCE not be authorized $2.9 million in capital expenditures for IFRS project in Test Year 2012 $11.6 million Post Test Year 2013.

F. Risk Control Group

SCE's Risk Control Group is forecasting $6.055 million for Test Year 2012.[36] This represents an overall increase of 13.4% over 2009 Adjusted Recorded costs of $5.34 million. DRA's Test Year 2012 forecast is $3.847 million. The following table shows the Risk Control Group's costs for the record period 2005-2009 and the forecast for 2012 Test Year Proposal:

[33] See Exhibit SCE-07, Volume 1, Chapter VIII, page 49.

[34] See workpapers for Exhibit SCE-07, Volume 1, Chapter VIII, page 197.

[35] See response to DRA-SCE-061-DFB, Question 1a-e.

[36] See Exhibit SCE-07, Volume 1, Chapter XII, page 56.

Table 12-13
Risk Control Group Summary
2005-2009 Recorded Data for FERC Account 920/921
(In Thousands of 2009 Dollars)

Description	2005	2006	2007	2008	2009	SCE 2012	DRA 2012
Labor	$1,880	$2,441	$2,508	$3,146	$4,200	$4,945	$2,853
Non-Labor	$164	$547	$1,471	$1,139	$1,050	$1,110	$993
Total	$2,044	$2,988	$3,979	$4,285	$5,340	$6,055	$3,847

Source: 2005-2009 data from Exhibit SCE-07, Volume I, Chapter XII, page 56

1. Risk Control Group Account 920

SCE's Risk Control Group is forecasting labor costs of $4.945 million in Test Year 2012 which represents a 15.3% increase over 2009 labor costs of $4.290 million. The $655,000 increase is to fill five vacancies and hire one additional employee for the Test Year 2012.[37] Risk Control has not provided sufficient quantitative justification for the increase in labor costs. DRA recommends removing $655,000 from Test Year 2012 forecast.

Risk Control Group used a budget-based method to forecast $4.945 million, for its labor costs for Test Year 2012. DRA has reviewed SCE's method of forecasting and disagrees with it. DRA recommends using a five year average. As shown in the above table, labor costs fluctuated from year to year. DRA believes that using a multi-year average for forecasting the test year labor costs is more appropriate. Using a five year average takes into consideration the variance in labor costs over the record period. DRA's 2012 forecasts is $2.853 million for labor costs for Test Year 2012. DRA recommends that $2.092 million be removed from the Test Year 2012 forecast.

[37] See Exhibit SCE-07, Volume 1, Chapter XII, page 70.

2. Risk Control Group Account 921

SCE's Risk Control Group is forecasting non-labor costs of $456,000 in Test Year 2012 which represents a 15.2% increase over 2009 labor costs of $396,000 million.

Risk Control Group used a budget-based method to forecast $456,000 for its non-labor costs for Test Year 2012. Non-labor costs are related to the amount of labor costs. Disallowing the increase in labor costs has an impact on the forecast of non-labor costs. DRA has reviewed SCE's method of forecasting and disagrees with it. DRA recommends that the forecast for the Test Year 2012 be based on a five year average. As shown in the above table, non-labor costs fluctuated from year to year. DRA believes that using a multi-year average for forecasting the test year non-labor costs is more appropriate. Using a five year average takes into consideration the variance in labor costs over the record period. DRA's 2012 forecast is $339,000 for non-labor costs. DRA recommends that $117,000 be removed from the Test Year 2012.

3. Risk Control Group Account 923

SCE's Risk Control Group is forecasting Outside Services costs of $654,000 in Test Year 2012 which represents a zero increase over 2009 labor costs of $654,000 million. DRA has reviewed these costs and takes no exception to them.

V. DISCUSSION / ANALYSIS OF SCE-07 VOLUME 2: LEGAL & ETHICS AND COMPLIANCE

This section presents DRA's analyses and recommendations regarding SCE's Legal and Ethics and Compliance Organizations. SCE is requesting a total of $123.519 million in Test Year 2012 expenses, an increase of $13.387 million over 2009 recorded expenses. This is a 12.16% increase from 2009 Adjusted Recorded costs of $110.132 million. DRA's Test Year 2012 forecast is $103.606 million. The following table shows a Legal & Ethics and Compliance costs for record period 2005-2009 and the 2012 Test year Proposal:

Table 12-14

Legal & Ethics and Compliance Summary
2005-2009 Recorded / 2012 Forecast
(In Thousands of 2009 Dollars)

Description	2005	2006	2007	2008	2009	SCE 2012	DRA 2012
Law	$ 41,527	$39,959	$ 38,022	$42,209	$ 44,884	$ 47,829	$ 39,713
Claims	$ 22,848	$10,207	$ 43,498	$18,419	$ 42,552	$ 50,289	$ 41,696
Workers' Compensations	$ 40,211	$28,033	$ 22,601	$22,085	$ 20,392	$ 22,281	$ 20,060
Ethics & Compliance	$ 430	$ 1,473	$ 1,807	$ 1,775	$ 2,304	$ 3,120	$ 2,137
Total	$105,016	$79,672	$105.928	$84,488	$110,132	$123,519	$103,606

Source: 2005-2009 data from Exhibit SCE-07, Volume 2 Chapter I, Page 1.

The following table shows a comparison between DRA's recommendations and SCE's Test Year 2012:

Table 12-15
DRA's Forecast Law and Ethics and Compliance
Administrative and General Expenses
(In Thousands of 2009 Dollars)

Description (a)	DRA Recommends (b)	SCE Proposed (c)	Amount SCE>DRA (d=c-b)	Percentage SCE>DRA (e=d/b)
Law	$ 38,920	$ 47,829	$ 8,909	18.6%
Claims	$ 41,696	$ 50,289	$ 8,593	17.1%
Workers Compensation	$ 20,060	$ 22,282	$ 2,222	10.0%
Ethics and Compliance	$ 2,137	$ 3,120	$ 983	31.5%
Total	**$ 102,813**	**$ 123,520**	**$ 20,707**	**16.8%**

A. Law Department

SCE's Law Department is forecasting $47.829 million for the Test Year 2012.[38] This represents an overall increase of 6.6% over 2009 Adjusted Recorded costs of $44.884 million. SCE's Law Department used 2009 recorded data as a basis for forecasting labor and non-labor for Test Year 2012. DRA's Test Year 2012

[38] See Exhibit SCE-07, Volume 2, Chapter II, page 3.

forecast is $39.713 million. The following table shows the Law Department's costs for the record period 2005-2009 and the forecast for 2012:

Table 12-16
Law Department Summary
2005-2009 Recorded Data for FERC Account 920/921/923/928/930
(In Thousands of 2009 Dollars)

Description	2005	2006	2007	2008	2009	SCE 2012	DRA 2012
Labor	$19,927	$21,020	$21,674	$22,838	$23,609	$25,325	$23,609
Non-Labor	$21,600	$18,939	$16,348	$19,371	$21,275	$22,504	$16,104
Total	$41,527	$39,959	$38,022	$42,209	$44,884	$47,829	$39,713

Source: 2005-2009 data from Exhibit SCE-07, Volume 2I, Chapter II, page 3

1. In-House Resources

SCE's Law Department handles the majority of SCE's legal matters in-house. The Law Department anticipates an increased workload for all attorneys. The Law Department is forecasting $1,716,300 for an additional nine attorneys, three paralegals, and three legal administrative assistants. SCE has provided insufficient justification for the requested increase in labor costs for the Test Year 2012.

SCE states: "The Department anticipates an increased workload for all attorneys due to the implementation of the new Energy Regulatory Compliance Program (ERCP)."[39] If the workload for all attorneys is increasing due to ERCP then SCE should be able to provide a quantitative support for the increase in staff for the Test Year 2012.

SCE states: "…the Renewable and Alternative Power Department will have to contract to meet increased Renewable Portfolio Standard program goals (from 20 percent in 2010 to 33 percent in 2020)…"[40] SCE did not provide any estimates to quantify how meeting the Renewable Portfolio goals will affect the Law Department costs in the Test Year 2012. Again SCE's justification lacks any quantitative support to substantiate the forecast increase of labor costs. DRA used 2009 recorded to

[39] See Exhibit SCE-07, Volume 2, Chapter II, page 4.

[40] See Exhibit SCE-07, Volume 2, Chapter II, page 11.

forecast for the Test Year 2012, and recommends that $1,716,300 be removed from Test Year 2012 labor forecast. DRA's 2012 forecast is $22.966 million for labor costs.

Non-labor expenses are related to labor expenses. Before forecasting non-labor, SCE computed the annual ratio of non-labor expenses to labor expenses. SCE selected the 2009 ratio of 18.2 percent and multiplied that ratio by the 2012 labor forecast. This yielded a Test Year 2012 non-labor forecast of $4.504 million. Since DRA is recommending no labor increases for the Test Year 2012, the forecasted non-labor expense also needs to be adjusted. DRA used 2009 recorded to forecast for the Test Year 2012, and recommends that Test Year 2012 non-labor forecast be reduced by $313,000. DRA's 2012 forecast is $4.191 million for non-labor costs.

2. Outside Counsel

In its Application SCE's Law Department forecast $13.839 million for Test Year 2012 Outside Counsel costs. This represents an overall increase of 7% over 2009 Adjusted Recorded costs of $12.923 million.[41] SCE's Law Department records expenses associated with its Outside Counsel costs in Account 923 – Outside Services and Account 928 Regulatory Commission Expenses.[42] For the Test Year 2012, SCE is using 2009 recorded data for Account 923 and a four-year average for Account 928 to forecast Outside Counsel costs. Therefore, the Test Year 2012 forecast for Account 923 is $11.529 million and $2.010 million for Account 928.

SCE has negotiated fee arrangements with six firms that have been retained on a long-term basis for the bulk of legal services for SCE. SCE's Outside Counsel Committee evaluates the performance of these six outside counsel firms and awards

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[41] See Exhibit SCE-07, Chapter II, page 20.

[42] See Exhibit SCE-07, Volume 2, Chapter I, page 19.

the firms a bonus. During the xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxx.[43]

SCE fails to provide sufficient evidence that ratepayers derived any incremental benefit to justify the funding of these bonuses. SCE seems to assume, without justification, that it can look to the "deep pockets" of ratepayers for this type of expense. Ratepayers should not have to fund outside counsel bonuses on top of fees paid to for legal services provided to SCE.   DRA recommends removing the xxxxxxxxxx in outside counsel bonuses before forecasting for the Test Year 2012.

In its application, SCE also included costs xxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxx. xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx.[44] xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx.

SCE also included in Account 923 litigation costs of xxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx. When an employment or discrimination case either results in a judgment against the utility or the utility chooses to settle such a case, the costs incurred by the utility should not be borne by the ratepayers. In 1980, FERC issued an Accounting Release (AR) 12 which specifically questions:

> "What is the proper accounting treatment for expenditures made by the utility, resulting from employment practices that were found to be discriminatory by a judicial or administrative decree or that were the result of a compromise settlement or consent decree?"

The FERC Release AR-12 answers the question by stating:

[43] See Confidential response to DRA-004-DFB, Question 24.

[44] See Confidential response to DRA-SCE-098-DFB, Question 1a.

> "The Uniform System of Accounts provides that all charges to utility operating expense accounts must be just and reasonable. Expenditures of the nature mentioned above that can be readily identified and quantified should not be considered as just and reasonable charges to utility operations and should be classified to the appropriate nonoperating expense accounts."

To DRA's knowledge, this Commission has followed AR-12 since it was issued. In D. 92549, the Commission decided to exclude from test year results all costs which SCE incurred in an affirmative action suit which the Commission assumed would shortly be settled, explaining the position was in harmony with FERC in AR-12.[45] In D. 96-01-011, the Commission, again held that costs incurred in meritorious employment discrimination suits should not be charged to ratepayers as they are non-operating expenses.[46]

SCE has not shown why the Commission should abandon this reasoned policy now. Therefore, DRA recommends that Account 923 Outside Services be xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx.

SCE Law Department has included xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx.[47] xxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx. Xxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxx. Xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx.[48] Xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx.

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[45] SoCal Edison Company (1980) 5 CPUC 2d 39; D.92549; 1980 Cal. PUC Lexis 1296*48.

[46] In Re Southern Californian Edison Company (1996) D. 96-01-011, 1996 Cal. PUC Lexis 23.

[47] See Confidential response to DRA-SCE-004-DFB, Question 22.

[48] See Exhibit SCE-07, Volume 3, Chapter 1, Footnote 3, page 4.

DRA, in addition, has removed an audit adjustment of xxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx. Xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx. Xxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxx. DRA recommends that $4.492 million be removed from Test Year 2012 Outside Services.

3. Corporate Governance & Miscellaneous Expenses Account 920/921

Corporate Governance is forecasting operating expenses of $704,000 for Account 920-921. SCE forecast is based on 2009 recorded costs for the Test Year 2012. DRA has reviewed this forecast the takes no exception to it.

4. Corporate Governance Account 930

Corporate Governance's is forecasting $4.091 million for Test Year 2012 Miscellaneous Expenses,[49] which includes fees and expenses paid to members of SCE's Board of Directors, expenses associated with the annual shareholders meetings, contract services, and other proxy-solicitation fees.

SCE EIX pays the Board of Directors fees and expenses for SCE the utility, and allocates approximately xxx of the fees and expenses to SCE. SCE EIX included expenses for xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx, xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx in the Directors fees and expenses.

SCE's ratepayers should not fund xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx, xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx. These expenses provide no direct benefit to the ratepayers. Therefore, DRA has removed these expenses before allocating Board of Directors fees to SCE's ratepayers.

xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx. These expenses should be excluded from

[49] See Exhibit SCE-07, Volume 2, Chapter II, page 25.

recorded costs. Ratepayers should not be asked to fund these types of expenses. DRA has removed these costs before forecasting for the Test Year 2012. DRA's 2012 forecast is $1.703 million. DRA recommends that $2.388 million be removed from Test Year 2012.

5. Capital Project: Electronic Discovery

SCE's Law Department forecast includes a cost of $4.882 million for a capital project for Electronic Discovery for 2010-2012.[50] SCE costs were "based on a vendor estimate".[51] Xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxx.[52] It is unclear from SCE's response how it determined the estimates. SCE sent out a Request for Proposal (RFP) in January 2011 and expects to award the contract by mid-April 2011. SCE has provided insufficient justification for this capital project. DRA recommends no ratepayer funding for the capital project for Electronic Discovery.

B. Claims

Claims Division is forecasting $50.289 million for the Test Year 2012.[53] This represents an overall increase 18% over 2009 Adjusted Recorded costs of $42.552 million. DRA's Test Year 2012 forecast is $41.696 million. The following table shows the Claims Division's costs for the record period 2005-2009 and 2012 Test Year Proposal:

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[50] See Exhibit SCE-07, Volume 2, Chapter II, page 32.

[51] Ibid.

[52] See Confidential response to DRA-SCE-004-DFB, Question 34.

[53] See Exhibit SCE-07, Volume 2, Chapter III, page 34.

Table 12-17
Claims Division Summary
2005-2009 Recorded Data for FERC Account 920/921/924/925
(In Thousands of 2009 Dollars)

Description	2005	2006	2007	2008	2009	SCE 2012	DRA 2012
Labor	$ 2,456	$ 2,409	$ 2,641	$ 2,782	$ 2,823	$ 2,829	$ 2,829
Non-Labor	$20,392	$ 7,708	$40,857	$15,637	$39,729	$47,460	$xxxxxx
Total	$22,848	$10,207	$43,498	$18,419	$42,552	$50,289	$xxxxxx

Source: 2005-2009 data from Exhibit SCE-07, Volume 2I, Chapter III, page 34

1. Claims Account 920/921

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2. Claims Account 924/925

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[54] See Exhibit SCE-07, Volume 2, Chapter II, page 38.

[55] See Exhibit SCE-07, Volume 2, Chapter II, page 39.

3. Claims Reserves Account 925

Xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx.[56] xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx.[57] Xxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx. Xxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx[58] Xxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxx. xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx[59]

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[56] See Confidential Exhibit SCE-07, Volume 2, Chapter III, page 44.

[57] Ibid page 40.

[58] Ibid page 42.

[59] See Exhibit SCE-07, Volume 3, Chapter IV, page 59.

[60] See Confidential Workpapers for Exhibit SCE-07, Volume 3, Chapter IV, Page 10.

[61] See Confidential Exhibit SCE-07, Volume 2, Chapter III, page 44.

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C. Workers' Compensation

SCE's Workers' Compensation is forecasting $22.282 million for Test Year 2012. This represents an overall increase of 9.27% over 2009 recorded adjusted expenses of $20.392 million. DRA's 2012 forecast is $20.06 million. The following table shows a comparison between SCE's 2009 Adjusted Recorded and 2012 Test Year Proposal:

Table 12-18
2005-2009 Recorded / 2012 Forecast
(In Thousands of 2009 Dollars)

Description	2005	2006	2007	2008	2009	SCE 2012	DRA 2012
Labor	$2,882	$3,101	$3,294	$3,464	$3,550	$4,128	$3,258
Non-Labor	$37,329	$24,932	$19,307	$18,623	$16,842	$18,154	$16,802
Total	$40,211	$28,033	$22,601	$22,087	$20,392	$22,282	$20,060

Source: 2005-2009 data from Exhibit SCE-07 Volume 2, Chapter IV, Page 45.

1. Workers' Compensation Account 925 Staff

SCE's Workers' Compensation is forecasting labor costs of $4.128 million in Test Year 2012 which represents a 16.3% increase over 2009 labor costs of $3.55 million. The $578,000 increase is to hire eight additional employees for the Test Year 2012.[62] Workers' Compensation has not provided sufficient quantitative justification for the increase in labor costs. DRA recommends removing $578,000 from Test Year 2012 forecast.

Workers' Compensation used a budget-based method to forecast its $4.128 million in labor costs for Test Year 2012. DRA has reviewed the method of forecasting and disagrees with it. DRA recommends that the forecast for the Test Year 2012 should be based on a five year average. As shown in the above table, labor costs have fluctuated from year to year. DRA believes that using a multi-year average for forecasting the test year labor costs is more appropriate. Using a five year average takes into consideration the variance in labor costs over the record period. DRA's 2012 forecasts is $3.258 million for labor costs. DRA recommends that $870,000 be removed from Test Year 2012.

Workers' Compensation is forecasting non-labor costs of $3.055 million which represents a 1% decrease over 2009 labor costs of $3.095 million. Workers' Compensation used a four year average to forecast its non-labor costs for Test Year 2012. DRA has reviewed this method and takes no exception to it.

[62] See Exhibit SCE-07, Volume 2, Chapter IV, Table IV-9, page 55.

2. Workers' Compensation Account 925 Reserves

SCE's Workers Compensation is forecasting $15.099 million for Test Year 2012. This represents an overall 9.8% increase over 2009 recorded adjusted expenses of $13.747 million. SCE's Workers Compensation Reserves liability at the end of 2010 was xxxxxxx xxxxxxxx,[63] xxxxxxxxxxxxxxxxxxxxxxxxxx,[64] xxxxxxxxxxxx xxxxxxxxxxxxxx.[65] DRA recommends using 2009 Adjusted Recorded $13.747 million for the Test Year 2012. This results in reduction of $1.352 million to SCE's Workers' Compensation Reserves for Test Year 2012. The 2009 record figure represents a reasonable forecast for the test year because Workers' Compensation (non-labor) costs have declined substantially due to changes in the law.

D. Ethics & Compliance

SCE's Ethics and Compliance is forecasting $3.1 million for Test Year 2012. This represents an overall increase of 35.4% over 2009 recorded adjusted expenses of $2.301 million.

DRA's 2012 forecast is $2.137 million. The following table shows a comparison between SCE's 2009 Adjusted Recorded and 2012 Test Year Proposal:

Table 12-19
Ethics & Compliance Summary
2005-2009 Recorded / 2012 Forecast
(In Thousands of 2009 Dollars)

Description	2005	2006	2007	2008	2009	SCE 2012	DRA 2012
Labor	$258	$755	$993	$1,066	$1,186	$1,909	$1,186
Non-Labor	$172	$718	$814	$709	$1,118	$1,211	$ 951
Total	$430	$1,473	$1,807	$1,775	$2,304	$3,120	$2,137

Source: 2005-2009 data from Exhibit SCE-07 Volume 2, Chapter V, Page 59.

[63] See confidential response to DRA-Verbal-073, Question 1.

[64] Ibid.

[65] See confidential response to DRA-SCE-262-DFB, Question 5.

1. Ethics & Compliance Account 920/921

Ethics & Compliance is forecasting $1.909 million in labor costs for Test Year 2012. This represents an on overall increase of 61% over 2009 recorded adjusted costs of $1.186 million. The following table shows a comparison between SCE's 2009 Adjusted Recorded and 2012 Test Year Proposal:

Table 12-20
2005-2009 Recorded / 2012 Forecast
(In Thousands of 2009 Dollars)

Description	2005	2006	2007	2008	2009	2012	DRA 2012
Labor	$258	$ 755	$ 993	$1,066	$1,186	$1,909	$1,186
Non-Labor	$124	$ 263	$ 411	$ 271	$ 346	$ 439	$ 346
Total	$382	$1,018	$41,404	$1,337	$1,532	$2,348	$1,532

Source: 2005-2009 data from Exhibit SCE-07 Volume 2, Chapter V, Page 71.

The increase in labor costs for the 2010 through 2012 reflects the increased staffing to provide greater compliance management oversight.[66] The increase of $723,000 is to fill two vacancies and add five additional positions. Ethics & Compliance has not provided sufficient quantitative justification for the increase in labor costs. DRA recommends removing $723,000 in labor costs from Test Year 2012 forecast. DRA's forecast is $1.186 million for labor costs.

Ethics & Compliance forecast its non-labor costs for Test Year 2012 using recorded 2009 data as its base estimated and adjusted it by $93,000 to reflect its expected non-labor costs for Test Year 2012. Non-labor costs are related to the amount of labor costs. Disallowing the increase in labor costs has an impact on the forecast of non-labor costs. DRA's 2012 forecasts is $346,000 for non-labor costs. DRA recommends that $93,000 be removed from the Test Year 2012.

[66] See Exhibit SCE-07, Volume 2, Chapter V, page 59.

2. Ethics & Compliance Account 923

Ethics & Compliance is forecasting $772,000 in Outside Services costs for Test Year 2012. This represents a zero increase of over 2009 recorded adjusted costs of $772,000. DRA takes no exception to this forecast.

II. DISCUSSION / ANALYSIS OF SCE-07 VOLUME 3: REGULATORY POLICY & AFFAIRS, CORPORATE MEMBERSHIP DUES & FEES, CORPORATE COMMUNICATIONS, and PROPERTY LIABILITY INSURANCE & EXPENSE

This section presents DRA's analyses and recommendations regarding SCE's Regulatory Policy & Affairs (RP&A), Corporate Membership Dues & Fees, Corporate Communications, and Property Liability Insurance & Expense. SCE is requesting a total of $102.3 million in Test Year 2012 expense, an increase of $51.131 million over 2009 recorded expenses. This is a 100% increase from 2009 Adjusted Recorded costs of $51.138 million. DRA's 2012 forecast is $51.138 million. The following table shows a comparison between SCE's 2009 Adjusted Recorded and 2012 Test Year Proposal:

Table 12-21
Southern California Edison Company
Comparison between 2009 Adjusted Recorded and 2012 Test Year Request
(In Thousands of 2009 Dollars)

	SCE			
	2009	2012		
Description (a)	Adjusted Recorded (b)	Test Year (c)	Increase (d=c-b)	Percentage (e=d/b)
Regulatory Policy & Affairs	$ 12,992	$ 15,446	$ 2,454	18.9%
Corp. Membership Dues & Fees	$ 1,748	$ 1,989	$ 241	13.8%
Corporate Communications	$ 12,781	$ 16,854	$ 4,073	31.9%
Property Insurance	$ 10,409	$ 15,417	$ 5,008	48.1%
Liability Insurance	$ 13,208	$ 52,563	$ 39,355	298.0%
SCE-07, Volume 3 Total	$ 51,138	$ 102,269	$ 51,131	100.0%

The following table shows a comparison between DRA's recommendations and SCE's Test Year 2012:

Table 12-22
DRA's and SCE's Forecast - RP&A, Corporate Membership Dues & Fees, Corporate Communications, and Property Liability Insurance & Expense Administrative and General Expenses
(In Thousands of 2009 Dollars)

Description (a)	DRA Recommends (b)	SCE Proposed (c)	Amount SCE>DRA (d=c-b)	Percentage SCE>DRA (e=d/b)
Regulatory Policy & Affairs	$ 12,223	$ 15,446	$ 3,223	20.9%
Corp. Membership Dues	$ 1,989	$ 1,989	$ -	0.0%
Corporate Communications	$ 12,802	$ 16,854	$ 4,052	24.0%
Property Insurance	$ 15,108	$ 15,417	$ 309	2.05%
Liability Insurance	$ 28,366	$52,563	$ 24,197	85.3%
Total	**$ 70,488**	**$ 102,269**	**$ 31,781**	**31.1%**

A. Regulatory Policy and Affairs

SCE's Regulatory Policy and Affairs (RP&A) is forecasting $15.446 million for Test Year 2012.[67] This represents an overall increase of 18.9% over 2009 Adjusted Recorded costs of $12.992 million. SCE's Regulatory Policy and Affairs used a budget-based method for labor and five year average for non labor to forecast for the Test Year 2012. DRA's 2012 forecast is $12.223 million.

Table 12-23
Regulatory Policy and Affairs Summary
2005-2009 Recorded / 2012 Forecast
(In Thousands of 2009 Dollars)

Description	2005	2006	2007	2008	2009	SCE 2012	DRA 2012
Labor	$9,894	$9,690	$9,876	$10,128	$10,403	$12,812	$9,588
Non-Labor	$3,667	$2,362	$2,202	$2,349	$2,589	$2,634	$2,634
	$13,561	$12,052	$12,078	$12,477	$12,992	$15,446	$12,223

Source: 2005-2009 data from Exhibit SCE-07 Volume 3, Chapter I, Page 1.

[67] See Exhibit SCE-07, Volume 3, Chapter 1, page 1.

1. ATR Compliance

SCE's RP&A's Regulatory Compliance section is primarily responsible for ensuring compliance with the Commission's Affiliate Transaction Rules (ATR). SCE's RP&A is seeking to include $450,000 for ATR costs in its Test Year 2012 forecast. SCE's RP&A contends that by ensuring compliance with the Affiliate Transaction Rules the ratepayers are benefited.

In its decision for SCE's 2006 GRC, the Commission considered this issue:

> "TURN states that the Commission has held that the costs for complying with affiliate transaction rules should not be charged to ratepayers, since there is no basis to conclude 'ratepayers are in any other way the primary beneficiaries of [the utility's] decisions to diversify into non-regulated activities.' TURN further states that SCE has made no showing in this case to disapprove the Commission's conclusions regarding the need for benefits of affiliate compliance activities. TURN suggests that SCE can allocate the costs to affiliates or shareholders.
>
> TURN's proposed adjustment is consistent with Commission precedent, is not disputed by SCE, and will be adopted."[68]

In its decision on the Pacific Gas and Electric Company's (PG&E) Test Year 1999 GRC, the Commission stated:

> "PG&E has not demonstrated that utility ratepayers benefit from the profits earned by affiliates, or that ratepayers are in any other way the primary beneficiaries of its decisions to diversify into non-regulated activities. PG&E's establishment of a holding company which oversees affiliates that engage in non-regulated activities was largely, if not entirely, the consequence of management decisions that benefit shareholders. As TURN states, if PG&E had no affiliates, it would have no need of an affiliate compliance department. Moreover, ratepayers would have no exposure to the risks of non-regulated activities to be protected against in the first instance. Accordingly, the costs of affiliate rules

[68] D.06-05-016, mimeo page 153.

> compliance properly belong with the utility's affiliates. We therefore, adopt ORA's recommendation to allocate compliance costs to the affiliates."[69]

SCE's RP&A testimony does not justify changing Commission policy regarding ATR. RP&A's instead buries its rationale in Footnote 19[70] which states:

> "The Affiliate Rules include the CPUC ATRs and SCE's Holding Company Conditions and the FERC Standards of Conduct and Affiliate Restrictions. In SCE's previous two GRC proceedings, intervenors have argued for exclusion of CPUC ATR compliance costs, and the CPUC has agreed. SCE believes that the costs of compliance with the CPUC ATRs are appropriately recoverable from ratepayers and has included them in RP&A's 2012 Test Year expenses."

The Commission's policy has been to not allow ATR costs to be funded by ratepayers, the same reasoning applies here; D. 09-03-025 states:

> "SCE estimates $0.285 million (constant 2006%) in 2009 TY O&M expenses for compliance with the Affiliate Transaction Rules by the Regulatory Policy & Affairs department. DRA recommends this amount be removed from the forecast, nothing that the Commission excluded these amounts from revenue requirement in the 2006 GRC. In response, SCE contends that, for approximately two decades, the Commission permitted SCE to recover these costs in rates and the Commission's reversal of policy on this matter in the 2006 GRC was not well-founded. SCE asserts that ratepayers have an interest in SCE maintaining Affiliate Transaction Rule compliance.
>
> We affirm the policy set forth in the 2006 GRC, and remove these compliance costs from the forecast. These compliance costs are incurred to support the operations of SCE's affiliates and, as such, requiring ratepayers to bear those costs would amount to a subsidy of those operations by ratepayers. We

[69] D.00-02-046, mimeo, page 273.

[70] See Exhibit SCE-07, Volume 3, Chapter I, page 13, Footnote 19.

disagree with SCE's argument that ratepayers should pay because SCE's compliance with these rules protects ratepayers."[71]

DRA recommends that $450,000[72] in labor costs be removed from the Test Year 2012 forecast.

2. RP&A Labor

RP&A is forecasting an increase of $1,089,408 to fill three vacancies and $1,319,928 for 13 additional positions.[73] RP&A states:

> "With the on-going workload in regulatory activities, coupled with the growth in RP&A's regulatory compliance activities described below, RP&A plans to accomplish the required work with 125 employees in 2012, as increase of 126 employees over RP&A's recorded 2009 level."[74]

RP&A does not keep records tracking the activity of its employees' workload.[75] Without a quantifiable means of determining workloads and number of employees to accomplish those workloads, there is no justification for the 16 additional employees in the Test Year 2012. In fact, during record period, RP&A's FTEs ranged from 96 in 2005 to 109 in 2009,[76] which averages to approximately 99.6 FTEs per year. RP&A has been able to accomplish its workload with approximately 100 employees during the past five years, it seems appropriate to continue to have 100 employees in RP&A. DRA recommends that $2.409 million be

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[71] See D.09-03-025, mimeo page 162.

[72] See SCE-07, Volume 3, Chapter I, Table I-1, page 7.

[73] See response to DRA-SCE-020-DFB, Question 3.

[74] See Exhibit SCE-07-, Volume 3, Chapter I, page 5.

[75] See response to DRA-SCE-022-DFB, Question 1a.

[76] Ibid.

removed from the Test Year 2012 labor forecast. DRA's 2012 forecast is $9.588 million.

3. RP&A Labor Forecast

RP&A forecast its labor costs for the Test Year 2012 using a budget-based, method to arrive to at its forecast of $12.812 million.[77] DRA disagrees with this methodology in that labor costs in this area have not been stable for the past five years. The labor costs have fluctuated from $9.894 million in 2005 to $10.403 million in 2009. When costs have significant fluctuations from year to year, it is more appropriate to use an averaging methodology. The RP&A labor costs also included spot bonuses, ACE awards, and ATR costs, $453,000, $62,000, and $1,427,000, respectively. DRA, prior to using a five year average, removed these labors costs that should not be funded by ratepayers. DRA has forecasted labor costs in RP&A using the five year average. This results in a further reduction to the RP&A's labor costs of $815,000 for the Test Year 2012. DRA's 2012 forecast is $9.588 million for labor costs. DRA recommends a total of $3.224 million be removed from the Test Year 2012 forecast for labor.

B. Corporate Membership Dues & Fees

SCE is forecasting $1,989,000 in corporate membership dues and fees for Test Year 2012. SCE states that its request primarily represents the annual corporate membership to Edison Electric Institute (EEI), but also includes membership fees to groups such as The Conference Board, and various electrical-system research and economic development groups.[78] SCE says that EEI separately identifies lobbying expenses on its invoices and that those lobbying

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[77] See Workpapers for Exhibit SCE-07, Volume 3, Chapter I, page 3.

[78] See Exhibit SCE-07, Volume 3, Chapter II, page 16.

expenses are funded by SCE shareholders.[79] DRA has reviewed SCE's membership dues and fees forecast and makes no adjustment to it.

Table 12-24
Corporate Membership Dues & Fees Summary
2005-2009 Recorded / 2012 Forecast
(In Thousands of 2009 Dollars)

Description	2005	2006	2007	2008	2009	SCE 2012
Account 930.2	$1,856	$1,572	$1,887	$1,799	$1,748	$1,989

Source: 2005-2009 data from Exhibit SCE-07Volume 3, Chapter II, Page 17.

C. Corporate Communications

SCE says that its Corporate Communications department provides communications to SCE customers and stakeholders on a variety of topics. SCE is forecasting $16.854 million for Test Year 2012.[80] This is an overall increase of 31.9% over 2009 Adjusted Recorded costs of $12.802 million. DRA's 2012 forecast is $12.553 million. SCE's Corporate Communications recorded expenses are shown in the table below:

Table 12-25
Corporate Communications Summary
2005-2009 Recorded / 2012 Forecast
(In Thousands of 2009 Dollars)

Description	2005	2006	2007	2008	2009	SCE 2012	DRA 2012
Labor	$6,621	$6,637	$6,710	$7,103	$6,946	$9,852	$6,827
Non-Labor	$4,451	$4,913	$5,443	$5,877	$5,835	$7,002	$6,005
	$11,072	$11,550	$12,153	$12,980	$12,781	$16,584	$12,802

Source: 2005-2009 data from Exhibit SCE-07Volume 3, Chapter III, Page 29.

[79] See Exhibit SCE-07, Volume 3, Chapter II, page 16, lines 15-16.

[80] See Exhibit SCE-07, Volume 3, Chapter III, page 26.

1. Corporate Communications Account 920

Corporate Communications is forecasting $4.856 million in labor costs for Test Year 2012, an increase of $2,906,000,[81] over 2009 levels. Of that increase, $1,158,800 is to fill nine vacancies and $1,747,200 is for 19 additional positions. SCE provides insufficient support for filling nine vacancies and adding 19 new positions in the Test Year 2012. Therefore, DRA has removed the $2,906,000 in labor costs from the Test Year 2012 forecast. In addition, DRA has adjusted out $40,000 for a media event that was one time event, spot bonuses of $444,000 and ACE awards of $454,000 during the record period 2005-2009. DRA's 2012 forecast is $6.827 million. DRA recommends that $3.224 million be removed from Test Year 2012.

2. Corporate Communications Account 921

Corporate Communications is forecasting $4.856 million in non-labor costs for Test Year 2012, an increase of $452,000 over 2009 levels. SCE's "Community Partnerships helps employees with common interests and cultural backgrounds join together to accomplish diverse community improvements and cultural projects. Called 'affinity groups' these teams are formed by employee volunteers. The groups are supported by the Company through a yearly stipend that the groups use to support their cultural activities."[82] Ratepayers should not be asked to contribute to cultural activities. DRA recommends removing $293,000 from non-labor 2005-2009 recorded costs. Since non-labor costs are impacted by labor, and DRA recommends removing forecasted labor costs of $2.906 million, the non-labor forecast should also be reduced. DRA's 2012 forecast is $4.295 million for non-labor expenses. DRA recommends that $561,000 be removed from Test Year 2012.

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[81] See Exhibit SCE-07, Volume 3, Chapter III, page 37.

[82] See Exhibit SCE-07, Volume 2, Chapter III, page 33-34.

3. Corporate Communications Account 930

Corporate Communications is forecasting $1.241 million in non-labor costs for Test Year 2012, an increase of $354,000 over 2009 levels. Corporate Communications used 2009 recorded data for its basis to forecast for Test Year 2012. To the base, Corporate Communications added incremental increases of $354,000 to arrive at its forecast of $1.241 million for Test Year 2012. DRA has reviewed this forecast method and disagrees with it. DRA believes that using a multi-year average for forecasting the test year costs is appropriate. Using a five year average takes into consideration the variance in labor costs over the record period. DRA forecasts $1.189 million in non-labor costs for Test Year 2012. DRA's 2012 forecast is $4.295 million for non-labor costs. DRA recommends that $52,000 be removed from Test Year 2012.

4. Corporate Communications Account 923

Corporate Communications is forecasting $905,000 in outside services costs for Test Year 2012, an increase of $361,000 over 2009 levels. Corporate Communications used two year average as its basis estimate to forecast for Test Year 2012. DRA has reviewed this forecast method and disagrees with it. DRA believes that using a multi-year average for forecasting the test year costs is appropriate. Using a five year average takes into consideration the variance in labor costs over the record period. DRA's 2012 forecasts is $491,000 for outside services costs. DRA recommends that $414,000 be removed from Test Year 2012.

D. Property Liability Insurance & Expense

SCE is forecasting $67.98 million for Property and Liability Insurance for the Test Year 2011. This represents an overall 188% increase of $44.363 million over 2009 Adjusted Recorded costs of $23.617 million.[83] DRA's 2012 forecast is $58.31

[83] See Exhibit SCE-07, Volume 3, Chapter IV, page 51.

million. The following table shows SCE's Property Liability Insurances & Expenses 2005-2009 recorded expenses and 2012 Test Year Proposal:

Table 12-26
Property Liability Insurance & Expense \summary
2005-2009 Recorded / 2012 Forecast
(In Thousands of 2009 Dollars)

Description	2005	2006	2007	2008	2009	SCE 2012	DRA 2012
FERC Account 924	$6,933	$7,687	$7,261	$6,641	$10,409	$15,417	$14,282
FERC Account 925	$9,016	$9,316	9,202	$9,581	$13,208	$52,563	$44,028
Total	$15,949	$17,003	$16,463	$16,222	$23,617	$67,980	$58,310

Source: 2005-2009 data from Exhibit SCE-07 Volume 3, Chapter IV, Page 51.

1. Property Insurance

SCE purchases (1) non-nuclear Property Insurance coverage for its transmission and distribution assets, power plants, and general facilities; (2) blanket crime insurance for losses due to theft, robbery, and computer and wire fraud; and (3) nuclear property insurance. Property insurance expense increased from $6.933 million in 2005 to $10.409 million in 2009. This increase is due primarily to the decrease in nuclear property insurance distributions. SCE used a budget based, $15.417 million, methodology for forecasting Property Insurance for the Test Year 2012.

SCE's 2010 recorded Property Insurance costs were $15.108 million.[84] DRA recommends that the 2010 recorded costs should be the basis for forecasting for the Test Year 2012. DRA's 2012 forecast is $15.108 million. DRA recommends that $309,000 be removed from Test Year 2012.

2. Liability Insurance

SCE maintains several types of Liability Insurance such as General Liability, Fiduciary Liability, Directors and Officers Liability, Workers Compensation, Miscellaneous Liability Insurance and Surety Bonds, and Nuclear Insurance. SCE's

[84] See response to DRA-SCE-162-DFB, Question 3 Attachment.

is forecasting Liability Insurance for Test Year 2012 to be $52.563 million. This is an increase of 298% over 2009 adjusted recorded.[85] SCE has properly excluded 50% of the Directors and Officers Insurance, which is in compliance with past Commission decisions and directives. SCE used a budget based, $53.607 million, methodology for forecasting Liability Insurance for the Test Year 2012.

SCE's 2010 recorded Liability Insurance costs were $28.366 million.[86] DRA recommends that the 2010 recorded costs should be the basis for forecasting for the Test Year 2012. DRA's 2012 forecast is $28.366 million. DRA recommends that $24.197 million be removed from Test Year 2012.

III. ADMINISTRATIVE & GENERAL and PENSIONS & BENEFITS - PARTICIPANT CREDITS/COSTS and CAPITALIZATION RATES

A. Participant A&G and P&B Credits and Costs

SCE is the operating agent and majority owner of the San Onofre Nuclear Generating Station (SONGS), Mohave Generating Station (Mohave)[87] and the El Dorado transmission facilities. As the operating agent, SCE bills the minority participants for their share of A&G and Pension and Benefits (P&B) costs. SCE is also a minority owner in the Palo Verde Nuclear Generating Station (PVNGS) and Four Corners Generating Station (Four Corners). In its testimony, SCE forecasts $6.88 million in Participants A&G expenses for all of these facilities[88] and P&B expense to be $18.030 million for the Test Year 2012.[89] DRA has reviewed this

[85] See Exhibit SCE-07, Volume 3, Chapter IV, page 65.

[86] See response to DRA-SCE-162-DFB, Question 3 Attachment.

[87] Mohave ceased operation on December 31, 2005; the participant credits reflect the costs to decommission the facility.

[88] See Exhibit SCE-07, Volume 1, Chapter IX, page 52.

[89] See Exhibit SCE-07, Volume 1, Chapter IX, page 53.

calculation the Participants Credits and Costs and takes no exception to SCE's calculation methodology and test year forecast.

B. Capitalized A&G and P&B

SCE capitalizes a portion of its A&G expenses from Account 920 (A&G Salaries) and Account 921 (Office Supplies and Expenses). Ultimately the amount of A&G to be capitalized is included in Plant –In-Service and earns a return. In order to determine the A&G capitalized rate, SCE states that it performed an A&G Effort Study.[90] SCE also states that it "Based on these departmental estimates, a company wide weighted average A&G capitalization rate of 19.4 percent was computed. This is the same methodology proposed and approved in SCE's 2009 GRC."[91] SCE is forecasting ($151.289 million) for Test Year 2012 capitalized A&G. SCE's 2012 A&G capitalization Study budget is $497.316 million with approximately 19.4% being capitalized or $96.723 million.[92] DRA has reviewed SCE's 2012 A&G Capitalization Study and takes no exception to the proposed A&G capitalization rate of 19.4%.

As labor costs are incurred, P&B costs are also incurred. Capitalized P&B cost is calculated by multiplying the P&B capitalized rate by the estimate of P&B expenses. This capitalized P&B will be included in Plant in Service. SCE's capitalized P&B rate ranged from 33.0% in 2005 to 37.7% in 2009. SCE is forecasting the capitalized P&B rate to be 37.7% for the Test Year 2012. This results in a credit to Account 926 in the amount of ($260.382 million). DRA has reviewed the capitalized P&B method and takes no exception to 37.7% capitalized P&B rate for Test Year 2012.

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[90] See Exhibit SCE-07, Volume 1, Chapter X, page 54.

[91] Ibid.

[92] See Workpapers Exhibit SCE-07, Volume 1, page 271.