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Commissioner	:	<u>Simon</u>
ALJ	:	<u>Darling</u>
Witness	:	<u>Renaghan</u>



**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**

**Cost Escalation**

San Francisco, California  
May 11, 2011

## TABLE OF CONTENTS

I.	INTRODUCTION.....	1
II.	SUMMARY OF RECOMMENDATIONS .....	1
III.	DISCUSSION / ANALYSIS OF LABOR ESCALATION .....	4
	A.SCE Methodology .....	4
	B.DRA Methodology .....	6
IV.	DISCUSSION / ANALYSIS OF NON-LABOR ESCALATION.....	10
	A.SCE Methodology .....	10
	B.DRA Methodology .....	12
V.	DISCUSSION / ANALYSIS OF OTHER ESCALATION.....	14
	A.Palo Verde Escalation .....	14
	B.Four Corners Escalation.....	14
VI.	CONCLUSION.....	15

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## **COST ESCALATION**

### **I. INTRODUCTION**

3 This exhibit presents the analyses and recommendations of the Division of  
4 Ratepayer Advocates (DRA) regarding Southern California Edison Company's (SCE  
5 or Edison) forecasts of labor and non-labor and capital related cost escalation for  
6 2010, 2011, and Test Year (TY) 2012. Escalation represents the rate of inflation  
7 SCE faces for its purchases of labor, materials, capital and other inputs.

8 DRA's recommendations are summarized in Section II. Sections III through V  
9 discuss DRA's and SCE's historic and forecast estimates of labor, non-labor, and  
10 other escalation rates. Section IV contains DRA's conclusion.

### **II. SUMMARY OF RECOMMENDATIONS**

12 The following summarizes DRA's recommendations for 2010-2012:

- 13 • For labor escalation, DRA recommends labor escalation rates of  
14 2.80 percent for 2010, 2.49 percent for 2011, and 2.22 percent for  
15 test year 2012. SCE recommends higher escalation rates of 3.30  
16 percent for 2010, 2.76 percent for 2011, and 2.27 percent for test  
17 year 2012. On a compound basis DRA's test year 2012 labor  
18 escalation is 7.70 percent while SCE's is 8.60 percent.
- 19 • For steam production DRA recommends non-labor escalation rates  
20 of 2.85 percent for 2010, 2.31 percent for 2011, and 2.74 percent  
21 for test year 2012. SCE recommends steam production non-labor  
22 escalation rates of 1.32 percent, 2.24 percent, and 2.77 percent,  
23 respectively, for 2010, 2011, and 2012. On a compound basis  
24 DRA's non-labor steam production non-labor escalation rate equals  
25 8.10 percent while SCE's equals 6.50 percent.
- 26 • For nuclear production DRA recommends non-labor escalation  
27 rates of 2.78 percent, 2.39 percent, and 2.66 % for 2010, 2011, and  
28 test year 2012. SCE, on the other hand, recommends a non-labor  
29 escalation rate of 1.32 percent in 2010, 2.40 percent in 2011, and  
30 3.04 percent for test year 2012. For this functional group DRA's  
31 compound escalation rate is 8 percent while SCE's is 6.9 percent.
- 32 • For hydro production DRA recommends a non-labor escalation  
33 rate of 2.17 percent for 2010, 2.29 percent for 2011, and 2.84  
34 percent for 2012. SCE recommends non-labor escalation rates of

1 1.51 percent for 2010, 2.72 percent for 2011, and 2.93 percent for  
2 test year 2012. On a compound basis DRA's non-labor test year  
3 hydro production non-labor escalation rate is 7.50 percent while  
4 SCE's compound non-labor escalation rate is 7.3 percent.

- 5 • For other production DRA recommends non-labor escalation rates  
6 of 1.87 percent, 1.88 percent, and 3.11 percent, respectively, for  
7 2010, 2011, and test year 2012. SCE forecasts a non-labor  
8 escalation rate of 1.47 percent in 2010, 2.51 percent in 2011 and  
9 2.99 percent for test year 2012. On a compound basis DRA's other  
10 production escalation rate is 6.80 percent and SCE's is 7.10  
11 percent.

- 12 • DRA recommends a transmission non-labor escalation rate of 1.51  
13 percent for 2010, 1.61 percent for 2011, and 2.65 percent for test  
14 year 2012. On a compound basis this is 5.90 percent for test year  
15 2012. SCE recommends, respectively, non-labor escalation rates of  
16 1.22 percent, 2.43 percent, and 2.57 percent for 2010, 2011, and  
17 2012. These estimates yield a compound escalation rate of 6.40  
18 percent for test year 2012.

- 19 • For distribution DRA recommends a non-labor escalation rate of  
20 2.55 percent for 2010, 1.80 percent for 2011, and 2.31 percent for  
21 test year 2012. SCE recommends non-labor escalation rates of  
22 1.32 percent, 2.29 percent and 2.37 percent, respectively, for 2010,  
23 2011, and 2012. On a compound basis, DRA's distribution non-  
24 labor escalation rate equals 6.80 percent and SCE's equals 6.10  
25 percent for test year 2012.

- 26 • For customer accounts, DRA forecasts annual non-labor escalation  
27 rates of 2.19 percent, 1.20 percent, and 2.21 percent, respectively,  
28 for 2010, 2011, and 2012. These rates yield a compound escalation  
29 rate of 5.70 percent for test year 2012. SCE forecasts non-labor  
30 escalation rates of 2.06 percent for 2010, 2.19 percent for 2011,  
31 and 2.19 percent for 2012. SCE's compound non-labor escalation  
32 rate for 2012 is 6.60 percent.

- 33 • For the 2010 – 2012 forecast period, DRA forecasts administrative  
34 and general non-labor escalation rates of 2.21 percent for 2010,  
35 1.94 percent for 2011 and 2.57 percent for test year 2012.  
36 Compounding these annual estimates yields a compound test year  
37 escalation rate of 6.90 percent. SCE forecasts, respectively,  
38 administrative and general escalation rates of 2.22 percent, 2.60  
39 percent, and 2.57 percent, for 2010, 2011, 2012. This yields a  
40 compound 2012 non-labor escalation rate of 7.90 percent.

1 In this rate case, DRA and SCE base historic and forecast escalation on  
 2 information taken directly from Global Insight’s Power Planner. In recent GRCs,  
 3 DRA and other major energy utilities in California, SCE, Pacific Gas and Electric  
 4 (PG&E), and the Sempra Utilities, San Diego Gas & Electric (SDG&E), and the  
 5 Southern California Gas Company (SoCalGas), have based their labor and non-  
 6 labor cost escalation estimates on information taken from the Global Insight Power  
 7 Planner. DRA recommends that the labor and non-labor escalation rates presented  
 8 in this report be revised during the Update phase in accordance with the General  
 9 Rate Case plan.

10 Table 4-1 compares DRA’s and SCE’s forecasts of labor and non-labor  
 11 escalation rates for 2010 through 2012:

12 **Table 4-1**  
 13 **Comparison of DRA’s and SCE’s Forecasts of**  
 14 **2010-2012 Labor and Non-Labor Annual Escalation Rates**

Description	DRA Recommended			SCE Proposed <sup>1</sup>		
	2010	2011	2012	2010	2011	2012
<b>Labor</b>	2.80 %	2.49 %	2.22 %	3.30 %	2.76 %	2.27 %
<b>Non-Labor</b>						
Steam Production	2.85 %	2.31 %	2.74 %	1.32 %	2.24 %	2.77 %
Nuclear Production	2.78 %	2.39 %	2.66 %	1.32 %	2.40 %	3.04 %
Hydro Production	2.17 %	2.29 %	2.84 %	1.51 %	2.72 %	2.93 %
Other Production	1.87 %	1.88 %	3.11 %	1.47 %	2.51 %	2.99 %
Transmission	1.51 %	1.61 %	2.65 %	1.22 %	2.43 %	2.57 %
Distribution	2.55 %	1.80 %	2.31 %	1.32 %	2.29 %	2.37 %
Customer Accounts	2.19 %	1.20 %	2.21 %	2.06 %	2.19 %	2.19 %
Customer Service	1.99 %	1.18 %	1.98 %	1.28 %	2.16 %	2.43 %
Admin and General	2.21 %	1.94 %	2.57 %	2.22 %	2.60 %	2.85 %

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<sup>1</sup> Southern California Edison, 2012 General Rate Case, SCE-10, Vol. 1. November 2010, p. 63.

1 Table 4-2 compares DRA's and SCE's forecasts of labor and non-labor  
 2 compounded escalation factors for 2010 through 2012:

3 **Table 4-2**  
 4 **Comparison of DRA's and SCE's Forecasts of**  
 5 **2010-2012 Labor and Non-Labor Compounded Escalation Factors**

Description	DRA Recommended			SCE Proposed <sup>2</sup>		
	2010	2011	2012	2010	2011	2012
<b>Labor</b>	1.028	1.054	1.077	1.033	1.061	1.086
<b>Non-Labor</b>						
Steam Production	1.029	1.052	1.081	1.013	1.036	1.065
Nuclear Production	1.028	1.052	1.080	1.013	1.038	1.069
Hydro Production	1.022	1.045	1.075	1.015	1.043	1.073
Other Production	1.017	1.036	1.068	1.015	1.040	1.071
Transmission	1.015	1.031	1.059	1.012	1.037	1.064
Distribution	1.025	1.044	1.068	1.013	1.036	1.061
Customer Accounts	1.022	1.034	1.057	1.021	1.043	1.066
Customer Service	1.020	1.032	1.052	1.013	1.035	1.060
Admin and General	1.022	1.042	1.069	1.022	1.049	1.079

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7 **III. DISCUSSION / ANALYSIS OF LABOR ESCALATION**

8 **A. SCE Methodology**

9 For the historic period 2005 through 2009, SCE proxies labor cost increases  
 10 by developing estimates of average hourly earnings (AHE) by functional category,  
 11 i.e., steam production, nuclear production, hydro production, other production,  
 12 transmission, distribution, customer accounts, customers service & information, and  
 13 administrative & general. Average hourly earnings are defined as total wages and  
 14 salaries (straight time, overtime, and double time) divided by effective hours worked.

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<sup>2</sup> Southern California Edison, 2012 General Rate Case, SCE-10, Vol. 1. November 2010, p. 63.

1 “[E]ffective hours worked are calculated as the sum of: (i) straight time hours, (ii)  
 2 overtime hours multiplied by one and one-half and double time hours multiplied by  
 3 two.”<sup>3</sup>

4 For the forecast period 2010-2012 overall labor escalation is a weighted  
 5 average of wage increases to the clerical/physical, executive/manager/supervisory,  
 6 and professional/technical employee classifications. SCE explains that: “The  
 7 weighting was based on the shares of represented and non-represented employee  
 8 wages and wages paid (for 2003-2006).”<sup>4</sup>

9 **Table 4-3**  
 10 **Global Insight Proxy Indexes**

Employee Category	Share of Wages and Salaries 2003-2006	Global Insight Variable Description	Global Insight Mnemonic
Clerical/Physical	46.52 %	Electric Power Generation, Transmission and Distribution Workers	CEU4422110008
Executive/Manager/Supervisor	25.62 %	Managers and Administrators	ECIWSPWMGRNS
Professional and Technical	27.87 %	Professional and Technical Workers	ECIWSPWP&TNS

11 Source: Southern California Edison 2012 General Rate Case, SCE-10, Volume 1,  
 12 November 2010, p. 65.

13 For part of the forecast period wage increases are known with certainty. For  
 14 example, in 2010 and 2011 represented (union employees) are scheduled to wage  
 15 increases of 4 percent in each year. In 2010, non-represented employees will  
 16 receive, on average, a 3 percent wage increase. For 2010 this results in a weighted  
 17 wage increase of 3.30 percent. Or, a labor escalation rate of 3.30 percent.

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<sup>3</sup> Southern California Edison 2012 General Rate Case, SCE-10, Volume I, November 2010, p. 64.

<sup>4</sup> Southern California Edison 2012 General Rate Case, SCE-10, Volume I, November 2010, p. 64.

1 For 2011 and test year 2012, SCE proxies wage increases with indexes taken  
2 from the Global Insight Power Planner. Wage increases for Clerical and Physical  
3 workers are proxied by the index CEU442211008, Electric Generation,  
4 Transmission, and Distribution workers to these classifications. Table 4-5 reports the  
5 Global Insight Power Planner.<sup>5</sup> Executive, Manager and Supervisor wage increases  
6 are proxied with ECIWSPWMGRNS, Employment Cost Index-Managers and  
7 Administrators. Wage increases for Professional and Technical workers are linked to  
8 ECIWSPWP&TNS- Employment Cost Index Professional and Technical workers.  
9 These wage increases are then weighted by the relative shares of wages and  
10 salaries paid per labor proxy indexes and the relative weights associated with each  
11 index.

12 For 2011 and 2012 SCE's procedure results in weighted average labor  
13 escalation rates of 2.76 percent and 2.27 percent, respectively. The labor escalation  
14 rates for the entire 2010-2012 forecast are then applied to each functional category.

## 15 **B. DRA Methodology**

16 DRA followed SCE procedure with one important exception. For 2010 and  
17 2011 DRA does not rely upon the 4 percent union wage increase. Rather, DRA  
18 relied upon the most recent (fourth quarter 2010) Global Insight Power Planner  
19 forecasts for the index CEU442211008 for clerical and physical wage increases.  
20 DRA notes that SCE's negotiated 4 percent union wage increase for 2010 and 2011  
21 is considerably higher than Global Insight's forecasted wage increases for similarly  
22 situated workers. For Electric Power, Generation, Transmission, and Distribution  
23 workers Global Insight forecasts wage increases of 2.30 percent in 2010 and 3.10  
24 percent in 2011. Global Insight also projects moderate wage increases for All Utility  
25 Service workers. For this category of utility workers, Global Insight forecasts wage

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<sup>5</sup> For 2011 the union negotiated wage increase of 4 percent was substituted for Global Insight Power Planner Index, CEU442211008.

1 increases of 2.50 percent in 2010 and 1.70 percent in 2011.<sup>6</sup> Recent Bureau of  
2 Labor Statistics (BLS) data also shows that California is experiencing relatively  
3 modest wage growth. For the third quarter of 2010 the BLS reports that the counties  
4 of Los Angeles, Riverside, Santa Barbara and Ventura are experiencing modest  
5 increases in average weekly wages. Los Angeles County, for example, had an  
6 increase of 3.1 percent in average weekly wages, for Riverside County the increase  
7 was 1.3 percent, San Bernadino County experienced an average weekly wage  
8 increase of 1.3 percent, in Ventura County the increase was 2.7 percent, while  
9 Santa Barbara County experienced an average weekly wage increase of 4 percent.  
10 For Los Angeles County, the Trade, Transportation, and Utilities sector experienced  
11 an average weekly wage increase of 2.9 percent.<sup>7</sup>

12 For the remaining employee categories, DRA relied upon the most recent  
13 Global Insight Power Planner forecast (Fourth Quarter 2010) for ECIWSPWMGRNS  
14 and ECIWSP&TNS. DRA also relied upon the weightings reported in Table 4-3. As a  
15 result of replacing the union negotiated wage increase with the Global Insight Power  
16 Planner forecast for union wage increases and using a more recent Power Planner  
17 forecast, results in lower labor escalation rates. For 2010, 2011, and 2012, DRA  
18 forecasts labor escalation rates of 2.80 percent, 2.49 percent, and 2.22 percent.

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<sup>6</sup> Global Insight, Power Planner, Fourth Quarter 2010, Table A-30, Utility Price and Wage Indicators, p. 54

<sup>7</sup> Bureau of Labor Statistics, United States Department of Labor, County Employment and Wages, Third Quarter 2010, Technical Notes, Table 2, News Release, March 29, 2011.

1 Table 4-4 reports DRA's and SCE's labor escalation rates by functional  
 2 category for the historic and forecast period.

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**Table 4-4**  
**DRA and SCE Labor O&M Escalation**  
**2002 – 2009**

Index	2005	2006	2007	2008	2009	2010	2011	2012
<b>DRA</b>								
Steam	0.704	0.752	0.860	0.963	1.000	1.028	1.054	1.077
Percent Change	4.05 %	6.69 %	14.41 %	12.01 %	3.83 %	2.80 %	2.49 %	2.22 %
<b>SCE</b>								
Steam	0.704	0.752	0.860	0.963	1.000	1.033	1.061	1.086
Percent Change	4.05 %	6.69 %	14.41 %	12.01 %	3.83 %	3.30 %	2.76 %	2.27 %
<b>DRA</b>								
Nuclear	0.848	0.881	0.927	0.954	1.000	1.028	1.054	1.077
Percent Change	2.20 %	3.93 %	5.19 %	2.93 %		2.80 %	2.49 %	2.22 %
<b>SCE</b>								
Nuclear	0.848	0.881	0.927	0.954	1.000	1.033	1.061	1.086
Percent Change	2.20 %	3.93 %	5.19 %	2.93 %		3.30 %	2.76 %	2.27 %
<b>DRA</b>								
Hydro	0.884	0.925	0.924	0.963	1.000	1.028	1.054	1.077
Percent Change	4.01 %	4.62 %	-0.11 %	4.25 %	3.83 %	2.80 %	2.49 %	2.22 %
<b>SCE</b>								
Hydro	0.884	0.925	0.924	0.963	1.000	1.033	1.061	1.086
Percent Change	4.01 %	4.62 %	-0.11 %	4.25 %	3.83 %	3.30 %	2.76 %	2.27 %
<b>DRA</b>								
Other Production	0.722	0.850	0.897	0.963	1.000	1.028	1.054	1.077
Percent Change	3.47 %	17.77 %	5.50 %	7.40 %	3.83 %	2.80 %	2.49 %	2.22 %
<b>SCE</b>								
Other Production	0.722	0.850	0.897	0.963	1.000	1.033	1.061	1.086
Percent Change	3.47 %	17.77 %	5.50 %	7.40 %	3.83 %	3.30 %	2.76 %	2.27 %

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**Table 4-4 (cont.)  
DRA and SCE Labor O&M Escalation  
2002 – 2009**

<b>Index</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>DRA</b>								
Transmission	0.869	0.894	0.923	0.973	1.000	1.028	1.054	1.077
Percent Change	2.57 %	2.84 %	3.30 %	5.40 %	3.83 %	2.80 %	2.49 %	2.22 %
<b>SCE</b>								
Transmission	0.869	0.894	0.923	0.973	1.000	1.033	1.061	1.086
Percent Change	2.57 %	2.84 %	3.30 %	5.40 %	2.78 %	3.30 %	2.76 %	2.27 %
<b>DRA</b>								
Distribution	0.867	0.899	0.927	0.973	1.000	1.028	1.054	1.077
Percent Change	3.24 %	3.65 %	3.16 %	4.94 %	3.83 %	2.80 %	2.49 %	2.22 %
<b>SCE</b>								
Distribution	0.867	0.899	0.927	0.973	1.000	1.033	1.061	1.086
Percent Change	3.24 %	3.65 %	3.16 %	4.94 %	2.78 %	3.30 %	2.76 %	2.27 %
<b>DRA</b>								
Customer Accounts	0.893	0.899	0.926	0.944	1.000	1.028	1.054	1.077
Percent Change	3.07 %	0.66 %	3.08 %	1.86 %	5.98 %	2.80 %	2.49 %	2.22 %
<b>SCE</b>								
Customer Accounts	0.893	0.899	0.926	0.944	1.000	1.033	1.061	1.086
Percent Change	3.07 %	0.66 %	3.08 %	1.86 %	5.98 %	3.30 %	2.76 %	2.27 %
<b>DRA</b>								
Customer Service	0.890	0.912	0.917	0.944	1.000	1.028	1.054	1.077
Percent Change	4.04 %	2.40 %	0.59 %	2.90 %	5.98 %	2.80 %	2.49 %	2.22 %
<b>SCE</b>								
Customer Service	0.890	0.912	0.917	0.944	1.000	1.033	1.061	1.086
Percent Change	4.04 %	2.40 %	0.59 %	2.90 %	5.98 %	3.30 %	2.76 %	2.27 %
<b>DRA</b>								
Administrative & General	0.899	0.918	0.945	0.984	1.000	1.028	1.054	1.077
Percent Change	3.59 %	2.14 %	2.90 %	4.16 %	1.64 %	2.80 %	2.49 %	2.22 %
<b>SCE</b>								
Administrative & General	0.899	0.918	0.945	0.984	1.000	1.033	1.061	1.086
Percent Change	3.59 %	2.14 %	2.90 %	4.16 %	1.64 %	3.30 %	2.76 %	2.27 %

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1 **IV. DISCUSSION / ANALYSIS OF NON-LABOR ESCALATION**

2 **A. SCE Methodology**

3 SCE’s historic and forecast non-labor escalation rates by functional category,  
4 steam production, nuclear production, hydro production, other production,  
5 transmission, distribution, customer accounts, customer service & information, and  
6 administrative & general, are based on forecasts of non-labor indexes taken from the  
7 Global Insight Power Planner.<sup>8</sup> SCE adjusts the Global Insight Power Planner non-  
8 labor indexes for the portion of non-labor expenses that are actually labor expenses.  
9 SCE explains that: “In order to accurately calculate the actual non labor escalation  
10 rate, we escalate the non labor portion and separately escalate the labor portion  
11 embedded in non labor. To accomplish this, we first identify the amount of labor  
12 included in the non labor expense by functional category. In 2008, SCE implemented  
13 a new accounting system that tracks expenses differently than the previous  
14 accounting system. Therefore, we calculated labor embedded in non labor for 2005  
15 through 2008 and then for 2009 separately (applicable to 2009 through 2014).”<sup>9</sup>  
16 The weights applicable to each function area are reported in Table 4-5. In other  
17 words, the non-labor escalation rates reported in Table 4-6 are weighted averages of  
18 the labor escalation rates shown in Table 4-4 and the non-labor escalation rates  
19 taken from the Global Insight Power Planner. Consider, for example, the non labor  
20 escalation index for Steam Production. The 2005 index value is calculated as:  
21  $(0.0455)*(0.704) + (0.9545)*(0.838) = 0.8318$ .

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<sup>8</sup> SCE adjusts the recorded and forecast Global Insight Power Planner administrative & general non-labor indexes to remove the impact of health care escalation from the index. This is discussed in greater detail in section of this testimony.

<sup>9</sup> Southern California Edison 2012 General Rate Case, SCE-10, Volume I, November 2010, p. 66.

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**Table 4-5  
Labor and Non-Labor Escalation Weights**

<b>Category</b>	<b>Labor Weight</b>	<b>Non-Labor Weight</b>	<b>Labor Weight</b>	<b>Non-Labor Weight</b>
	<b>2003-2008</b>	<b>2003-2008</b>	<b>2009-2012</b>	<b>2009-2012</b>
Steam Production	4.55 %	95.45 %	--	--
Nuclear Production	9.72 %	90.28 %	--	--
Hydro Production	16.51 %	83.49 %	--	--
Other Production	2.64 %	97.36 %	5.61 %	94.39 %
Transmission	11.06 %	88.94 %	2.45 %	97.55 %
Distribution	18.36 %	81.64 %	--	--
Customer Accounts	16.64 %	83.36 %	--	--
Customer Service & Information	1.77 %	98.23 %	--	--
Administrative & General	0.00 %	0.00 %	--	--

3 SCE also adjusts the non labor A&G index to remove the impact of health  
4 care cost escalation. SCE explains that this involves removing “the variable  
5 CUSAMNS, the Consumer Price Index, for medical care, from the FERC account  
6 model. Renormalize the weighting factors for the...elimination of health care costs  
7 from FERC account 926.”<sup>10</sup> DRA followed SCE’s methodology for removing the  
8 impact of health care costs from A&G escalation.

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<sup>10</sup> Southern California Edison response to DRA\_SCE\_078\_TMR, January 13, 2011

1 **B. DRA Methodology**

2 DRA adopted SCE’s methodology for calculating historic and forecast non  
 3 labor escalation indexes. Table 4-6 reports DRA’s and SCE historic and forecast non  
 4 labor escalation indexes.

5 **Table 4-6**  
 6 **DRA and SCE Non-Labor Escalation**  
 7 **2005 – 2012**

Index	2005	2006	2007	2008	2009	2010	2011	2012
<b>DRA</b>								
Steam	0.830	0.878	0.916	0.997	1.000	1.029	1.052	1.081
Percent Change	6.31%	5.80 %	4.32 %	8.79 %	0.31 %	2.85 %	2.31 %	2.74 %
<b>SCE</b>								
Steam	0.830	0.878	0.916	0.997	1.000	1.013	1.036	1.065
Percent Change	6.31%	5.80 %	4.32 %	8.79 %	0.31 %	1.32 %	2.24 %	2.77 %
<b>DRA</b>								
Nuclear	0.881	0.921	0.969	1.017	1.000	1.028	1.052	1.080
Percent Change	4.74 %	4.50 %	5.22 %	4.94 %	-1.63 %	2.78 %	2.39 %	2.66 %
<b>SCE</b>								
Nuclear	0.881	0.921	0.969	1.017	1.000	1.013	1.038	1.069
Percent Change	4.74 %	4.50 %	5.22 %	4.94 %	-1.63 %	1.32 %	2.40 %	3.04 %
<b>DRA</b>								
Hydro	0.842	0.897	0.924	1.000	1.000	1.022	1.045	1.075
Percent Change	6.89 %	6.47 %	3.03 %	8.28 %	-0.05 %	2,17 %	2.29 %	2.84 %
<b>SCE</b>								
Hydro	0.842	0.897	0.924	1.000	1.000	1.015	1.040	1.071
Percent Change	6.89 %	6.47 %	3.03 %	8.28 %	-0.05 %	1.47 %	2.51 %	2.99 %
<b>DRA</b>								
Other	0.854	0.893	0.925	0.990	1.000	1.017	1.036	1.068
Percent Change	6.30 %	4.59 %	3.57 %	7.05 %	0.98 %	1.67 %	1.88 %	3.11 %
<b>SCE</b>								
Other	0.854	0.893	0.925	0.990	1.000	1.015	1.043	1.073
Percent Change	6.30 %	4.59 %	3.57 %	7.05 %	0.98 %	1.47 %	2.51 %	2.99 %
<b>DRA</b>								
Transmission	0.867	0.904	0.935	0.997	1.000	1.015	1.031	1.059
Percent Change	5.27 %	4.24 %	3.53 %	6.53 %	0.35 %	1.51 %	1.61 %	2.65 %
<b>SCE</b>								
Transmission	0.867	0.904	0.935	0.997	1.000	1.012	1.037	1.064
Percent Change	5.27 %	4.24 %	3.53 %	6.53 %	0.35 %	1.22 %	2.43 %	2.57 %

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**Table 4-6 (cont.)  
DRA and SCE Non-Labor Escalation  
2005 – 2012**

<b>Index</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>DRA</b>								
Distribution	0.848	0.899	0.935	1.002	1.000	1.025	1.044	1.068
Percent Change	5.41 %	6.03 %	4.08 %	7.11 %	-0.18 %	2.55 %	1.80 %	2.31 %
<b>SCE</b>								
Distribution	0.848	0.899	0.935	1.002	1.000	1.013	1.036	1.061
Percent Change	5.41 %	6.03 %	4.08 %	7.11 %	-0.18 %	1.32 %	2.29 %	2.37 %
<b>DRA</b>								
Customer Accounts	0.904	0.927	0.954	0.989	1.000	1.022	1.034	1.057
Percent Change	3.04 %	2.52 %	3.00 %	3.58 %	1.15 %	2.19 %	1.20 %	2.21 %
<b>SCE</b>								
Customer Accounts	0.904	0.927	0.954	0.989	1.000	1.021	1.043	1.066
Percent Change	3.04 %	2.52 %	3.00 %	3.58 %	1.15 %	2.06 %	2.19 %	2.19 %
<b>DRA</b>								
Customer Service	0.888	0.914	0.943	0.989	1.000	1.020	1.032	1.052
Percent Change	4.24 %	2.93 %	3.17 %	4.88 %	1.10 %	1.99 %	1.18 %	1.98 %
<b>SCE</b>								
Customer Service	0.888	0.914	0.943	0.989	1.000	1.013	1.035	1.060
Percent Change	4.24 %	2.93 %	3.17 %	4.88 %	1.10 %	1.28 %	2.16 %	2.43 %
<b>DRA</b>								
A&G	0.881	0.916	0.951	0.987	1.000	1.022	1.042	1.069
Percent Change	4.23 %	3.96 %	3.85 %	3.77 %	1.31 %	2.21 %	1.94 %	2.57 %
<b>SCE</b>								
A&G	0.881	0.916	0.951	0.987	1.000	1.022	1.049	1.079
Percent Change	4.23 %	3.96 %	3.85 %	3.77 %	1.31 %	2.22 %	2.60 %	2.85 %

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1 **V. DISCUSSION / ANALYSIS OF OTHER ESCALATION**

2 **A. Palo Verde Escalation**

3 SCE has a partial ownership in the Palo Verde Nuclear Generating Station.  
4 Following the methodology used to calculate the non labor escalation rates, the Palo  
5 Verde non-labor escalation rate is a weighted average of SCE's labor escalation  
6 rates and the non-labor escalation rate taken from the Global Insight Power Planner.

7 DRA relied upon SCE labor and non-labor escalation rates but relied upon a  
8 more recent Global Insight Power Planner forecast. DRA's and SCE's Palo Verde  
9 non-labor escalation rates are reported in Table 4-7.

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**Table 4-7  
Palo Verde Non-Labor Escalation  
2005 – 2012**

<b>Year</b>	<b>DRA</b>	<b>Percent Change</b>	<b>SCE</b>	<b>Percent Change</b>
2005	0.8628	---	0.8628	--
2006	0.8990	4.19 %	0.8990	4.19 %
2007	0.9457	5.20 %	0.9457	5.20 %
2008	0.9822	3.86 %	0.9822	3.86 %
2009	1.0000	1.81 %	1.0000	1.81 %
2010	1.0279	2.79 %	1.0241	2.41 %
2011	1.0531	2.45 %	1.0507	2.60 %
2012	1.0785	2.41 %	1.0782	2.61 %

13 **B. Four Corners Escalation**

14 Four Corners non-labor escalation rates are derived in a manner analogous  
15 to that used for Palo Verde non-labor escalation. The Four Corners non labor  
16 escalation rates is a weighted average of labor and non-labor escalation rates taken  
17 from the Global Insight Power Planner.

18 DRA adopted SCE's labor and non-labor escalation rates but relied upon a  
19 more recent Global Insight Power Planner forecast. Table 4-8 reports DRA's and  
20 SCE's recommended non labor escalation rates for the Four Corners electric  
21 generating station.

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**Table 4-8  
Four Corners Non-Labor Escalation  
2005 – 2012**

<b>Year</b>	<b>DRA</b>	<b>Percent Change</b>	<b>SCE</b>	<b>Percent Change</b>
2005	0.7748	--	0.7748	--
2006	0.8225	6.16 %	0.8225	6.16 %
2007	0.8914	8.38 %	0.8914	8.38 %
2008	0.9820	10.16 %	0.9820	10.16 %
2009	1.0000	1.83 %	1.0000	1.83 %
2010	1.0283	2.83 %	1.0219	2.19 %
2011	1.0529	2.39 %	1.0472	2.47 %
2012	1.0793	2.51 %	1.0738	2.54 %

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5 **VI. CONCLUSION**

6 This exhibit has presented DRA's and SCE forecasts of labor, non-labor, and  
7 other escalation rates for the historic period 2005 through 2009 and the forecast  
8 period 2010, 2011, and test year 2012. With the exception of union labor escalation  
9 rates for 2010, and 2011, DRA has adopted SCE's labor, and non-labor escalation  
10 methodology. DRA's escalation rates differ from SCE's primarily because DRA has  
11 relied upon a more recent Global Insight Power Planner forecast. DRA relied upon  
12 the Fourth Quarter 2010, Global Insight Power Planner forecast while SCE relied  
13 upon the earlier First Quarter 2010, Power Planner forecast.