2009 General Rate Case

Administrative And General (A&G)
Volume 2 – Legal And Ethics And Compliance

Before the
Public Utilities Commission of the State of California

Rosemead, California
November 2007
SUMMARY

This Exhibit is composed of five chapters:

- Chapter I – Introduction
- Chapter II – Law
- Chapter III – Claims
- Chapter IV – Workers’ Compensation
- Chapter V – Ethics & Compliance

Chapter II – The Test Year forecast of the Law Department’s FERC Account 920/921 expenses is based on recorded year 2006 expenses plus a future year adjustment to reflect the department’s expected personnel increase, needed to meet increasing workload. The department’s Test Year forecast for FERC Account 923/928 (Outside Counsel) is based on a four-year average (2003-2006), due to the fact that the department’s outside services expenses fluctuate from year to year and 2002 was not a representative year because a substantial amount of the department’s outside legal expenses in that year related to the California energy crisis. The Test Year forecast for the Corporate Governance Division’s FERC Account 920/921 expenses is also based on recorded year 2006 expenses plus a future year adjustment to reflect the division’s anticipated increase in personnel, needed to fill its vacant positions. The Test Year forecast for FERC Account 930.2 (Corporate Governance and Miscellaneous) is based on recorded year 2006 expenses plus a future year adjustment for the anticipated increase in corporate reporting and Board of Directors’ oversight activities. This chapter also includes a discussion of the attorney timekeeping study performed in accordance with the CPUC’s directive from SCE’s 2006 GRC. The study is attached as Appendix B to this Exhibit.

Chapter III – The Test Year forecast of the Claims Division’s FERC Account 920/921 expenses is based on recorded year 2006 expenses plus a future year adjustment to reflect the division’s expected personnel increase, needed to meet increasing workload. The division’s Test Year
forecast for FERC Account 924 is based on a three-year average (2004-2006), due to the annual fluctuation in recorded expenses and the unpredictable nature of the number and severity of claims filed in a given year. The three-year average reflects the benefits of the division’s “one-touch” collections process instituted in 2004. The division’s Test Year forecast for FERC Account 925 (both with respect to claims expenses and reserves) is based on a five-year average because the nature and number of claims lawsuits (and the level of reserves needed for those lawsuits) in a given year is unpredictable.

Chapter IV – The Test Year forecast of the Workers’ Compensation Division’s staff expenses recorded to FERC Account 925 is based on recorded year 2006 expenses plus a future year adjustment to reflect the division’s expected personnel increase, needed to meet increasing workload and ensure an appropriate caseload for workers’ compensation claims representatives and their support staff. The Test Year forecast for Workers’ Compensation Reserve expenses recorded to FERC Account 925 was calculated using a budget-based methodology, based on the forecast ultimate value of new claims for 2009. The ultimate value of new SCE workers’ compensation claims for 2009 was determined in an actuarial analysis performed by Milliman, Inc., attached as Appendix C to this Exhibit.

Chapter V – Because of its relatively recent creation, the Ethics and Compliance department has used a budget-based methodology and forecasts a total of $2.112 million in expenses for the Test Year. The majority of the increase will result from the expansion of the Ethics and Compliance workforce, to a total of 13 in 2009, to meet the growing needs of the company.
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I.

INTRODUCTION

This exhibit presents Southern California Edison’s (SCE’s) Test Year 2009 estimates of Administrative and General (A&G) expenses associated with Legal and Ethics & Compliance Organizations. Expenses incurred by these organizations are recorded to the Federal Energy Regulatory Commission’s (FERC’s) Uniform System of Accounts shown next to each organization in Table I-1 below.

Table I-1

*SCE’s Legal And Ethics & Compliance Organizations*

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<th>FERC Account(s)</th>
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<td>1. Law</td>
<td>920, 921, 923, 928, 930</td>
</tr>
<tr>
<td>2. Claims</td>
<td>920, 921, 924, 925</td>
</tr>
<tr>
<td>3. Workers Compensation</td>
<td>925</td>
</tr>
<tr>
<td>4. Ethics &amp; Compliance</td>
<td>920, 921, 923</td>
</tr>
</tbody>
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The following Figure I-1 summarizes the recorded costs for years 2002-2006 and the forecast for 2007-2009 for these organizations.
Figure I-1
Summary Of Costs For Legal And Ethics & Compliance Organizations

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<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Law</td>
<td>34,632</td>
<td>34,825</td>
<td>36,433</td>
<td>38,442</td>
<td>36,562</td>
<td>39,342</td>
<td>41,385</td>
<td>41,904</td>
</tr>
<tr>
<td>Claims</td>
<td>15,832</td>
<td>15,278</td>
<td>11,867</td>
<td>20,828</td>
<td>9,314</td>
<td>14,979</td>
<td>15,272</td>
<td>15,272</td>
</tr>
<tr>
<td>Workers’ Ethics &amp;</td>
<td>43,934</td>
<td>64,037</td>
<td>21,104</td>
<td>36,646</td>
<td>25,556</td>
<td>34,584</td>
<td>38,314</td>
<td>43,162</td>
</tr>
<tr>
<td>Ethics &amp;</td>
<td>107</td>
<td>130</td>
<td>77</td>
<td>395</td>
<td>1,347</td>
<td>1,868</td>
<td>2,112</td>
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<tr>
<td>Total</td>
<td>94,505</td>
<td>114,270</td>
<td>69,481</td>
<td>96,311</td>
<td>72,779</td>
<td>90,773</td>
<td>97,083</td>
<td>102,450</td>
</tr>
</tbody>
</table>

Recorded 2002-2006/Forecast 2007-2009
Legal and Ethics & Compliance Organization
(2006 $000)

![Bar chart showing costs from 2002 to 2009 for different categories: Labor, Non-labor, Other.]

- Labor: 20,434, 22,429, 22,980, 23,427, 25,131, 26,882, 29,430, 29,676
- Non-labor: 74,071, 91,841, 46,501, 72,884, 47,648, 63,891, 67,653, 72,774
- Other: 0, 0, 0, 0, 0, 0, 0, 0

Total: 94,505, 114,270, 69,481, 96,311, 72,779, 90,773, 97,083, 102,450

→ Forecast ←
II.

LAW

A. Summary Of Test Year Request

For Test Year 2009, SCE’s Law Department (including the Corporate Governance Division) forecasts a total of $41.9 million in Administrative & General (A&G) expenses. Figure II-2 below shows the recorded costs for the years 2002-2006, plus forecast costs for the years 2007-2009.

**Figure II-2**

*Law Department (Including Corporate Governance)*

*FERC Accts. 920/921/923/928/930.2*

<table>
<thead>
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<th>Year</th>
<th>Labor</th>
<th>Non-Labor</th>
<th>Other</th>
<th>Amount</th>
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<td>2002</td>
<td>15,924</td>
<td>18,708</td>
<td>0</td>
<td>34,632</td>
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<tr>
<td>2003</td>
<td>17,747</td>
<td>17,078</td>
<td>0</td>
<td>34,825</td>
</tr>
<tr>
<td>2004</td>
<td>18,236</td>
<td>18,197</td>
<td>0</td>
<td>36,433</td>
</tr>
<tr>
<td>2005</td>
<td>18,291</td>
<td>20,151</td>
<td>0</td>
<td>38,442</td>
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<tr>
<td>2006</td>
<td>19,297</td>
<td>17,265</td>
<td>0</td>
<td>36,562</td>
</tr>
<tr>
<td>2007</td>
<td>20,294</td>
<td>19,048</td>
<td>0</td>
<td>39,342</td>
</tr>
<tr>
<td>2008</td>
<td>21,785</td>
<td>19,600</td>
<td>0</td>
<td>41,385</td>
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<tr>
<td>2009</td>
<td>22,031</td>
<td>19,873</td>
<td>0</td>
<td>41,904</td>
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</table>

Since 2003, SCE’s Law Department has generally experienced increases in legal expenses due to numerous factors, such as: (1) an increase in the volume of legal work related to commercial transactions, power procurement, and transmission and infrastructure build-out; (2) substantial increases in the volume and complexity of regulatory proceedings (both in terms of proceedings filed by SCE and those initiated by regulatory bodies or third parties); and (3) increased rates charged by outside law.
firms. The Law Department has been able to control its costs by steadily decreasing its dependence on outside counsel through an increase in its use of in-house resources. In fact, as discussed in Section D.2. of this chapter, below, the reduction in overall Law Department recorded costs in 2006 is primarily attributable to a significant decrease in recorded outside counsel expenses. As explained in Section D.2., this reduction is due to a combination of the Law Department’s continuing practice of shifting work from outside counsel to in-house attorneys and support staff, and adjustments to 2006 recorded cost levels for certain matters handled by outside counsel that are not recovered through rates paid by SCE’s customers.

SCE’s Law Department has experienced significant increases in its workload in recent years – a trend that is expected to continue in Test Year 2009 and beyond – particularly in the regulatory area. For example, approximately 115 of the CPUC proceedings SCE actively participated in during 2002-2006 are now closed. However, SCE still has approximately 97 regulatory proceedings in which it is participating that remain open before the CPUC, the CEC, and FERC. In addition to regulatory proceedings, the amount of employee benefits-related legal work has increased and is expected to continue to increase due largely to new laws (e.g., Congress in 2006 passed the most comprehensive pension reform package in more than 30 years) and administrative agencies increasing their oversight of large employers (e.g., the Internal Revenue Service’s Employee Plans Team Audit Program). There has also been a greater demand for legal services to support transactional matters, including power procurement, the Company-wide Enterprise Resource Planning (ERP) initiative, and corporate compliance reporting activities, all as discussed in Section C of this chapter, below.

B. **Overview Of Law Department Structure And Services Provided**

SCE’s Law Department contributes to the Company’s operations in numerous ways, primarily by:

- Advising Company management on compliance with applicable laws and regulations, such as regulatory, environmental, and labor requirements.
- Providing legal advice on contracts and other transactions SCE enters into to provide electrical service.
• Representing SCE before courts and regulatory agencies on matters that affect the cost to serve our customers.

Figure II-3 below is an organization chart for SCE’s Law Department (not including the Corporate Governance, Claims, or Workers’ Compensation Divisions).

**Figure II-3**

*Law Department Organization Chart*

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SCE relies on both in-house and outside counsel to provide legal services. Section C, below, describes in-house activities, that is, those activities associated with expenses recorded in FERC Accounts 920 and 921 relating to SCE’s in-house attorneys and legal staff. Section D, below, describes SCE’s use of outside counsel, that is, those activities associated with expenses recorded in FERC Accounts 923 and 928. Finally, Section E describes the Corporate Governance Division’s salaries and expenses recorded in FERC Accounts 920 and 921 and its expenses recorded in FERC Account 930 that relate to the Annual Shareholder Meeting and various Directors’ and stock exchange fees.

To provide more cost-effective legal services, SCE’s Law Department controlled overall legal expenses, despite dramatic increases in workload and outside counsel rates, largely by:

• Continuing its practice of shifting more legal work from outside counsel to in-house attorneys.¹

¹ This continuing shift largely explains the increased number of in-house attorneys discussed in Section C of this testimony.
Leveraging legal staff (e.g., paralegals and secretaries) by maintaining an appropriate ratio of the number of in-house attorneys to legal support staff.²

In addition, the Law Department seeks to reduce potential overall legal costs by continuing its effective selection and management of outside counsel.³ SCE also considers all reasonable means of avoiding lengthy litigation through Alternative Dispute Resolution (ADR) and settlements, as appropriate. Moreover, the Law Department’s attorneys receive mandatory continuing legal education and other programs offered both within the Company and through outside programs. This training contributes to their expertise, which in turn increases the value of the legal services provided.

C. **In-House Legal Resource: (FERC Accounts 920, 921)**

1. **Summary Of Activities**

SCE’s Law Department handles the majority of the Company’s legal matters in-house. The in-house resources consist of in-house attorneys and legal staff (paralegals, case administration, administrative support, law librarians, and corporate governance). We realize several benefits from relying primarily on our in-house counsel. First, our inside counsel develop extensive knowledge of the Company’s policies, operations, and organization and establish close and effective working relationships with SCE operating departments. This knowledge base allows in-house counsel to handle, or assist in handling, the wide range of assignments the Company’s legal and business needs require. Second, the proximity of the Law Department and the availability of its attorneys allow them to provide legal advice early, which may reduce the need for expensive and time-consuming litigation.

SCE’s Law Department is headed by a Senior Vice President and General Counsel, supported by four Assistant/Associate General Counsels responsible for the regulatory, litigation, and transaction practice areas, respectively. In-house attorneys are generally assigned to one of these three practice areas, enabling them to develop considerable expertise in fields that are of particular importance to SCE. However, in-house attorneys are encouraged to move among the different practice areas to gain

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² See Section C of this chapter.
³ See Section D of this chapter.
experience and understanding of the issues included in the three areas. For example, some of the attorneys whose normal assignments are to the litigation or transactional practice areas are occasionally assigned to the regulatory practice area.4

2. Regulatory Law Practice Group

As of year-end 2006, approximately 45 percent of the attorneys in the Law Department were assigned to the regulatory law practice group. This group represents SCE in CPUC, CEC, and FERC regulatory proceedings and advises SCE management and operating departments on CPUC regulations, tariffs, and rate issues. The Group consists of the following Sections: (1) Distribution and Tariffs, (2) Generation Resources, (3) Transmission and Wholesale Market, (4) Energy Cost Recovery, and (5) Customer Service, Municipalization, and Bypass. The specific responsibilities of the Sections are discussed in the Law Department’s workpapers.5

The Law Department expects a continuing increase in regulatory work in 2007-2009 and beyond, consistent with its experiences in recent years. A number of regulatory issues have emerged over the last several years and are expected to continue.

For example, activities surrounding procurement of generation resources are expected to continue through 2009 and beyond. Long-term procurement, and in particular the development and procurement of new generation resources to meet increasing demand, is an ongoing and unresolved issue. Our Regulatory Section has been working on, and is expected to continue working on, the filing of both short and long-term resource plans, and the development of a long-term resource adequacy program (e.g., a centralized capacity market). Extensive regulatory proceedings are also expected to continue with respect to state and/or CPUC initiatives in advanced metering, new solar programs, energy efficiency, greenhouse gas emissions and renewable resources.

SCE also expects substantial continuing activities relating to transmission enhancement (including, but not limited to permitting activities) and other CAISO-related work, particularly with

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4 See Figure II-3 above for the Law Department Organization Chart.
5 See Law Department Attorney Section Responsibilities, attached as a workpapers to this Exhibit.
regard to implementation and any modifications to the CAISO’s new Market Redesign and Technology Upgrade (MRTU). In addition, the complexity and attorney work associated with CPUC and other regulatory agency filings has increased in part due to the implementation of new confidentiality regulations and requirements by the CPUC and other agencies.⁶

3. **Litigation Law Practice Group**

   Approximately 27 percent of SCE’s in-house attorneys are in the litigation law practice group, which consists of the following sections: (1) Labor and Employment, (2) Claims and General Litigation, and (3) Commercial Litigation. The specific responsibilities of the Sections are discussed in the Law Department’s workpapers.⁷

   The Litigation Group’s workload has been increasing, and is likely to continue to increase. As indicated in the Claims Division’s testimony, the number of liability and collections claims handled by SCE (which the Law Department’s Claims and General Litigation section will handle when cases are litigated outside of small claims court) has significantly increased since 2004, and is expected to continue to increase.⁸ Additionally, numerous legislative proposals to reform health care have been introduced at the state and federal levels, which require additional in-house attorney work to review and analyze the proposals and assist SCE management in determining the potential impact of the proposals.

4. **Transaction Law Practice Group**

   The remaining approximately 28 percent of SCE’s in-house attorneys are in the transaction law practice group, which consists of the following Sections (1) Environmental, Property, and Local Government, (2) Power Procurement; (3) Contracts and Intellectual Property, and (4) Corporate Governance and Finance. The specific responsibilities of these Sections are discussed in the Law Department’s workpapers.⁹

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⁶ See, e.g., CPUC Decision (D.) 06-06-066, issued in Rulemaking (R.) 05-06-040.
⁷ See Law Department Attorney Section Responsibilities, attached as a workpaper to this Exhibit.
⁸ See Chapter III of this Exhibit, at Table III-5 and Section C.1.b.
⁹ See Law Department Attorney Section Responsibilities, attached as a workpaper to this Exhibit.
The Transactional Group’s workload has substantially increased in recent years and is expected to continue to grow through Test Year 2009 and beyond. For example, SCE’s power procurement contracting activities supported by this group have been steadily increasing due to greater Request for Offers (RFO) activity, which will likely continue to grow in future years, particularly in the areas of natural gas, renewable, and new generation procurement. In addition, substantial legal advice and transactional support is provided for SCE’s cross-departmental ERP implementation efforts. SCE corporate governance and finance activities supported by attorneys in this group have also significantly expanded. The increased corporate compliance requirements enacted by the Sarbanes-Oxley Act of 2002 have increased the amount and complexity of attorney workload required to support compliance reporting activities. The Securities and Exchange Commission (SEC) has continued to adopt new, complex regulations since 2002 that have accelerated filing dates and further increased corporate disclosure requirements. The SEC will likely continue this approach through Test Year 2009 to protect corporate investor interests, which will result in increased SCE attorney workload to review, implement, and support SCE corporate activities necessary to satisfy the requirements.

5. **Support Staff**

SCE’s Law Department has a staff of paralegals, case administrators, legal administrative assistants, electronic and file room personnel, process support personnel, finance and administrative support, and law librarians, who support the practice areas noted above.\(^\text{10}\)

Paralegals perform substantial legal work under the direction of attorneys. Tasks performed by paralegals include: case planning, development, and management; researching legal and factual issues; conducting interviews; fact gathering and retrieving information; drafting and analyzing legal documents; and representing SCE at administrative hearings when permitted by the agency.

Paralegals contribute to the department’s objectives by performing legal tasks that do not require the

\(^{10}\) Process support personnel perform activities including, but not limited to, (1) web portal support, (2) workers’ compensation, claims, and matter management support, and (3) law application support.
more specialized training of attorneys, enabling the attorneys to focus on work that demands their specific professional legal expertise.

Case administrators perform administrative tasks associated with regulatory cases, such as: maintaining a master case schedule and service lists of regulatory proceedings; processing the workflow for and assisting with the submission of data requests responses; arranging for the filing and service of pleadings; monitoring the CPUC’s calendar; posting documents to SCE.com; processing, distributing, and posting incoming case documents; legal and regulatory workpaper production; maintaining data requests and other case files; and providing support during regulatory hearings.

The administrative staff provides legal administrative support services and supports the law library, file room, electronic file system, audit, accounting and accounts payable functions, payroll processing and FMLA functions, budget activities, contract and purchase order support, travel arrangements, systems development and deployment, supply order processing, HR activities, maintains and controls personnel records, in-house training and development, internal IT process support, and other operational activities that enable the department to provide legal services efficiently. SCE employs one legal administrative assistant for approximately every three in-house attorneys/paralegals.

At year-end 2006, SCE had the following number of support staff employees (excluding the staff of the Corporate Governance, Workers’ Compensation, and Claims Divisions):

- 16 Paralegals
- 17 Case Administrators
- 39 Legal Administrative Staff
- 11 Accounting, Administrative, and IT support staff
- 9 Electronic and file Room staff
- 2 Library staff

6. **Comparison Of In-House Attorneys And Outside Counsel Expenses**

As shown in Table II-2 below, the number of attorneys in SCE’s Law Department has increased since 2002, moving from 73 attorneys to 86 attorneys. The number of attorneys in the
department had decreased to 83 at year-end 2006, due to resignations, which resulted in three open positions that are currently being filled.

**Table II-2**

*Number Of SCE In-House Attorneys*

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>In-house Attorneys</td>
<td>73</td>
<td>79</td>
<td>78</td>
<td>86</td>
<td>83</td>
</tr>
</tbody>
</table>

SCE’s Law Department consists of an extremely diverse group of employees. As of year-end 2006, 82 percent of the department’s employees – including 65 percent of SCE’s attorneys – are members of minority groups (female and non-white males).

The Law Department has successfully controlled its costs by increasing the number of its in-house attorneys during the period 2002-2006. While the department’s costs did increase in 2004 and 2005, the increase would have been substantially greater had SCE been forced to rely solely on outside counsel to address the significant increases in workload experienced by the Law Department. As discussed in Section D of this chapter, SCE has experienced significant increases in rates charged by outside law firms. The annual average outside counsel rate increase for SCE in the last five years was 7 percent. As shown in Figure II-4 below, the increase in SCE’s in-house attorney count has helped to control outside counsel costs in the face of the growth in the Law Department’s workload and the increasing rates charged by outside counsel. The Law Department has been able to keep its outside counsel costs well below their 2002 level, and for Test Year 2009 expects to be able to maintain these costs at a level consistent with the 2004-2006 period (despite continuing increases in outside counsel rates) by filling its three vacant attorney positions and adding seven new in-house attorneys.

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11 See discussion of increase in legal workload in Sections A and C of this chapter, above.
Figure II-4
In-House Legal Resources (FERC Accts 920/921) Vs.
Outside Counsel Costs (FERC Accts 923/928)


<table>
<thead>
<tr>
<th>Year</th>
<th>In-House Resources</th>
<th>Outside Counsel Costs</th>
<th>In-House Attorneys</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>18,549</td>
<td>12,887</td>
<td>73</td>
</tr>
<tr>
<td>2003</td>
<td>21,427</td>
<td>9,293</td>
<td>79</td>
</tr>
<tr>
<td>2004</td>
<td>22,368</td>
<td>10,921</td>
<td>78</td>
</tr>
<tr>
<td>2005</td>
<td>23,161</td>
<td>10,957</td>
<td>86</td>
</tr>
<tr>
<td>2006</td>
<td>22,676</td>
<td>9,245</td>
<td>83</td>
</tr>
<tr>
<td>2007</td>
<td>24,254</td>
<td>10,105</td>
<td>88</td>
</tr>
<tr>
<td>2008</td>
<td>25,983</td>
<td>10,105</td>
<td>91</td>
</tr>
<tr>
<td>2009</td>
<td>26,278</td>
<td>10,105</td>
<td>93</td>
</tr>
</tbody>
</table>
7. **Analysis Of Recorded Data, Estimating Methodology, And Test Year 2009 Forecast**

**For In-House Legal Resources (FERC Accounts 920, 921)**

*Figure II-5*

*Law Department (In-House Legal Resources)*

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td><img src="image" alt="Chart showing labor and non-labor expenses" /></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Recorded 2002-2006</th>
<th>Forecast 2007-2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labor 15,467</td>
<td>17,354</td>
</tr>
<tr>
<td>Non-Labor 3,082</td>
<td>4,073</td>
</tr>
<tr>
<td>In-House Expenses 18,549</td>
<td>21,427</td>
</tr>
<tr>
<td>In-House Attorneys 73 79 78</td>
<td>85 88 91</td>
</tr>
<tr>
<td>Number of Support Staff 80 83 87</td>
<td>112 115 115</td>
</tr>
</tbody>
</table>

**a) Recorded Costs**

SCE records salaries and related expenses of the Law Department attorneys and staff to FERC Account 920 (Administrative and General Salaries) and FERC Account 921 (Office Supplies and Expenses).

As shown in Figure II-5 above, labor and non-labor expenses for in-house resources increased annually from 2002-2005 at the rate of 15.5 percent, 4.4 percent, and 3.5 percent respectively. In 2006, legal expenses slightly decreased by 2.1 percent. The labor expense increase in 2003 is attributed to the increase in attorneys and support staff hired by the department. Labor expenses from 2003-2006 were relatively flat.
The increase in non-labor expenses of $991,000 in 2003 is attributed to the purchase of document and records management software and the Whiteboard tracking system, and expenses for IT consulting services. Between 2004 and 2005, non-labor expenses increased by $459,000 and $758,000 respectively. These costs were primarily due to graphic productions, legal ads and inserts regarding rate adjustments, and expenses paid to the department’s vendor for electronic billing. In 2006, non-labor expenses decreased by $1.4 million due to the reduction in legal ads and inserts during the period.

b) Staffing Forecast

The Law Department intends to fill its three vacant attorney positions and add seven attorneys by 2009. These additional in-house attorneys are needed to handle the demands of the increasing workload described above in Section C, and to control department expenses in the face of increasing hourly rates for outside counsel. As noted above and described in Section D of this chapter below, the Law Department is making every effort to minimize reliance on expensive outside counsel services by utilizing internal resources to control overall costs.

Given the Law Department’s increasing workload and the escalating rates for the use of outside law firm services, the Law Department will also need to increase its support staff by Test Year 2009 as follows:

- Five additional paralegals will be needed. In anticipation of the changing demands for department support, one of these positions will be in the area of managing electronic discovery projects. The other paralegals will be designated for general paralegal support on workers’ compensation cases, to assist in reducing reliance on outside counsel for such matters.
- Seven Legal Administrative Assistants and three Administrative Assistants will need to be hired: one to fill current vacancies and nine new positions.

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12 Whiteboard is a system that allows the Law Department to enter and track testimony, pleadings, rulings, and other documents generated by SCE and other parties in CPUC and other regulatory proceedings.
This additional support staff will be needed in order to support department-wide needs resulting from increased demands for in-house attorney and paralegal services.

- The department will need to add four Case Administration employees to support the increase in the complexity and number of regulatory proceedings being filed.
- One Librarian will be hired in 2007 to fill a current vacancy.

In addition, given the substantial growth in legal activities, the Law Department needs to add a Process Support Manager. This manager will assist with managing numerous technology changes impacting the department, including Company-wide initiatives that affect the type of technology used within the various organizations of the Law Department. The Process Support Manager will oversee four technical staff (two project managers, a systems analyst, and a training specialist), manage numerous projects for the Law Department, and work closely with SCE’s Information Technology Division, outside vendors, and other business units to ensure compliance with corporate standards and provide the necessary process and system support for the Law Department. The scope of responsibility in this area has grown to a degree that warrants the creation of this new position. This role is currently performed by the department’s Manager of Finance and Administration, whose responsibilities have also grown with the overall growth of the department, which limits his ability to perform the necessary oversight of the Process Support Team.

c) Expense Forecast

The Law Department’s Test Year 2009 forecast for operating expenses is $26.3 million, an increase of 15.9 percent from year-end 2006. The department’s labor forecast of $21.3 million was calculated using the 2006 recorded labor expenses with future-year adjustments for incremental expenses associated with the department’s projected increase in personnel, described above. As shown in Table II-3 below, the incremental adjustments were calculated using SCE’s 2006 Market Reference Point (MRP).
As shown in Figure II-5, the department’s forecast of non-labor expenses for Test Year 2009 is $4.95 million. From 2002-2006, the department’s non-labor forecast varied from year to year. The last five years of recorded non-labor costs show a corollary effect between labor and non-labor, except in 2006 (due to a reduction in legal ads and inserts).

Due to the variance in non-labor costs from year to year, the department’s employee-related non-labor expense forecast was calculated by first determining the average ratio of 2002-2006
recorded non-labor to labor expense, then multiplying that ratio by the labor expense forecast for 2009.

As can be determined from Figure II-5, the average ratio of non-labor to labor expense was approximately 23.26 percent. The department anticipates that the five-year non-labor to labor ratio used to estimate non-labor costs accurately reflects non-labor costs going forward, in light of the department’s staffing increase.

D. **Outside Counsel: (FERC Accounts 923, 928)**

1. **Summary Of Activities**

   SCE retains outside counsel on an as-needed basis to handle certain matters requiring special skills or when the needs of particular cases require additional resources. For example, SCE uses outside counsel to handle certain out-of-state bankruptcy proceedings and specialized employee benefit/labor issues. Past experience and a generally litigious business environment indicate that other equally complex and costly litigation is likely to arise that SCE will have to respond to and defend during the Test Year.

   SCE’s outside law firms increased their billing rates from 2002-2006 by an annual average of seven percent. In addition, as discussed above, there has been a general increase in demand for legal services across the Company. One way the Law Department has been able to control these increasing costs is by continuing to shift as much work as possible to in-house attorneys.

   SCE’s Law Department has implemented thorough cost controls for the outside counsel services it uses. First, retaining outside counsel requires the approval of an Assistant/Associate General Counsel or the General Counsel. Retaining a firm SCE has not previously used requires the express approval of the General Counsel. Second, once outside counsel has been retained, the Law Department follows a careful, detailed process to control outside counsel billings. The department has communicated to SCE’s outside counsel the Company’s prescribed billing and related principles that outside counsel are expected to follow in performing legal services for the Company. For example, the Law Department:

   - Emphasizes the importance of the budgeting process as a tool for managing outside counsel costs at the beginning and throughout the retention of outside counsel;
• Sets forth SCE’s expectations that outside counsel work closely and communicate with the Law Department;
• Identifies SCE’s policy for expense reimbursement to outside counsel when a staffing change occurs, as well as increased rates for outside counsel;
• Outlines SCE’s policy on outside counsel’s use of consultants and experts and sets forth billing requirements for the consultants and experts;
• Enunciates all costs that SCE will reimburse;
• Places restrictions on reimbursements for travel costs, copying costs, and other disbursements;
• Encourages outside counsel to be cost-sensitive with respect to travel and to take advantage of opportunities to reduce travel-related expenses whenever possible; and
• States SCE’s requirements for submission and payment of invoices.

To further refine SCE’s relationship with outside counsel, the Law Department has an Outside Counsel Committee comprised of several in-house attorneys who review the department’s policies as they relate to outside counsel, periodically update the Outside Counsel Guidelines, annually review the performance of outside counsel, and serve as an interface between outside counsel and Law Department management.

Finally, SCE highly encourages the use of alternative billing methods by outside counsel, so that the time and fees incurred on a matter are consistent with SCE’s determination of the matter’s size, significance, and desired result. These methods have included discounted hourly/volume rates, blended hourly rates, phased budgeting, fixed fees, incentive billing, and modified contingency arrangements. In the past, SCE has negotiated fee arrangements with the six firms that have been retained on a long-term basis and that provide the bulk of legal services for the Company. These firms bill SCE at discounted rates in exchange for the volume of work SCE gives them. They also have the

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13 For example, SCE’s Outside Counsel Guidelines indicate that the Company will pay for court reporter services and the actual cost of parking. Other expenses, such as legal research services, are not reimbursable unless pre-approved.
opportunity for a bonus, based on the Law Department’s evaluation of their work. Each year the
Outside Counsel Committee evaluates the performance of these six outside counsel firms and whether
their billings are within budget for the services rendered.

2. **Analysis Of Recorded Data, Estimating Methodology, And Test Year 2009 Forecast For Outside Counsel (FERC Accounts 923, 928)**

The Law Department records expenses associated with its outside counsel to FERC
Account 923 (Outside Services Employed), and FERC Account 928 (Regulatory Commission
Expenses). FERC Account 928 is used to record outside counsel expenses related to regulatory matters
(both CPUC and FERC) and is reported annually by SCE on FERC Form 1. All other outside counsel
expenses are recorded in FERC Account 923.

Over the past several years, SCE, like many other companies, has experienced a steep
increase in the fees charged by outside law firms. During the 2002-2006 periods, the average annual
increase in the rates charged to SCE by outside law firms has been approximately seven percent.
However, SCE has continued to control overall costs by handling work in-house, leveraging fee
agreements with our partnering firms, and enhancing the skills and training of internal staff. Going
forward, SCE will continue these efforts to minimize outside counsel expenses.

Figure II-6 identifies SCE’s recorded costs for the use of outside counsel for 2002-2006
and its forecast of such costs for 2007-2009.
As shown in Figure II-6 above, outside counsel expenses recorded in Accounts 923 and 928 averaged approximately $10.7 million annually. The $3.6 million decrease in outside counsel expenses in 2003 was primarily the result of diminishing energy crisis and restructuring matters and the addition of a significant number of in-house attorneys, who were able to take on additional matters. In 2004, the Law Department’s outside counsel expenses increased by $1.6 million, due to the Southern California Gas antitrust matter and increased activity on the Gas Border Price Investigation. Outside counsel expenses from 2004 to 2005 were relatively flat. Outside counsel expenses decreased in 2006 by $1.7 million. This decrease primarily resulted from reductions (from 2005 levels) in invoices received for outside counsel expenses associated with matters such as the Construction Contracting OIR, the Gas Border Price Investigation, the Southern California Gas antitrust matter, ISO/TO, and interconnection and transmission matters.

For Test Year 2009, the Law Department forecasts $7 million for FERC Account 923 and $3.02 million for FERC Account 928, for a combined forecast of $10.1 million. The Law Department’s
forecast for FERC Accounts 923 and 928 is based on a four-year average of 2003-2006 expenses. Recorded expenses in 2002 were excluded from the forecast calculation because a substantial amount of the department’s outside legal expenses in that year relate to the energy crisis. As discussed above, the Law Department anticipates that it will face a continuing increase in its workload in the coming years, which will include matters requiring the assistance of outside counsel. While outside counsel rates charged to SCE will also continue to rise in the 2007-2009 period, the Law Department believes it can continue to control these costs and maintain them at a level consistent with the 2005-2006 period by increasing its in-house resources as described in Section C above and continuing to manage its outside counsel relationships as described in this Section.

E. Evaluation Of Time Tracking System For SCE Attorneys

1. Overview Of Time Tracking Analysis

In its Decision on SCE’s Test Year 2006 GRC, the CPUC directed SCE to include an analysis of attorney time-tracking in its next GRC:

In its next GRC, SCE should provide a study on, or analysis of, a time-tracking system for its in-house counsel. It should include an estimated cost of performing this activity, any perceived benefits or detriments and any analysis related to the tracking system that was in place during the 1994-1998 timeframe.\(^{14}\)

SCE engaged Hildebrandt International, a leader in field of management consulting for the legal industry, to conduct the mandated study. Jonathan Bellis, the Director and co-chair of Hildebrandt’s Law Department Consulting Group, led the Hildebrandt team that performed the study. The process used by Hildebrandt to perform the study, and its analysis regarding the benefits and detriments, as well as the costs, of implementing a time tracking system are provided in Hildebrandt’s report: “Timekeeping in Corporate Law Departments and Southern California Edison Company,” submitted herewith as Appendix B. Hildebrandt’s conclusions are discussed in Section E.3 of this chapter, below. In addition to that report, SCE’s experience with time-tracking in 1994-1998 is discussed below.

\(^{14}\) D.06-05-016, Conclusion of Law No. 23.
2. **SCE’s Prior Experience With Attorney Time Tracking**

SCE’s Law Department used an electronic timekeeping system (Timetrack) to track attorney time during the 1994-1998 periods. This timekeeping system was implemented in an effort to improve the tracking and management of the department’s attorney resources. However, after using Timetrack for nearly four years, Law Department management determined that timekeeping by in-house attorneys did not improve our ability to manage the department and did not justify its expense (in terms of money spent to acquire and operate the system and the attorney time expended to input and review time entries).

For example, the Law Department found that:

1. **Attorney Timekeeping Data was not Helpful in Allocating Work Among Attorneys on a Going-Forward Basis.**

   Raw time data did not provide a reliable basis for assessing individual attorney workloads, thereby providing little to no assistance in work allocation decisions. SCE’s attorneys work on a wide range of matters that vary in complexity. For example, eight hours spent in trial or CPUC hearings is significantly different than eight hours participating in SCE management meetings. In addition, the manner in which attorneys tracked their time (e.g., the level of detail included in entries and the precision of the recorded time) varied among individual attorneys. Accordingly, Law Department Section managers and Assistant/Associate General Counsels, after devoting a substantial amount of time reviewing Timetrak entries, found that they still had to ultimately rely on their own knowledge of the workload of attorneys within the Sections to make appropriate decisions in assigning new work.

2. **Timekeeping Data was Extremely Limited in its Use as a Retrospective Tool for Evaluating Individual Attorney Performance.**

   As discussed above, raw time data was not a good indicator of the amount of effort required of an individual SCE attorney over the course of a year. Comparing the recorded hours of one in-house attorney to another rarely provided any insight into the value provided by each attorney on the matters they worked on. Regulatory work provides one example of the shortcomings of using recorded
time to evaluate in-house attorneys. As is the case today, in the 1994-1998 period, regulatory matters varied dramatically in their characteristics, including the complexity of the case, the nature of changing regulatory requirements, the degree of SCE’s participation in a given matter, etc. Thus, the number of attorneys and amount of hours devoted to a single regulatory matter, compared to similar statistics for another regulatory matter, rarely provided any insight into the value provided by the attorneys on each matter. Nor did raw timekeeping data offer significant insight into the quality of work performed by a given SCE attorney. Indeed, a high level of recorded time can just as readily indicate inefficiency as it can reflect extraordinary efforts on complex matters. Law Department management found that raw timekeeping data was insufficient and potentially misleading as a tool for evaluating in-house attorneys. Therefore, even after Law Department management spent substantial time reviewing time entries, management found that it had to consider more subjective measures of the quantity and quality of attorney work, such as interviews of business group representatives and the first-hand experiences of Section managers (which includes not only observations of attorney work but also the evaluation of written work product), to properly evaluate in-house attorney performance.

(3) Timekeeping Data did not Provide a Reliable Basis for Forecasting Future Attorney Work in the Law Department.

For many of the reasons discussed above, including the varying complexity of (and level of SCE involvement in) the matters handled by the Law Department and the differences in the ways individual attorneys will track their hours in a timekeeping system, raw timekeeping data was not an appropriate tool for forecasting the department’s future workload. The amount of in-house attorney time recorded in a given year could not simply be assumed to carry over to the next year or even increase or decrease by a set amount. The Law Department cannot anticipate future workload by reviewing recorded in-house attorney time alone. Rather, department management must consider new legislative and regulatory developments that have been initiated or are expected to occur in a given year, as well as determine whether existing matters will increase or decrease in complexity over time. Recorded attorney time did not provide a clear and direct link to future work; rather, Law Department
management had to more broadly evaluate the legal and regulatory climate facing the Company each year.

3. Analysis Of Time Tracking For The Present SCE Law Department

As described in Appendix B, Hildebrandt International’s study of SCE’s Law Department concludes that implementation of a timekeeping system for the department’s attorneys is not warranted:

In the case of SCE, the value of a timekeeping system does not appear to justify the financial and non-financial costs which would be incurred through implementing such a system. Given the capabilities of the current SCE law department management team, combined with the absence of a clear benefit from implementing a timekeeping system, adopting such a system in SCE’s Law Department appears unwarranted at this time.\(^\text{15}\)

The Hildebrandt timekeeping study arrived at the foregoing conclusion based on an extensive review of literature and surveys related to the use of timekeeping in corporate law departments and fact-finding activities performed at SCE in the fall and winter of 2006 by Jonathan Bellis and his colleagues at Hildebrandt International.\(^\text{16}\)

The Hildebrandt timekeeping study explains that SCE’s Law Department is among the vast majority of corporate law departments in the United States that do not utilize time-tracking systems for in-house attorneys. Data from the major corporate law department surveys indicate that, since 2000, less than one-third of U.S. corporate law departments utilize timekeeping systems; in fact, this percentage declined to less than 20 percent by 2006.\(^\text{17}\) SCE’s Law Department should remain among the approximately 80 percent of corporate law departments that do not utilize a timekeeping system, in light of the lack of benefit that such a system would provide at SCE, as confirmed by the Hildebrandt timekeeping study and discussed below.

While a timekeeping system may be beneficial to certain corporate legal departments, Hildebrandt International explains that the benefits of time-tracking cannot be assumed to apply equally

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\(^{15}\) Timekeeping in Corporate Law Departments and Southern California Edison Company, dated May 31, 2007, attached as Appendix B hereto, at 22.

\(^{16}\) Id., at 3-4, 18.

\(^{17}\) Id., at 6-7.
to all legal departments – rather, the decision of whether to adopt a timekeeping system must be based on the specific circumstances present within a given company and its law department. Based on its review of the SCE Law Department, Hildebrandt International determined that a timekeeping system would not be an appropriate or useful step for the department. Among other things, Hildebrandt concluded that SCE’s Law Department:

- Has made consistent improvements in the quality of its legal services and department management over the last 10+ years;
- Is led by a senior, cohesive, and capable management team that ensures frequent communication within the department and the setting of appropriate section and department-wide planning and goal setting;
- Demonstrates significant technical, functional, and regulatory expertise and has a substantial commitment to hiring and developing high quality legal talent;
- Already employs a number of effective tools and approaches to manage and measure the performance of SCE’s in-house attorneys, including a Quarterly Business Review, an annual performance review process, section planning and goals, client satisfaction surveys, and other internal reporting.

Hildebrandt International’s assessment of SCE’s Law Department also confirmed the views held by senior members of the department that a timekeeping system would not produce useful data for the department, would require substantial time and expense to administer, and could have a detrimental impact on the department’s ability to continue to recruit and retain high quality legal talent. Moreover, one of the principal reasons for utilizing time-tracking in a corporate law department is to use the data as part of a “chargeback” system to allocate the costs of in-house attorney work to the corporate

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19 Id., at 18-21.
20 Id., at 19-20.
21 Id., at 19.
departments supported by the work. SCE does not use a chargeback system, as such a system can
discourage business groups from involving the Law Department in issues (because of the group’s
budget), which in turn can cause these issues to become larger problems that ultimately require greater
effort and expense for the Company to resolve.

SCE concurs with the Hildebrandt timekeeping study’s conclusion that a timekeeping
system is not appropriate or necessary for the Law Department. As described in the study, the
department has appropriate controls and procedures in place to effectively manage personnel and the
distribution of workload. Indeed, consistent with SCE’s experience in 1994-1998, the expenses
associated with implementing and administering a timekeeping system – both in terms of financial cost
and attorney time devoted to the system – are substantial. The Hildebrandt timekeeping study indicates
that implementing and administering such a system for a corporate legal department of approximately
the size of SCE’s Law Department could cost nearly $3 million per year, up to $2.7 million of which is
the value of attorney time devoted to entering and reviewing timekeeping data and thus lost from
substantive legal matters. Additionally, an attorney timekeeping system generally would not assist the
CPUC or SCE in determining expenses associated with one-time or non-recurring matters that should be
adjusted out of the Law Department’s recorded expenses for the purposes of SCE’s rate case filings.
Non-recurring matters, such as the TDBU maintenance inspection, Field Service Representative
inspection, and the El Paso Refund matter, are typically assigned to outside counsel and thus the
expenses associated with these matters are identified in outside counsel fees, which are adjusted out of
the department’s recorded costs.

Given the conclusions reached in the Hildebrandt study, the substantial expenses and
diversion of resources associated with implementing and operating an attorney timekeeping system
should not be imposed upon SCE and its customers.

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23 Id., at 7-8.
F. Corporate Governance And Miscellaneous Expenses: (FERC Accounts 920, 921, And 930.2)

1. Summary Of Activities

Companies that are incorporated in California, such as SCE and Edison International (EIX), are governed by the California Corporations Code, which requires that the business and affairs of SCE be managed by or under the direction of a board of directors.24

Under the direction of the Chief Governance Officer and Corporate Secretary, SCE’s Corporate Governance Division supports the EIX and SCE Boards of Directors and the five and six respective EIX and SCE Board Committees by: (1) preparing, coordinating, and maintaining all documentation pertaining to Board or Committee approval on all company matters requiring such approval, including minutes, resolutions, bylaws, and articles of incorporation; (2) coordinating the Annual Meetings of Shareholders, Annual Organizational Meeting of the Boards, and all other Board and Committee meetings; (3) maintaining the annual Board and Committee meeting calendar and coordinating the delivery of all pre-meeting materials; and (4) acting as liaison between management and the Boards, including distribution of Board letters on matters such as company performance, current events, and best practices. In 2006, the EIX and SCE Boards of Directors met eight and seven times, respectively. Board Committees met as follows: Audit – seven times, Compensation and Executive Personnel – five times, EIX Executive – one time, Finance – two times, Nominating/Corporate Governance – five times, and SCE Pricing – one time. We expect the number of Audit, Compensation and Executive Personnel, Finance, and Nominating/Corporate Governance Committee meetings to continue to increase in 2007-2009. The Executive and Pricing Committees only meet as needed.

In addition to supporting the Boards of Directors, the Corporate Governance Division is responsible for supporting SCE in-house legal staff in ensuring corporate compliance with certain domestic and other regulatory corporate filing requirements. For example, Corporate Governance personnel support SCE attorneys in preparing filings under the Securities Act of 1933, the Securities

Exchange Act of 1934, and the New York Stock Exchange and American Stock Exchange listing requirements. These filings include annual and periodic reports (i.e., 8Ks, 10Qs, 10Ks, and the Annual Reports to Shareholders), proxy statements, registration statements, reports of executive and director stock transactions, and listing applications, some of which are required to be filed electronically through a special system.

SCE has experienced increased Corporate Governance activities over the last several years due to increased corporate compliance requirements and increased public scrutiny. Corporate compliance activities have increased significantly since the passage of the Sarbanes-Oxley Act, as well as the change in corporate climate due to corporate scandals. Changes have resulted in frequent adoption of new and revised laws, regulations, and rules, causing increased filings, accelerated filing deadlines, and additional disclosure and oversight. As such, the workload of the Corporate Governance Division and the Boards and Board Committees has increased, and SCE expects that trend to continue. The change in corporate climate also requires the Corporate Governance Division to continually review and update corporate governance “best practices,” by reviewing available literature; studying and reviewing SEC and stock exchange rules; attending related conferences; reviewing monthly publications on Corporate Governance and securities matters; and reviewing Corporate Governance materials of various public companies such as board committee charters, corporate governance guidelines, and SEC filings.

SCE must also finance its distribution and transmission system and generation plants with a combination of debt and equity requiring compliance with applicable federal securities laws that require registration statements, prospectuses, and disclosure filings. The Corporate Governance Division supports these activities as well.

Because the Corporate Governance Division performs work for both SCE and EIX, a monthly credit is recorded in FERC Accounts 920/921 and 930.2 for the work the Division provides on behalf of EIX. On a monthly basis, SCE receives a credit based on the relative assets, which includes receivable accounts that SCE owns, as opposed to those owned by EIX. For example, if SCE’s assets comprise 60 percent of EIX’s total assets, SCE’s customers receive a 40 percent credit for that month of
the expenses incurred by the Corporate Governance Division. The Corporate Governance function did not arise with the creation of SCE’s parent company in 1988. SCE incurred costs for the Corporate Governance function as a stand-alone company prior to the formation of EIX and would continue to incur these costs if SCE were a stand-alone company today. In fact, the holding company structure and the existence of SCE’s affiliates allow these costs to be spread over a broader base, reducing costs to SCE’s customers.

2. **Analysis Of Recorded Data, Estimating Methodology, And Test Year 2009 Forecast For Corporate Governance (FERC Accounts 920, 921, 930.2)**

   a) **FERC Account 920/921**

   SCE records expenses associated with employee salaries and related expenses of the Corporate Governance Division to FERC Account 920 (Administrative and General Salaries) and all other general expenses for office supplies and equipment to FERC Account 921 (Office Supplies and Expenses).

![Figure II-7: Corporate Governance FERC Accts 920/921](image)

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25 *See Function 3222 of Accounts 920/921 and Function 3223 of Account 930.2, both of which are described in the Law Department’s workpapers to this Exhibit.*
Labor expenses from 2003-2005 were relatively flat, and were lower than 2002 recorded labor expenses due to personnel transferring to other organizations. The non-labor increases in 2003-2006 were due to increased utilization of supplemental employees and increased expenses for investor-related communications and publications.

The Corporate Governance Division included six employees at year-end 2006, with four vacant positions. By Test Year 2009, the division will need to fill these vacant positions in order to carry out the continually increasing workload faced by the division, as described above in Section F.1. of this chapter. Obtaining and maintaining a full staffing level is vital, given the volume of corporate information that must be provided in regulatory filings, Sarbanes-Oxley demands on the Board of Directors and the Corporate Secretary functions, and the complexity and reduced turnaround time permitted for corporate disclosures. SCE also anticipates that the Boards of Directors will continue to meet approximately seven to eight times per year during the 2007-2009 periods.

In 2006, division personnel put in tremendous amounts of extra work hours to complete the necessary work, in light of the division’s vacancies. Due to these lengthy work hours stemming from increasing oversight and regulatory demands, it has become challenging to hire and retain qualified Corporate Governance staff. Because knowledge of Company history is typically important to the division’s work in responding to regulatory data requests and other filing requirements, it is important for the division to retain experienced personnel and strengthen knowledge of all staff in this area.

Filling the division’s vacant positions is a key step to ensure that division personnel do not continue to be stretched so thin and to retain the qualified employees already in place in the division.

The Corporate Governance Division’s Test Year 2009 forecast for operating expenses is $770,000. The division’s labor forecast was calculated using the 2006 recorded year labor expenses with future-year adjustments for incremental expenses associated with the division’s projected increase in personnel, described above. As shown in Table II-4 below, the incremental adjustment was calculated using SCE’s 2006 Market Reference Point (MRP).
The division’s employee-related non-labor expense forecast was calculated by first determining the average ratio of 2003-2006 recorded non-labor to labor expense, then multiplying that ratio by the labor expense forecast for 2009. As can be determined from Figure II-7, the average ratio of non-labor to labor expense was approximately 12.2 percent. Applying this ratio to the division’s forecast of 2009 labor expense yields the non-labor expense forecast of $84,000. This approach accounts for the projected increase in non-labor expenses due to the division’s staffing increase in 2009.

The 2002 ratio of non-labor to labor expense was not included in the calculation as it represents abnormally low non-labor expenses that are not consistent with SCE’s expectation of necessary Corporate Governance activities and related expenses in the future.

b) **FERC Account 930.2**

Corporate Governance activities recorded in FERC Account 930 (Miscellaneous General Expenses) includes fees and expenses paid to members of SCE’s Board of Directors, expenses associated with the SCE’s Annual Shareholder Meetings, contract services, and other proxy-solicitation fees, as well as costs related to filing requirements of the SEC. The labor component of this account refers to the charges made by SCE’s various employees for their time spent providing assistance during annual shareholders’ meetings. All other expenses, including directors’ fees, are classified as non-labor.
During the recorded period of 2002-2006, the costs for SCE Directors Fees and Expenses increased from $2.7 million to $4.1 million due to the increase in frequency of meetings held, increase in retainer fees and the value of deferred stock units granted to the Directors. Non-labor expenses decreased in 2004 due primarily to the reduced amount of chargeback received from EIX for directors’ fees and expenses. Labor expenses increased during 2005-2006 as a result of the increased support required during Board meeting and committee meetings, and dedicated support required during annual shareholders’ meetings. SCE Board members receive annual retainer fees and fees for attending Board meetings. Generally, there are seven to eight scheduled board meetings each year. As previously discussed, the number of committee meetings vary, depending on the committee.

SCE’s Board Meetings, Committee Meetings, and Shareholder’s Meetings increased in frequency during 2003-2006 from 2002, when SCE was still recovering from the California energy crisis. Although reflecting an increase due to the number of additional meetings, expenses recorded during the 2003-2006 periods for director’s fees and expenses, as well as shareholder-related fees and expenses were in-line with the typical costs required for investors’ meetings.
SCE’s forecast for Test Year 2009 for FERC Account 930.2 (Corporate Governance and Miscellaneous) is $4.75 million, an increase of 15.64 percent from year-end 2006. This forecast was calculated using 2006 recorded expense plus a future-year adjustment. The incremental increase in expenses from 2006 recorded costs is related to the increasing frequency of corporate reporting required of Corporate Governance and oversight by the Board of Directors in response to increased corporate compliance requirements, public scrutiny, and frequent adoption of new and revised laws, regulations, and rules.
III.

CLAIMS

A. Summary Of Test Year Request

For Test Year 2009, SCE’s Claims Division forecasts a total of $15.3 million in Administrative & General expenses (including Injuries and Damages – Claims Reserves). Figure III-9, below, shows recorded costs for the years 2002-2006 and forecast costs for the years 2007-2009.

Figure III-9
Claims (Including Claims Reserves)
FERC Accts. 920/921,924 And 925
Recorded and Adjusted 2002-2006/Forecast 2007-2009
Claims Summary
(Constant 2005 $/00)

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labor</td>
<td>2,110</td>
<td>2,176</td>
<td>2,173</td>
<td>2,254</td>
<td>2,284</td>
<td>2,501</td>
<td>2,758</td>
<td>2,758</td>
</tr>
<tr>
<td>Non-Labor</td>
<td>13,722</td>
<td>13,103</td>
<td>9,693</td>
<td>10,575</td>
<td>7,021</td>
<td>12,477</td>
<td>12,514</td>
<td>12,514</td>
</tr>
<tr>
<td>Other</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>15,932</td>
<td>15,279</td>
<td>11,866</td>
<td>20,826</td>
<td>9,315</td>
<td>14,977</td>
<td>15,272</td>
<td>15,272</td>
</tr>
</tbody>
</table>

B. Overview Of Claims Division Structure And Services Provided

Each year, many claims are filed against SCE, and by SCE, arising out of the Company’s provision of electric service. Approximately 10,350 files were opened per year during the last five years (2002-2006). Claims against SCE administered by the Claims Division during this time period included, among other things, bodily injury, damage to electrical appliances, accidents involving SCE vehicles, and property damage. Claims filed by SCE against third parties ordinarily involved damage to SCE facilities or equipment caused by third parties, accidents involving SCE vehicles, and energy theft.
These activities have a direct bearing on the cost of providing electric service. For example, SCE filed numerous claims against contractors or subcontractors for construction “dig-in” cases where the contractor or subcontractor caused damage to our underground facilities. SCE recovered monetary damages in over 70 percent of these claims. Had SCE not filed these claims, SCE’s cost of providing service could have increased.

Claims personnel perform the following tasks:

- Investigations and litigation assistance in connection with claims against SCE for bodily injury and property damage;
- Collections of payments due to SCE for damage to Company facilities;
- Representation of SCE in small claims matters and supporting other legal activity in connection with claims by SCE against other parties for damage to Company facilities and equipment.

Claims personnel are responsible for responding to claims against SCE (referred to as “liability claims”) and pursuing recovery for damage caused to SCE facilities by other parties (referred to as “collections claims”). In 2006, the Claims Division worked on and closed out approximately 12,500 claim files. This work was performed by 34 employees (managers, liability and collections claims representatives, investigators, analysts, and administrative staff).

The areas of responsibility for Claims Division personnel are as follows: (1) the managers are responsible for providing oversight of the Claims Division’s operations; (2) the collections claims representatives are responsible for pursuing recovery for damage to SCE facilities or equipment caused by third parties, (3) the liability claims representatives handle the claims made against SCE involving property damage or appliance damage; (4) investigators perform field investigations and provide support for complex matters involving injuries and property damage in litigated cases; (5) analysts perform work associated with accounting functions and handling subpoenas; and (6) the administrative staff are responsible for providing clerical support for the Claims Division.

Liability and collection claims filed either by or against SCE between 2002 and 2006 increased by 47 percent, from 8,455 to 12,446 claims, as shown on Table III-5 below. This represents an average
annual increase of approximately 11.8 percent. Open cases at year-end for the last three years were:

Table III-5

<table>
<thead>
<tr>
<th>Liability And Collection Claims</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Liability Claims</td>
</tr>
<tr>
<td>Collections Claims</td>
</tr>
<tr>
<td>Total Claims</td>
</tr>
</tbody>
</table>

Departmental expenses for the Claims Division are comprised of: (1) salaries and non-labor expenses for the division’s staff, which are recorded in FERC Accounts 920 and 921; (2) expenses associated with bodily injury and property damages claims, which are recorded in FERC Accounts 924 and 925; and, (3) expenses associated with injuries and damages reserves for general liability claims, which are recorded in FERC Account 925.

The division records expenses associated with losses and damages to SCE-owned or leased property in Account 924 (Property Insurance). Included in this account are fees and expenses of investigators, witnesses, stenographers, other costs incurred in adjusting claims, fees of credit bureaus for collecting damage claims, labor charges for SCE employees outside of the Claims Division who were called upon to testify in small claims court, and supplies connected with property insurance activities. When SCE recovers any insurance proceeds, the amounts are credited back to SCE’s customers.

The division records certain expenses associated with legal services (performed either by SCE in-house attorneys or outside counsel) incurred by the Claims Division for liability claims and collections litigation matters, other than property insurance matters, to Account 925 (Injuries and Damages). Included in this account are expenses for legal services to defend against claims filed against SCE and to pursue claims filed by SCE, expenses for workers’ compensation related cases, fees for expert witnesses, court fees, investigators and other miscellaneous fees that are incurred in litigating cases.

The division records to Account 925 (Injuries and Damages – Reserves) amounts reserved by the Company as self-insurance for general liability losses resulting from injuries and damages to persons
and property that are not covered by SCE’s insurance policies. SCE establishes reserves up to its self-insured limit of $2 million per incident. Also included in this account is the amortization of insurance expense for specific coverage of covered losses resulting from injuries and damages to persons and property, such as premiums paid for asbestos-related injuries and damages under the Masters Insurance Program (MIP).

C. Analysis Of Recorded Data, Estimating Methodology, And Test Year 2009 Forecast For Claims

1. FERC Accounts 920, 921 (Administrative, Salaries & Non-Labor Costs)

Figure III-10
Administrative And General Salaries - Claims
FERC Accts. 920/921

<table>
<thead>
<tr>
<th>Year</th>
<th>Recorded Expenses</th>
<th>Forecast 2007-2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>2,807</td>
<td>$3,125</td>
</tr>
<tr>
<td>2003</td>
<td>2,137</td>
<td>$2,728</td>
</tr>
<tr>
<td>2004</td>
<td>2,413</td>
<td>$2,728</td>
</tr>
<tr>
<td>2005</td>
<td>2,226</td>
<td>$2,728</td>
</tr>
<tr>
<td>2006</td>
<td>2,275</td>
<td>$2,728</td>
</tr>
<tr>
<td>2007</td>
<td>2,459</td>
<td>$2,728</td>
</tr>
<tr>
<td>2008</td>
<td>2,726</td>
<td>$2,728</td>
</tr>
<tr>
<td>2009</td>
<td>2,728</td>
<td>$2,728</td>
</tr>
</tbody>
</table>

a) Recorded Expenses

SCE records salaries of Claims Division personnel to FERC Accounts 920/921 (Administrative and General Salaries and related non-labor expenses). Claims Division labor expenses from 2002-2006 were relatively flat.

Non-labor expenses recorded to FERC Accounts 920/921 are for activities required to operate the Claims Division, such as automotive expenses (e.g., for the travel of claims investigators) and costs incurred to process and collect claims. Non-labor costs vary due to a number of
factors, such as the need for employee travel, the number of claims, location of the incidents, and severity of claims. As a result, the Claims Division’s recorded costs for non-labor expenses varied from year-to-year during 2002-2006. The annual variances from 2002–2006 are as follows: 22 percent decrease in 2003, 47 percent increase in 2004, 1 percent increase in 2005, and 12 percent decrease in 2006. The decline in 2003 expenses resulted from a decrease in field and General Office facility operation expenses, a decrease in telephone toll and services, a reduction in employee expenses, and a decrease in the utilization of supplemental employees. In 2004, the increase in non-labor expenses was primarily due to the increased use of supplemental employees to fill-in for temporary vacancies and the hiring of a consultant to handle asbestos-related cases. Travel expenses also increased during 2004-2006 as a consequence of increases in claims activities and the mandated rate for reimbursement of mileage driven by employees. Non-labor expenses decreased in 2006 primarily due to reductions in the division’s use of supplemental employees and in employee expenses.

b) Expense Forecast

The Claims Division expects claims-related workload to continue to increase consistent with the overall upward trend in total claims cases handled by the division during 2002-2006, as shown in Table III-5, above. As a result, the division will need to add six full-time equivalent employees (FTEs) by Test Year 2009 to handle increasing workload. Specifically, the division will add three investigators, a claims representative, and one analyst in 2007, and another claims representative in 2008. Two of the new investigators will be primarily responsible for performing Environmental and Safety related investigations that were not the responsibility of this division prior to 2007. The remaining FTEs added to the division are needed to handle the continuing increase in the division’s responsibilities described in Section B of this chapter, above.

The Claims Division’s Test Year 2009 forecast for operating expenses is $3.1 million, an increase of 20.7 percent from year-end 2006. The division’s labor forecast was calculated using the 2006 recorded year labor expenses with future-year adjustments for incremental expenses associated with the division’s projected increase in personnel. As shown in Table III-6 below, the incremental adjustment was calculated using SCE’s 2006 Market Reference Point (MRP).
Table III-6
Claims Division
Incremental Labor Forecast 2009

<table>
<thead>
<tr>
<th>Incremental Staffing</th>
<th># of Positions</th>
<th>2006 MRP Annual Salary</th>
<th>Incremental Labor For Test-Year 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Claims Management General</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2007 Analyst-Program/Project 1</td>
<td>1</td>
<td>$50,400.00</td>
<td>$50,400.00</td>
</tr>
<tr>
<td>Claims Operation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2007 Claims Representatives 2</td>
<td>1</td>
<td>$61,800.00</td>
<td>$61,800.00</td>
</tr>
<tr>
<td>2007 Investigator 1</td>
<td>1</td>
<td>$80,000.00</td>
<td>$80,000.00</td>
</tr>
<tr>
<td>2007 Investigator 2</td>
<td>2</td>
<td>$98,551.00</td>
<td>$197,102.00</td>
</tr>
<tr>
<td>Claims Collection</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008 Claims Representatives 2</td>
<td>1</td>
<td>$61,800.00</td>
<td>$61,800.00</td>
</tr>
<tr>
<td>CLAIMS</td>
<td></td>
<td></td>
<td>$451,102.00</td>
</tr>
</tbody>
</table>

The division’s non-labor expenses varied from year to year from 2002-2006. In light of this variance, the division’s employee-related non-labor expense forecast was calculated by first determining the average ratio of 2002-2006 recorded non-labor to labor expense, then multiplying that ratio by the labor expense forecast for 2009. As can be determined from Figure III-10, the 2006 ratio of non-labor to labor expense was approximately 14.66 percent. Applying this ratio to the division’s forecast 2009 labor expense yields the non-labor expense forecast of $399,000. The department anticipates that the five-year non-labor ratio used to estimate non-labor costs accurately reflects non-labor costs going forward, in light of the department’s staffing increase.
2. **FERC Account 924 (Legal Services, Labor & Supplies Connected With Property Insurance Activities)**

*Figure III-11*

*Property Insurance - Claims*

*FERC Acct. 924*

As described in Section B of this chapter, above, the Claims Division records costs for legal services, labor, and supplies connected with property insurance activities in Account 924. This includes fees and expenses of outside investigators, witnesses, stenographers, and expenses of employees appearing as witnesses.

Figure III-11 above shows that labor and non-labor expenses for this account increased by 60 percent in 2003 and 20 percent in 2004. Expenses from 2004-2006 were relatively flat. These fluctuations in expenses during 2002-2004 can be attributed primarily to increases in process servers’ payments and court filing fees. Additionally, in 2004, the Claims Division developed and implemented a “one-touch” collection process to expedite the division’s handling of property damage claims. The “one-touch” collection process limits the number of times staff will have to handle claims from inception to completion; that is, to the extent possible all necessary work and filings should be done once and not in multiple stages. The institution of the “one-touch” collection process has helped to control the costs recorded to this account.
For Test Year 2009, the Claims Division forecasts a total of $75,000 for Account 924, based on a three-year average of recorded costs for the period 2004-2006. An averaging methodology is appropriate for the division’s Account 924 expense forecast in light of the annual fluctuation in costs and the unpredictability of the number and severity of claims that will be filed in a given year. The three-year average of 2004-2006 recorded expenses appropriately reflects the increased process server and court filing fees that the division has experienced since 2004, and will continue to incur, and reflects the benefits of the “one-touch” collection process instituted in 2004.

3. **FERC Account 925**

   a) **Injuries And Damages**

   **Figure III-12**

   *Injuries And Damages - Claims*

   *FERC Acct. 925*

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labor (std excl)</td>
<td>33</td>
<td>27</td>
<td>34</td>
<td>19</td>
<td>16</td>
<td>26</td>
<td>26</td>
<td>26</td>
</tr>
<tr>
<td>Non-Labor</td>
<td>4,147</td>
<td>2,413</td>
<td>4,308</td>
<td>3,660</td>
<td>2,784</td>
<td>3,469</td>
<td>3,469</td>
<td>3,469</td>
</tr>
<tr>
<td>Other</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>4,180</td>
<td>2,440</td>
<td>4,342</td>
<td>3,712</td>
<td>2,802</td>
<td>3,495</td>
<td>3,495</td>
<td>3,495</td>
</tr>
</tbody>
</table>

As discussed in Section B of this chapter, above, the Claims Division records expenses associated with injuries and damage claims, such as expert witness fees, court fees, and costs of investigators, in FERC Account 925. This account also includes recorded expenses for legal services and other litigation costs associated with injuries and damages. These costs varied year-to-year during 2002-2006, due to the unpredictable nature of litigation. The 2002 and 2004 recorded levels were due to increased litigation costs associated with cases such as the Calabasas-Malibu Fire, Mobil Oil...
Corporation, Pre Con Products matters in 2002 and Big Creek litigation in 2004. The Big Creek Fire case alone included significant discovery requests propounded to SCE that drove the litigation costs up. With the resolution of these complex cases, there was a reduction in recorded costs in 2005 and 2006.

Because claims expenses in Account 925 vary from year to year, and because SCE cannot predict with certainty the number and specific nature of lawsuits that may be pending against the Company in the Test Year, the Claims Division’s Test Year 2009 forecast for FERC Account 925 is based on a five-year average (2002-2006). Therefore, the Claims Division’s 2009 forecast for this account is $3.5 million.

b) **Injuries And Damages – Claims Reserves**

The Claims Division records its Reserve expenses to FERC Account 925 – Injuries and Damages Reserves. Reserve related expenses, also known as reserve accrual, are calculated based on the division’s quarterly assessment of the reserve balance necessary to meet the Company’s potential exposure for general liability claims.

**Figure III-13**

*Injuries And Damages – Claims Reserves*

FERC Acct. 925

Recorded reserves from 2002-2006 fluctuate from year to year as a result of the unpredictable nature of general liability claims. As such, reserves will increase as liability cases, primarily attributable to new claims for injuries and damages, are opened, and will decrease when they
are resolved. The fluctuation in recorded claims reserves from 2002 through 2006 reflects increases in years when a greater level (either in number of cases or potential exposure) of general liability cases remained open at year-end, and decreases when more cases had been resolved by the year-end.

Due to the unpredictable nature of the reserves needed for general liability claims in a given year, the forecasting method that was used is based on a five-year average of 2002-2006 recorded expenses. For Test Year 2009, the Claims Division forecasts $8.6 million in Injuries and Damages – Claims Reserves.
IV.

WORKERS' COMPENSATION

A. Summary Of Test Year Request

For Test Year 2009, SCE’s Workers’ Compensation Division forecasts a total of $43.2 million in expenses. Figure IV-14 below shows recorded costs for the years 2002-2006 and forecast costs for the years 2007-2009.

Figure IV-14
Workers’ Compensation
FERC Acct. 925
(Including Workers’ Compensation Reserves)

The expenses associated with the operations of the Workers’ Compensation Division, and the Reserves for workers’ compensation claims are recorded in FERC Account 925 (Injuries and Damages).

With respect to Workers’ Compensation operations, Account 925 includes the following components: (1) compensation of employees in the Workers’ Compensation Division and related expenses associated with the employees’ job responsibilities, and (2) costs for industrial accident
investigations, consultant fees, witness fees, agency or contract personnel, employee expenses, supplies, system support, taxes, fees, and licenses.

The Reserves component of the forecast for Test Year 2009 includes the projected value of new workers’ compensation claims. The calendar year losses forecast for new workers’ compensation claims (which are the “value” of these claims for Reserves purposes) are detailed in Section E of this chapter. The Workers’ Compensation Division’s Test Year forecast of calendar year losses for Reserves is based on a study prepared by Milliman, Inc. (“Milliman”), attached hereto as Appendix C. Milliman is a highly-respected global firm that prepares actuarial studies for numerous employers nationally and internationally, including the State of California.

B. **Introduction**

SCE’s Workers’ Compensation Division has the primary responsibility for administering workers’ compensation benefits, providing information to SCE employees regarding such benefits, and determining workers’ compensation benefit eligibility. The California Legislature has established the level of workers’ compensation benefits SCE provides to its employees.

The California State Constitution requires that all employers provide a workers’ compensation program to compensate employees, or their dependents, in the event employees suffer work-related injuries, illnesses, or death. Employers’ workers’ compensation programs may be insured or self-insured. SCE has self-insured and self-administered its workers’ compensation obligations since the early 1900’s. Our workers’ compensation benefits program is regulated by the California Department of Industrial Relations, Self-Insurance Plans.

Employees’ claims are administered by SCE’s Workers’ Compensation Division. Workers’ Compensation Claims Representatives are responsible for determining whether SCE has an obligation to provide Workers’ Compensation benefits, and if it does, for administering benefits to eligible employees.

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27 California Constitution, Article XIV, Section 4. See also Cal. Labor Code Section 3702.2 and Cal. Code Regs., Tit. 8, Sections 15300-15301 for the regulations pertaining to self-insured reserves.
pursuant to statutory and regulatory requirements. Listed below are the statutory benefits employees receive through the Workers’ Compensation Division:

- **Medical Care:** Employees receive all medical care that is reasonably required to cure or relieve the effects of a work-related injury or illness. Employees are not required to pay co-pays or deductibles, and there are no limitations on either the duration or cost of medical services, medicine, or supplies. During the time an employee’s claim is being investigated to determine eligibility, the employee may receive up to $10,000 in medical care, even if the injury or illness is found, after investigation, not to be work-related.

- **Income Replacement:** Compensation for lost wages is set by the California Legislature. Compensation paid as a temporary disability benefit is limited by two factors:
  - For injuries occurring after 4/19/04, payments are limited to 104 or 240 weeks, depending on the severity of injury; and
  - Maximum and minimum weekly rates and annual Cost of Living Adjustments that are tied to increases in State Average Weekly Wages.

- **Return to Work:** Reasonable workplace accommodations, alternative jobs, modified job duties, and/or light duty on a temporary or permanent basis for employees who are limited as a result of work-related injuries or illnesses.

- **Compensation for Permanent Impairment:** Employees receive payments in accordance with the State Permanent Disability Rating Schedule, or in accordance with the American Medical Association Guide To Impairment Rating, 5th Edition, depending on the employee’s date of injury, or the date upon which employee’s impairment became known.

- **Death Benefits:** In the event of an employee’s death due to a work-related injury or illness, the employee’s dependents receive payments. However, when an employee sustains a fatal injury and leaves no surviving dependent person, the death benefit payment is paid to the California Division of Industrial Relations, pursuant to Labor Code Section 4706.5.
C. Recent Legislative And SCE Program Developments Impacting Workers’ Compensation Costs

From 2002 through 2004, the California Legislature made sweeping changes to California’s workers’ compensation system. Some reforms were implemented as early as January 1, 2003, while others took effect as late as January 1, 2006. At the time of enactment, many observers expected these changes to have a profound impact on system performance. However, as implementing regulations were promulgated and judicial decisions published, the scope and desirability of the reforms have been, and continue to be, debated by employers and policy makers.

California’s workers’ compensation reforms were intended to reduce employer costs, and several publications report that insurance premiums have been reduced by more than half. Costs to self-insured employers, on the other hand, do not respond as quickly to reform measures because these costs are not tied to insurance premium rates. For example, insured employers pay premiums for claims that will be incurred during a single policy year. Self-insured employers likewise incur costs for new claims; however, these employers also continue to accrue costs for claims that were incurred in prior self-insured years. As such, cost reductions brought about by reform legislation do not have the same impact on self-insured employers as insured employers.

While various reform measures may ultimately reduce self-insured employer costs, they also contained benefit increases. Outlined below are indemnity benefit increases contained in key California workers’ compensation legislation: AB 749 and SB 899.

**AB 749**

The following benefit increases became effective January 1, 2003, pursuant to AB 749:

1. temporary and permanent total disability payments increased from $490 to $602 per week; (2) the statutory maximum permanent partial disability benefit increased from $140 to $185 per week for disability ratings less than 70 percent and the minimum weekly payment increased from $70 to $100; and (3) the maximum permanent partial disability benefit for disability ratings above 70 percent was made payable at $230 per week.
AB 749 further made the following increases effective January 1, 2004: (1) maximum temporary and permanent total disability payments increased from $602 to $728 per week; (2) the statutory permanent partial disability benefit for disability ratings 70 percent and lower increased from $185 to $200 per week, and from $230 to $250 for ratings over 70 percent; and (3) the minimum weekly payment for permanent partial disabilities increased from $100 to $105 per week.

The maximum temporary and permanent total disability payment rate increased from $840 (see discussion of SB 899 below) to $881.66 per week on January 1, 2007 and $881.66 to $914.60 on January 1, 2008, based on increases in state average weekly wages. This rate increase ties to the Cost of Living Adjustment (COLA) provision in AB 749, which became effective in 2006.

**SB 899**

Effective April 19, 2004, SB 899 capped temporary disability payments at 104 weeks within two years of the date of the first payment, except for certain serious injuries that were capped at 240 weeks. The legislation also increased the maximum temporary and permanent total disability payment rate from $728 to $840.

Additionally, pursuant to workers’ compensation reform legislation, SCE has implemented reform measures in its workers’ compensation program to reduce costs, including all of the following:

- **Medical Provider Network (MPN) (pursuant to SB 899):** SCE implemented the first state-approved employer-contracted MPN. SCE contracted with approximately 350 primary and specialty care providers and conducted rigorous provider credentialing before including providers in our network. Included in the network are “center of excellence” programs for burn care (Grossman Burn Center) and serious orthopedic injuries (Cedars Sinai Hospital). All SCE employees must receive treatment for work-related injuries and illness by an MPN provider, unless the employee has pre-designated a personal physician.

- **Pharmacy Network (pursuant to AB 749):** SCE has partnered with Express Scripts to provide a pharmacy network for use by employees who require prescription medication as a result of work-related injuries and illness. The Workers’ Compensation Division
expects to reduce retail pharmacy costs by 43 percent, and also substantially reduce bill auditing and utilization review time by using Express Scripts services. SCE anticipates that the Pharmacy Network will go live on September 1, 2007.

- **Utilization Review (pursuant to SB 228):** SCE has developed and filed a medical Utilization Review Plan with the Administrative Director of the State of California Division of Workers’ Compensation. This Utilization Review Plan was approved by the State. SCE’s utilization review services provider, GSG Associates, is accredited by the National Utilization Review Accreditation Commission (URAC). Three full-time registered nurses, a medical assistant and physician reviewer are responsible for medical management on all requests for medical treatment for injured SCE employees. In accordance with California laws and regulations, the American College Of Occupational and Environmental Medicine guidelines are used by the GSG Associates personnel to determine whether or not to approve a request for medical treatment.

- **Medical Bill Auditing (pursuant to SB 228):** SCE has contracted with Definiti, a medical bill review and auditing service. All non-pharmacy medical bills are audited by Definiti for accuracy and compared to the medical authorizations documented by SCE’s Utilization Review program. Additionally, SCE has contracted with Blue Cross to access discounted fee-for-service provider contracts. Definiti is responsible for identifying contracted providers and applying the appropriate discounts to charges pursuant to the Blue Cross contract. Table IV-7 below shows the amount of charges audited from 2004-2006, and the amount of charges that were disallowed (reflecting an annual savings to SCE’s customers of over $7 million in 2004 and 2005 and over $9 million in 2006):
Table IV-7
Workers’ Compensation
Medical Bill Audit Savings

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross Charges</th>
<th>Allowances</th>
<th>Savings</th>
<th>Service Fee</th>
<th>Net Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>14,187,779</td>
<td>6,439,443</td>
<td>7,748,335</td>
<td>397,775</td>
<td>7,350,561</td>
</tr>
<tr>
<td>2005</td>
<td>12,802,404</td>
<td>5,482,490</td>
<td>7,319,914</td>
<td>218,948</td>
<td>7,100,966</td>
</tr>
<tr>
<td>2006</td>
<td>16,626,004</td>
<td>6,981,329</td>
<td>9,644,675</td>
<td>351,375</td>
<td>9,293,300</td>
</tr>
</tbody>
</table>

- **Physical Medicine (pursuant to SB228):** Chiropractic, physical therapy and occupational therapy are limited by statute to 24 visits per claim. SCE’s Workers’ Compensation Division has developed methods to identify when an employee is close to reaching the limit through our medical bill auditing and medical utilization control programs.

- **Rating for Permanent Impairment:** All SCE Workers’ Compensation claims management and staff have been provided training on the American Medical Association Guide to Permanent Impairment, 5th Edition. This training has provided them with the knowledge necessary to evaluate ratings provided by medical examiners, and accurately pay benefits to eligible employees.

D. **Workers’ Compensation Staff: (FERC Account 925)**

At year-end 2006, the Workers’ Compensation Division had 39 employees on staff, three vacant positions, and five agency personnel (three nurses, one administrative aide and one physician) who review medical treatment plans in accordance with SCE’s Utilization Review Plan, described in Section C of this chapter, above.

Table IV-8 below shows the inventory of SCE’s new and overall open Workers’ Compensation claims at year-end from 2002 to 2006.
As of May 2007, this inventory has already increased to 3,002 open Workers’ Compensation claims. The Workers’ Compensation Division currently employs 20 Claims Representatives. Thus, the average caseload for each SCE Workers’ Compensation Claims Representative is approximately 150 claims, at the high end of the industry standard for open workers’ compensation cases per claims representative. The industry standard caseload level is recognized among workers’ compensation professionals as an appropriate level to enable a company to keep up with changes in workers’ compensation laws and deliver timely statutory benefits. While SCE’s Workers’ Compensation Division has been able to perform these functions at its current caseload level, it is our experience that doing so has required tremendous efforts and stretched the division’s resources very thin. As discussed below, the division expects to add sufficient Claims Representatives during 2007-2009 to ensure the caseload in Test Year 2009 reaches a more appropriate level within the industry standard, in light of the complexity and volume of work involved in handling SCE’s workers’ compensation claims.

1. **Summary Of Activities**

The Workers’ Compensation Division administers SCE’s workers’ compensation program by performing the following activities:

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28 A 2006 survey of claims administration staff at various companies, performed by AON Risk Services Inc., identifies the range of caseloads for workers’ compensation senior claims examiners, claims examiners, and hearing representatives (as discussed below, the Workers’ Compensation Division’s claims representatives are responsible for examining claims as well as participating in hearings) consistent with this industry standard. See confidential workpapers to this Exhibit for a copy of the relevant portion of the AON survey.
Investigation of cases: Claims reported to SCE are thoroughly investigated to determine whether the employee filing the claim is entitled to benefits. Workers’ Compensation Claims Representatives assigned to the investigation unit of the division conduct this initial investigation. If a claim is found to be compensable, it is then forwarded to a Workers’ Compensation Claims Representative in the claims unit of the division, who will be responsible for administering benefits and closing the claim. If the claim is found to be non-compensable, the investigation staff will remain responsible for managing the claim until it is concluded.

Delivery of benefits: Workers’ Compensation Claims Representatives determine what benefits are payable. Workers’ Compensation support staff is responsible for processing payments.

Medical case management: Pursuant to SCE’s Utilization Review Plan, agency personnel from GSG Associates (medical case management staff) handle the clinical and administrative tasks involved with planning and authorizing medical care for work-related injuries and illnesses. The medical case management staff reviews all incoming requests for medical treatment. They compare the requests with the American College Of Occupational and Environmental Medicine guidelines. The staff also makes decisions to approve, hold, or deny requests for medical treatment, based on statutory deadlines.

Return to work: Workers’ Compensation Claims Representatives are responsible for early intervention on lost-time cases, to facilitate and plan SCE employees’ returns to work. These Claims Representatives work with line management for placement in jobs appropriate for the returning employee, and coordinating the delivery of supplies and services to assist employees in returning to work.

Hearing Representation: Most SCE Workers’ Compensation Claim Representatives make periodic appearances before the California’s Workers’ Compensation Appeals Board to represent SCE in contested medical liens and in litigation matters in which the SCE employee represents himself or herself. Approximately 10 percent of Workers’ Compensation Claims Representatives’ time is allocated to hearing representation.
**Medical Provider Network:** One contract manager is allocated to the management of the MPN, which includes resolving problems with existing contracted physicians, contracting with new physicians, performing provider site visits, conducting employee satisfaction surveys, and annual plan re-filing with the California Division of Workers’ Compensation. SCE also contracts with an outside firm to credential new MPN providers, and for ongoing monitoring of previously credentialed MPN providers.

**OSHA Recordkeeping:** Two project/business analysts classify incidents involving employees’ injuries and illnesses. This responsibility includes recordkeeping, internal reporting, and external governmental agency reporting.

**Implementation of new regulations and staff training:** One project manager conducts performance audits on Workers’ Compensation staff, provides or facilitates training for staff, keeps records of continuing education units earned by staff, and manages special projects, such as implementing the Pharmacy Network.
2. **Analysis Of Recorded Data, Estimating Methodology, And Test Year 2009 Forecast**

   **For Workers’ Compensation Staff (FERC Account 925)**

   **Figure IV-15**

   *Workers’ Compensation*  
   *FERC Acct. 925 (Staff)*

   SCE records expenses associated with the operations of the Workers’ Compensation Division to FERC Account 925 (Injuries and Damages). This account includes labor expenses that reflect the compensation of Workers’ Compensation Division staff and related non-labor employee expenses associated with their job responsibilities. Included in the recorded non-labor expenses are costs for consultants and supplemental personnel, utilization review, medical bill audit, employee development, office supplies and equipment, conference fees, taxes, fees, and licenses.

   a) **Analysis Of Recorded Costs**

   The Workers’ Compensation Division’s labor expenses were relatively flat during the 2002-2006 time period.

   The increase in non-labor expense in 2003 was the result of an increase in the Self-Insurer’s Security Fund Payment. In 2003, the statewide Alternative Security Program began in
California. In this program, SCE is not required to post a deposit security with the Self-Insurance Plan\textsuperscript{29} via surety bond, cash or securities. Rather, SCE pays an assessment based on its deposit requirement and an index that is related to SCE’s credit rating. In 2003, the assessment was the largest to date because SCE’s credit rating was at an all-time low during that period (as a result of the California energy crisis). From 2004 to present, SCE’s credit rating has improved and the assessment has decreased accordingly. In addition, the Workers’ Compensation Division’s industrial medical administrative costs that include administration of medical case management and utilization review, increased by 68 percent in 2003 from its 2002 recorded/adjusted level. This was the result of increasing the number of on-site case management nurses and physician consultants working with SCE pursuant to its SB 228 implementation measures described in Section C of this chapter, above (\textit{e.g.}, utilization review plan).

Non-labor expenses in 2004 decreased by about 46 percent or $2.6 million from 2003 as a result of SCE’s favorable credit rating and reduced assessment on required deposit for Self-Insurer’s Security Fund. The decreases in non-labor expenses during 2005-2006 were the result of lower payments made for medical bill review audit and utilization review services than in prior years.

\begin{itemize}
\item[b)] Expense Forecast
\end{itemize}

For Test Year 2009, the Workers’ Compensation Division will increase its staff by 12 full-time equivalent employees (FTEs). Specifically, in 2007, the division will fill three vacant positions (two Claims Representatives and one analyst) and add three new employees: two Claims Representatives and one Administrative Assistant. In 2008, a Claims Manager, three Claims Representatives and two Administrative Assistants will be added to the division.

This staffing increase is necessary to ensure an appropriate caseload for Workers’ Compensation Claims Representatives and their support staff. As discussed at the outset of this Section, the division’s Claims Representatives currently maintain a case load of approximately 150 claims per

\textsuperscript{29} The Self Insurance Plan (SIP) is a program within the Director's office of the Department of Industrial Relations (DIR), which authorizes qualified employers to provide their own coverage for workers' compensation liabilities. The Director of Industrial Relations is responsible for certification of public and private self insured employers, third-party administrative agencies that oversee self insurance programs, and individual claims adjusters. Self insurers are required to post a security deposit – adjusted annually to cover liabilities incurred – and to submit to SIP audits.
representative, with a total of nearly 3,002 open workers’ compensation claims. The addition of seven
Claims Representatives by Test Year 2009 is necessary in order to bring the division’s anticipated
caseload ratio to a more appropriate level within the industry-standard range of workers’ compensation
claims per Claims Representative: approximately 115-120 claims per representative. This projected
FTE increase and new caseload ratio is based on the current volume of open workers’ compensation
claims, the recent growth in the amount of new claims each year, and the approximately 13 percent
projected growth in overall SCE employee headcount for Test Year 2009. As the SCE employee
population increases, the Company’s inventory of workers’ compensation claims is expected to continue
to increase in at least an equal, if not greater, proportion.

The Workers’ Compensation Division’s Test Year 2009 forecast for operating
expenses is $6.4 million, an increase of 19.2 percent from year-end 2006. The division’s labor forecast
was calculated using the 2006 recorded year labor expenses with a future-year adjustment for
incremental expenses associated with the division’s projected increase in personnel, described below.
As shown in Table IV-9 below, the incremental adjustment was calculated using SCE’s 2006 Market
Reference Point (MRP).

Table IV-9
Workers’ Compensation Division
Incremental Labor Forecast 2009

<table>
<thead>
<tr>
<th>Workers’ Compensation</th>
<th># of Positions</th>
<th>2006 MRP Annual Salary</th>
<th>Incremental Labor For Test-Year 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007 Administrative Aide 3</td>
<td>2</td>
<td>$44,400.00</td>
<td>$88,800.00</td>
</tr>
<tr>
<td>2007 Claims Representative 1</td>
<td>2</td>
<td>$51,600.00</td>
<td>$103,200.00</td>
</tr>
<tr>
<td>2007 Claims Representative 3</td>
<td>2</td>
<td>$82,800.00</td>
<td>$165,600.00</td>
</tr>
<tr>
<td>2008 Manager 2</td>
<td>1</td>
<td>$120,000.00</td>
<td>$120,000.00</td>
</tr>
<tr>
<td>2008 Claims Representative 3</td>
<td>2</td>
<td>$82,800.00</td>
<td>$165,600.00</td>
</tr>
<tr>
<td>2008 Claims Representative 1</td>
<td>1</td>
<td>$51,600.00</td>
<td>$51,600.00</td>
</tr>
<tr>
<td>2008 Administrative Aide 3</td>
<td>2</td>
<td>$44,400.00</td>
<td>$88,800.00</td>
</tr>
<tr>
<td><strong>WORKERS COMPENSATION</strong></td>
<td></td>
<td></td>
<td><strong>783,600.00</strong></td>
</tr>
</tbody>
</table>

In order to forecast the division’s non-labor expense, the division identified the
expense functions that are directly influenced by labor expenses. Other non-labor expenses recorded in
2006 (that are not affected by increases in FTEs) are forecasted as being flat for the Test Year 2009.
The incremental increase in employee-related non-labor expense was then calculated by determining the average ratio of 2002-2006 recorded employee-related non-labor to labor expense and multiplying that ratio by the labor expense forecast for 2009. This employee-related non-labor expense forecast was added to the 2006 recorded non-employee-related non-labor expenses to forecast the 2009 non-labor expenses. The average ratio 2002-2006 of employee-related non-labor expense was approximately 25.19 percent. Applying this ratio to the division’s forecast 2009 labor expense yields the employee-related non-labor expense forecast of $914,648. Combining this amount with the 2006 recorded non-employee-related non-labor expense of $1.8 million yields a non-labor forecast of $2.7 million for 2009.

E. **Injuries And Damages Reserve Expenses: (FERC Accounts 925)**

1. **Summary**

The instructions of FERC Account 925 state that SCE shall “reserve accruals to protect the utility against injuries and damages claims of employees or others, losses of such character not covered by insurance, and expenses incurred in settlement of injuries and damages claims.” In addition, since SCE is self-insured for workers’ compensation claims, the State of California requires that SCE reserve for all anticipated workers’ compensation-related claims and contingent liabilities. Thus, the Reserves component of FERC Account 925 includes reserves for general liability claims handled by SCE’s Claims Division (Claims Reserves) and for workers’ compensation claims handled by SCE’s Workers’ Compensation Division (Workers’ Compensation Reserves). Discussion in this testimony is limited to reserves handled by Workers’ Compensation Division.

The Workers’ Compensation Reserves are established based on various factors related to existing workers’ compensation claims. Factors considered in determining Workers’ Compensation Reserves include, but are not limited to: date of injury, ages of the injured employees, severity of injuries, medical reports, and applicable rules and regulations that set the rate and limitations of workers’ compensation benefits. Workers’ Compensation Reserves are also adjusted to incorporate the

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31 See Cal. Code Regs., Tit. 8, Section 15300.
current Incurred But Not Reported (IBNR) rate as provided by actuaries from Milliman. An IBNR loss liability is the liability for losses that occurred on or before the end of a given period, but for which SCE’s office had no knowledge until after that period. The IBNR rate is calculated based on SCE’s historical loss trend, incorporating information from similar industry and any regulatory provisions that would have an impact in the ultimate loss calculation provided typically by an actuarial company.

Currently, Workers’ Compensation Reserves are adjusted on a monthly basis to account for payments made or additional reserves needed to address new claims. On a monthly basis, the Reserves account is debited for payments made by SCE to medical providers, employees, third parties, and/or for negotiated settlements, related to open workers’ compensation claims.\footnote{The Reserve represents an aggregate value of individual claim liabilities. Values of individual claims are confidential.} Total payments on the claims in any given month are determined by the actual payments recorded in various accounting functions, which are summed and offset to an insurance reserve account and debited to function 0162 – Provision for Injuries and Damages Reserve of FERC Account 925. For example, if an SCE employee suffers from an ankle sprain that requires therapy, the actual cost of the therapy is debited on a monthly basis to function 0162 of Account 925. Reserve adjustments are also made based on actuarial studies or reviews performed by an experienced Workers’ Compensation Division Claims Representatives, to increase the Reserves as necessary for new and existing claims during the year.
2. Analysis Of Recorded Data, Estimating Methodology, And Test Year 2006 Forecast For Reserves (FERC Account 925)

Figure IV-16
Injuries And Damages
FERC Acct. 925
(Workers’ Compensation Reserves)

a) Recorded Data

SCE records Reserves expenses associated with claim payments and contingent liabilities for the Workers’ Compensation Division to FERC Account 925 (Injuries and Damages). Reserves expenses fluctuate from year to year due to the unpredictable nature of the amount and severity of workers’ compensation claims that may arise in a given year.

The recorded levels of Workers’ Compensation Reserves expenses in 2002 and 2003 were primarily the result of medical and indemnity adjustments recorded during the period due to a regulatory change that triggered an extension of the life expectancy that must be included in calculating the cost of certain workers’ compensation benefits.\textsuperscript{33} As a result, SCE recalculated the expense of life time medical benefits applicable to workers’ compensation claims and increased the Reserves accordingly.

\textsuperscript{33} See Cal. Code Regs., tit. 8, Section 15300.
The 2003 increase in Workers’ Compensation Reserves was attributable to the regulatory change noted above and increased disability and industrial medical payments for workers’ compensation claims during this period.

Similarly, expenses for Workers’ Compensation Reserves decreased significantly in 2004 because significantly fewer upward adjustments to the Reserves were needed to account for the regulatory change increasing life expectancy levels, due to the adjustments already performed in 2002 and 2003.

Workers’ Compensation Reserves expenses significantly increased in 2005, due to the application of a higher IBNR rate for workers’ compensation claims. The higher IBNR rate was applied based on the results of a periodic actuarial study of SCE’s workers’ compensation claims performed by Milliman. This actuarial study is conducted quarterly and assesses the likely impact of uncertain future contingent events.

Workers’ Compensation Reserve expenses also significantly increased in 2006, due to the application of a further increased IBNR rate, based on the results of the actuarial study described above.

b) Expense Forecast

For Workers’ Compensation Reserves, SCE’s Test Year 2009 forecast is $36.8 million. Workers’ Compensation Reserve expenses were calculated using a budget-based forecast methodology. The budget-based forecast reflects SCE’s revised approach for calculating the necessary level of Workers’ Compensation Reserves, discussed below.

In connection with SCE’s 2006 GRC, Workers’ Compensation Reserve expenses were forecast based on the anticipated value (i.e., SCE’s exposure) of all new and existing workers’ compensation claims for a given year. The Test Year 2009 forecast for Workers’ Compensation Reserves is based on a different metric – the ultimate (total) value solely of anticipated new claims arising from injuries during the 2007-2009 time periods.

Under this ultimate value of new claims approach, SCE is no longer seeking recovery from its customers for any increases in Reserves due to workers’ compensation claims arising
from accidents in or prior to 2006 (i.e., existing claims). Instead, the Workers’ Compensation Reserves Test Year forecast is based solely upon the value of anticipated injuries and accidents occurring in 2009 and beyond. The ultimate value of new claims approach is designed to forecast Workers’ Compensation Reserve expenses for the full amount that will be incurred by SCE on any new workers’ compensation claims arising in a given year, regardless of when those claims are reported, settled or paid. This new approach is consistent with the economics principle of matching price with costs (i.e., expense is recognized in the period that the accident occurred), and is analogous to the amount SCE would pay for insurance premiums.34

The ultimate value of new claims approach is beneficial to SCE’s customers because their exposure for Workers’ Compensation Reserves is confined to the projected ultimate value of new cases in a given year, as opposed to facing many years of volatility for such claims. Workers’ Compensation Reserve expenses recoverable in rates will not be adjusted upward if the actual value of the new cases ultimately exceeds SCE’s Test Year forecast. SCE therefore bears the risk of actual claims exposure exceeding the initial projection provided in this forecast. Indeed, the life of a workers’ compensation claim in any given accident year can go beyond a 40-year period (such would be the case for asbestos claims and other similar latent diseases) and SCE, rather than its customers, will bear the risk of actual payments for such claims exceeding their anticipated ultimate value over that entire period.

Moreover, the risk of volatility in actual workers’ compensation claims exposure in future years is heightened by ongoing legislative proposals to overturn approved workers’ compensation reforms that were intended to provide some cost savings for employers (discussed above in Section C of this chapter). For example, California state bills presently under review that challenge the cost-savings reforms include:

- AB 338, which is intended to increase the maximum number of weeks an injured worker receives as temporary disability from 104 to 156 weeks and

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34 Milliman Study, at 2.
would change the window of eligibility from two years to five years from the
date of the first temporary disability payment.

- AB 1212, which would require the California Division of Workers’
  Compensation Administrative Director to revise the Permanent Disability
  Rating Schedule as approved on January 1, 2005, to result in an increase to
  permanent disability ratings.

- AB 1636, which proposes to drastically change the law regarding the
  provisions of the supplemental job displacement voucher created by SB 899.

- SB 936, which would double the permanent partial disability payment over a
  three-year period for an injured worker, irrespective of empirical data
  collected by the Division of Workers’ Compensation.

- SB 942, which proposes to reverse the important gains made by employers to
  refocus workers’ compensation in California to a system that relies on and
  encourages the employer to return the employee back to the workplace.

Accordingly, utilizing the ultimate value of new claims approach to forecast
Workers’ Compensation Reserve expenses will provide certainty to SCE’s customers regarding the
amount of exposure for all claims in a given year, irrespective of the outcome of the proposed legislation
described above.

The forecast of SCE’s ultimate value of new claims was developed by Milliman.

The forecast and supporting analysis prepared by Milliman is attached hereto as Appendix C.35

The forecast of ultimate value of new workers’ compensation claims is based on
SCE’s estimated ultimate losses for claims in prior years, projected to future cost levels.36 Among other

35 Milliman is one of the largest property-casualty consulting actuarial firms in California. It has extensive experience with
California workers’ compensation and serves some of the state’s largest insurance companies and self-insured employers
of all sizes. Since 1969, a Milliman actuary has served on the Actuarial Committee of the Workers’ Compensation
Insurance Rating Bureau of California (WCIRB), the Insurance Commissioner’s official statistical agent for workers’
compensation insurance.

36 Milliman Study, at 2, 4-6.
things, the future cost levels projected by Milliman reflect changes enacted by the California Legislature over the past several years and the anticipated growth of SCE personnel by Test Year 2009.\textsuperscript{37} If SCE personnel levels grow at a faster than anticipated rate, actual future claim costs will likely exceed the projections. Additionally, even if SCE’s growth rate is as expected, but that growth occurs in higher risk occupations, claim costs will also likely exceed the projections.

The Reserve funding projections performed by Milliman that form the basis of SCE’s Workers’ Compensation Reserve Test Year forecast incorporate a 90 percent probability factor.\textsuperscript{38} The use of a higher probability level increases the likelihood, but does not guarantee, that actual future payments will be lower than the projections. That is, at the 90 percent probability level, there is a 10 percent chance that SCE’s projections of actual losses to be paid on new claims will be too low.

The Workers’ Compensation Reserves forecast utilizes the 90 percent probability level in order to minimize the risk that ultimate loss costs will exceed forecast costs. As discussed above, the nature of workers’ compensation is that many claims settle quickly, but some claims take decades to close. Indeed, SCE has claims still open from the 1950s. This occurs because one of the workers’ compensation program benefits is unlimited medical coverage. Due to lengthy settlement processes for workers’ compensation claims, the variability inherent in these claims is greater than most other types of liability claims. Subsequent changes in legislation, economic or social policy, or judicial decisions can impact open claims and significantly increase claim costs many years after the claim occurred. Indeed, there are multiple proposed bills in the California Assembly and Senate (described above) which seek to overturn the current workers’ compensation reforms. By utilizing an ultimate value of new claims approach and applying the 90 percent probability factor, SCE can be confident that it will likely maintain sufficient Workers’ Compensation Reserves for the full amount of its exposure for new claims in the Test Year and beyond even if the current cost-savings reforms are reversed. At the same time, SCE’s customers are protected from the future volatility of the new claims in 2009 and

\textsuperscript{37} See Exhibit SCE-01 (Policy), for discussion of anticipated growth of SCE personnel by Test Year 2009.

\textsuperscript{38} Milliman Study, at 3.
beyond because the full amount of the Reserves for those claims will be established and not subject to increasing due to legislative changes or other unexpected increases in the actual value of workers’ compensation claims made to the Company.

SCE’s forecast of Workers’ Compensation Reserves for Test Year 2009 is based on the average ultimate value of new claims developed by Milliman for 2009-2011, with adjustments to exclude projected claims related to plant constructions and participants’ share of SONGS. Plant construction claims are capitalized and are not recorded in FERC Account 925 (Injuries and Damages Reserves). The estimated costs for plant construction claims and participants’ share of SONGS were calculated by multiplying the average of Milliman’s forecast of ultimate value of new claims for 2009-2011 by the average ratio of the costs of new plant construction claims and participants’ share of SONGS to total costs of new claims recorded in 2002-2006. The product of this calculation was then deducted from Milliman’s forecast of ultimate value of new claims, to arrive at the Workers’ Compensation Reserves forecast for Test Year 2009.39

39 These specific calculations are included in the workpapers to this Exhibit.
V.

ETHICS AND COMPLIANCE

A. Summary Of Test Year Request

For Test Year 2009, SCE’s Ethics and Compliance Department forecasts a total of $2.112 million of expenses. Figure V-17 shows the recorded costs for years 2002 through 2006, plus the forecast costs for the years 2007 through 2009 for FERC Accounts 920/921 and 923.

**Figure V-17**

*Ethics & Compliance*

*Recorded and Adjusted 2002-2006/Forecast 2007-2009*

*FERC Accounts 920/921 and 923*

*(Constant 2006 $000)*

<table>
<thead>
<tr>
<th>Year</th>
<th>Labor (std escl)</th>
<th>Non-Labor (std escl)</th>
<th>Other (not escl)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>165</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td>121</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>74</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>237</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>694</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>1,060</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>1,256</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>1,256</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Since the Ethics and Compliance Department was not formed until 2005, the recorded costs for years 2002 - 2004 are for a limited employee ethics hotline and related staff, which were then part of SCE’s Audit Services Department. In 2005, the Ethics and Compliance Department expenses reflect preliminary staffing of the function, along with consultant costs associated with the initial round of executive and management training, as well as assessment work needed to lay the foundation for the on-going ethics and compliance function described in
Section B below. The 2006 recorded costs reflect the on-going training efforts, initial compliance assessment work, and core staffing of the function to meet the ethics and compliance needs of the company. The increase in forecast costs for 2007 through 2009 reflects the full staffing of the ethics and compliance function and on-going maintenance of core ethics and compliance programs as described in Section B.

Given the relatively recent creation of the Ethics and Compliance Department, our forecast for FERC account 920/921 is based on the workforce we plan to have in place during 2009. For FERC account 923, the last recorded year forecast methodology has been used to establish a reasonable base expense for 2009.40

B. **Overview Of Ethics And Compliance Structure And Services Provided**

Legal and regulatory requirements and related guidelines regarding corporate ethics and compliance responsibilities have been clarified and expanded upon in recent years. The focus has been “aimed at encouraging companies to be more self-governing” with the establishment of an effective ethics and compliance program being a “common denominator.”41 For example, the Federal Organizational Sentencing Guidelines (FSG), issued by the U.S. Sentencing Commission, describes the criteria for effective compliance and ethics programs.42 The FSG make it clear that corporations should have standards and procedures reasonably capable of preventing and detecting criminal conduct, “high-level” oversight, adequate resources and authority given to those responsible for the program, effective training and communication regarding relevant standards and procedures, reasonable compliance measures (monitoring, auditing) to ensure adherence to its compliance and ethics program, and the ability to respond appropriately to address and prevent violations of relevant standards.

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40 See Section C of this Chapter for a detailed discussion.
41 See KMPG FORENSIC INTEGRITY SURVEY 2005 – 2006, p. 20, included in workpapers to this exhibit.
42 USSG Sec. 8B2.1 (Nov. 2006), included in the workpapers to this exhibit.
The need to develop a strong ethics and compliance focus and to devote resources to promoting ethical conduct is not limited to one industry. It has become increasingly more common for large organizations to develop and maintain an on-going function devoted to addressing ethics and compliance practices. For example, non-profit organizations and educational institutions are also focused on creating appropriate ethics and compliance related programs and practices. In addition, a recent survey reported by the Josephson Institute, one of the leading ethics organizations focused on providing ethics opinions, studies, and training, found that more and more students acknowledge that they cheat in school and believe a person may have to cheat to succeed.44 This survey found that 59 percent of students believed that in the “real world” successful people need to do what they have to in order to succeed, even if some may see it as cheating. Given this reality about the individuals entering the U.S. workforce, it is essential for the Company to focus on creating a culture in which it is clear that ethical behavior is expected.

While the Company has consistently had integrity as a core value, given recent regulatory and legal requirements and lessons learned from the customer satisfaction incident,45 the leadership of SCE recognized the need to enhance the focus on ethics and compliance throughout the Company. As of year-end 2006, SCE has approximately 15,000 employees who provide electric service to approximately 4.8 million customers spread over a 50,000 square mile service territory. Given the size of the workforce and the volume of transactions that impact customers, employees must fully understand their obligation to act in an ethical manner, and the Company must provide an avenue for employee questions and concerns to be raised and addressed. The

43 See the Center for Academic Integrity at http://www.academicintegrity.org as an example of a consortium, led by Duke University, of 360 academic institutions focused on integrity in academics. See also, ANSWERING THE WAKE-UP CALL, CHANGE IS NECESSARY FOR AMERICA’S NONPROFITS, by Brian Gallagher included in the workpapers to this exhibit.


45 I. 06-06-014.
Ethics and Compliance Department is charged with developing and implementing programs and policies so customers can trust the ethics of SCE employees.

The Ethics and Compliance Department oversees several of the core entity-level controls identified by SCE as requirements of Sarbanes Oxley Act of 2002. Examples of such entity-level controls include:

- developing and implementing the Ethics and Compliance Code and related certification process;
- maintaining an avenue for anonymous reporting of allegations and concerns regarding possible ethics violations;
- developing and overseeing ethics training;
- taking steps to ensure appropriate disclosure of material violations; and
- developing a communication plan to increase the focus on ethical decision-making throughout the Company.

With the recent ethics and compliance guidance provided by the FSG, a solid ethics and compliance program, that includes the elements outlined above and below, is a necessary and reasonable part of core business operations. The Ethics and Compliance Department contributes to essential utility functions primarily by: overseeing the Ethics and Compliance Helpline and related investigations; developing and implementing a comprehensive training and communication program to ensure that employees understand relevant standards and know where to go to raise concerns or seek advice; developing a standard Ethics and Compliance Code; advising management regarding compliance with the provisions of the Code, which helps to guide business practices along ethical lines when the “right” course of action may not be

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46 15 USC Sec 7201 et seq.

47 See “Our Ethics and Compliance Code” included in the workpapers to this Exhibit.
clear; and by assessing compliance practices in an effort to identify action that may be needed to limit the opportunity for non-compliance.48

By engaging in these activities, the Ethics and Compliance Department protects the interests of customers and directly contributes to the achievement of company goals. Ethics and compliance programs are able to mitigate the conditions that give rise to improper conduct, and have a positive impact on the willingness of employees to report misconduct.49

1. Ethics And Compliance Helpline And Related Investigations

To aid in the comprehensive review of situations involving ethical questions, we have created options for employees to raise and identify issues and concerns. One important option is calling the Ethics and Compliance Helpline. The Ethics and Compliance Department is responsible for overseeing the Helpline, which is available to employees, business partners, and customers 24 hours per day, seven days per week for reporting ethics-related concerns and for seeking advice. The Helpline is operated by an independent vendor. When employees call the Helpline, they are given the option of providing their names or remaining anonymous. Calls to the Helpline include requests for advice regarding Ethics and Compliance Code provisions and allegations of improper conduct. Allegation categories include, among others, improper discipline or employment action, policy or conduct violations, discrimination, improper gifts, theft, and misuse of company assets. None of the 2006 closed cases received via the Helpline involved matters having a material financial or operational effect on the company. The highest percentage of calls was related to employee relations concerns and human resources matters. Therefore, Ethics and Compliance partners with Human Resources to evaluate and resolve those matters. Investigating the allegations raised by employees is an important business function, as it is one way to limit damage that can potentially be caused by undesirable business conduct.

48 See “Southern California Edison Company (SCE) Chief Ethics and Compliance Officer Position Charter” included in the workpapers to this Exhibit.

49 KMPG FORENSIC INTEGRITY SURVEY 2005 – 2006, pp. 15-16 included in the workpapers to this Exhibit.
Once calls are received, the vendor notifies the Ethics and Compliance Department via a case alert and management system. The Ethics and Compliance Department reviews each allegation and determines whether investigation, feedback, or other action is needed. We then assign cases for investigation and monitor the cases to track the progress and status of each investigation. The Ethics and Compliance Department is also responsible for developing and delivering core investigations training for personnel conducting Helpline investigations so investigations are thorough and the results are reliable.

In 2006, the Helpline received 613 calls regarding SCE, an average of approximately 51 calls per month. Historically, calls to the Helpline were more limited. For example, from January through July 2005, the Helpline averaged 11 calls per month. In July and August of 2005, the company increased its communications to employees regarding the Ethics and Compliance Code and the availability and importance of the Helpline. As a result, from August through December 2005, the Helpline averaged 45 calls per month. We consider this level of calls and related investigative and advice work to be representative of Test Year 2009 activities. In fact, given the expected increase in total number of employees to over 18,000 and more widespread training about the Helpline, it is possible the calls will increase.

2. Ethics And Compliance Communication And Training

The Ethics and Compliance Department is also responsible for developing and implementing ethics and compliance communication and training plans for employees, managers, and executives so employees will be aware of the Company’s Ethics and Compliance Code, the Helpline, and other company resources. In-person training as well as related communications focuses on a decision-making model for employees to use when evaluating ethics-related concerns. The training stresses the importance of raising concerns as soon as possible to enable the Company to address issues at the earliest possible point of intervention.
Ethics and compliance training is becoming an increasing area of focus in many organizations, as evidenced by organizations such as the CPUC Staff taking on-line ethics-related training. Executives, managers, supervisors, and a portion of the remaining employee base at SCE completed the initial round of ethics training in 2005 and 2006 (11,259 SCE employees were trained between 2005 and March 31, 2007), with make-up classes offered on an as-needed basis. Remaining employees will complete training by year-end 2007, with on-going classes for new hires. Between 2005 and year-end 2007, approximately 14,000 SCE employees will have taken part in ethics training. The core of the training is consistent for all groups of employees, with some tailoring for those in management roles and some tailoring to address issues relevant to various work locations. The training focuses on guiding business practices along ethical lines when the “right” course of action may not be clear, and on achieving goals in an honest manner and in compliance with all legal and regulatory mandates. Case studies are utilized to engage participants in discussion regarding ethical decision-making.

Given the timing of the training, new rounds of ethics and compliance training will take place for executives, managers, and employees during the 2009 – 2011 periods. Given the expected increase of the company employee base to over 18,000, the level of work associated with the training will increase. The training will be developed by internal subject matter experts with input from external ethics experts. While core ethics training is already underway, a position has been added in the Ethics and Compliance Department to develop on-going, targeted (group-specific) training to address issues identified through the Helpline investigation process, the annual certification, and feedback from the compliance risk assessment process rolling out in 2007. We have determined that ethics and compliance training on an on-going basis is important to ensure there is a continued focus on achieving business objectives in an ethical manner thus preventing, when possible, the harm that can result from improper practices.

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50 See reference included in the workpapers to this Exhibit.
3. **Ethics And Compliance Advice, Code Development, And Certification**

The Ethics and Compliance Department is also responsible for developing the Ethics and Compliance Code for the Company, conducting the annual certification process, during which non-represented employees certify to their compliance with the Code, and overseeing investigations concerning exceptions identified during the certification process. The Ethics and Compliance Code is provided to employees on a regular basis through a variety of methods which can include training, mailing, and electronic delivery as part of the certification process. The certification process for non-represented employees is designed so employees will read and understand the Code. During the annual certification process employees are required to respond to questions concerning their compliance with the Code. This allows for early intervention when issues are identified. For example, an employee may be married to someone who has recently been hired by a company that acts as a supplier to SCE. That information would be requested during the certification process and the Ethics and Compliance Department would then be in a position to determine if an actual conflict of interest exists in terms of the newly developed employment relationship. A conflict could exist if the employee in question works in the same department that engages the outside supplier.

In 2006, approximately 8,886 non-represented employees (the targeted population) completed the certification process. Each response was reviewed by the Ethics and Compliance Department, with questions and issues being assigned for follow-up and investigation, if necessary. Issues can range from questions concerning conflict of interest, such as the example given above, to allegations of discrimination or retaliation. In 2006, 185 SCE employees raised questions or reported issues via the certification process. Each issue was reviewed, managed, and tracked to closure by the Ethics and Compliance Department. The certification process is run in partnership with the same independent vendor that provides the external Ethics and Compliance Helpline for the Company.
In addition to developing and maintaining the Ethics Code, the Ethics and Compliance Department is responsible for responding to management and employee requests for advice regarding the provisions of the Code and ethical decision-making. Employees have several avenues for seeking advice. Employees can call the Helpline and raise questions which are forwarded to the Ethics and Compliance Department for a response. Alternatively, employees can call the Ethics and Compliance Department directly for advice. Providing such advice is an essential, preventative measure, in that employees and managers now have a way to address issues before engaging in conduct that may cause issues under the Code. It is not always clear to employees what course of action to take, and having an open, candid discussion helps to prevent missteps that could, in the end, harm the customers’ interests.

4. **Compliance Oversight And Assessment**

The Ethics and Compliance Department is also responsible for creating and maintaining a compliance oversight function, defining key compliance roles and responsibilities, developing high-level governance regarding compliance, and overseeing an annual compliance assessment process to identify compliance-related issues and associated mitigation efforts. This process is designed to allow the Company to address compliance risks early and in a reasonable manner.

The compliance review process is currently being implemented with key compliance areas across the Company. The process brings together professionals from various compliance groups (Regulatory Policy and Affairs, Environmental Health and Safety, Human Resources, Procurement, *etc.* ) to catalog high-level compliance requirements, discuss compliance practices, identify roles and responsibilities, and to monitor legal and regulatory requirements to identify potential areas of emerging ethics and compliance vulnerability. This group is referred to as the Ethics and Compliance Review Team. Once governance issues are identified, specific recommendations can be made to address the issues. For example, the Company is piloting information sessions regarding managers’ responsibilities in the area of
internal controls to enhance compliance governance via day-to-day operations. As the process
develops, additional recommendations will be evaluated by the team and then raised to Company
leadership, as needed. Creating the compliance review process enhances the Company’s ability
to spot issues early and to identify compliance issues that may cut across functional areas.

In 2006 and early 2007 the compliance review cycle was developed and adopted
by the Ethics and Compliance Review Team. The compliance review cycle not only calls for
high-level compliance items to be identified along with responsible parties, it also calls for an
annual compliance (risk) assessment. In summer and fall of 2007, the Ethics and Compliance
Department will implement, across the compliance groups listed above, a series of compliance
assessment meetings. Given the breadth of the work and the substantial amount of planning,
tracking, organizing, and reporting that will be required in this process, a project manager was
hired in Ethics and Compliance to run the day-to-day operation of the program on an on-going
basis. According to the FSG, compliance assessments (risk assessments) are a key component of
an ethics and compliance program.51

C. Analysis Of Recorded Data, Estimating Methodology, And Test Year 2009 Forecast
For Ethics And Compliance (FERC Accounts 920, 921, And 923)

Given the relatively recent creation of the Ethics and Compliance Department, a budget-
based forecast methodology, based on the workforce we expect to have in place in 2009, has
been used to establish reasonable base expense for FERC accounts 920 and 921 for the 2009 Test
Year. The last recorded year forecast methodology has been used to establish a reasonable base
expense for FERC account 923 for the 2009 Test Year.

51 USSG Sec. 8B2.1 (Nov. 2006) included in the workpapers to this Exhibit.
1. **FERC Accounts 920/921**

Figure V-18 below shows the breakdown of recorded costs (labor, non-labor, other) for years 2002 through 2006, plus the forecast of costs for the years 2007 through 2009 for FERC Accounts 920/921.

![Figure V-18](image)

The Ethics and Compliance Department was not created until 2005; as a result, the 2002 – 2005 recorded expense level is not representative of the level needed to fund our future, on-going operational requirements. Thus the budget-based estimating method, based on the workforce we plan to have in place in 2009, was selected as a reasonable basis for our request.

In 2002, Audit Services had one employee who spent a substantial portion of his time supporting the Helpline and related work. Figure V-18 above, reflects the cost for the time he spent overseeing the relevant work. In 2003, the cost was increased slightly, given that the employee working on the Helpline was dedicated 100 percent to the Helpline and related work. Beyond salary, there were minimal costs associated with materials, phone charges, and other...
support costs. In 2004, the employee who had been dedicated to the Helpline left and time elapsed before a new employee was hired to take over the Helpline. During this period, others in the department assumed responsibilities over answering the Helpline. Therefore, the labor charges decreased during this period as did the charges for materials and related items.

In 2005, the Company created the position of Vice President and Chief Ethics and Compliance Officer, and the Ethics and Compliance Department was formed with the Chief Ethics Officer and his executive assistant. In March of 2005, the responsibility for the limited Helpline function was transferred into the Ethics and Compliance Department, along with the employee (Helpline/Investigations Manager) responsible for overseeing the Helpline function and related investigations. The Helpline/Investigations Manager also oversees a team that recently established standards for internal investigations in the Company and operates as a governance body regarding investigations. The team is a cross-functional team with members from various departments across the Company including Audit Services, Corporate Security, Equal Opportunity, Law, and Human Resources. In addition, the Helpline/Investigations Manager develops and delivers core investigations training for employees charged with investigating cases received through the Helpline.

In September 2005, the position of Ethics Training and Program Manager was added to the department to oversee the development of ethics and compliance training for the Company. One month later, the position of Deputy Ethics and Compliance Officer was added to the organization, as was an additional administrative position. The Deputy Ethics and Compliance Officer developed and chairs the Ethics and Compliance Review team discussed in Section B.4 above, and also provides advice to managers and employees, conducts training sessions, oversees the annual ethics and compliance certification process, and assists in other ethics projects. In March 2006, two business analysts were added to the department to assist with budgets, data analysis related to the Helpline and related investigations, and to provide
analytical support for the Ethics and Compliance Review Team and the annual ethics and compliance certification program.

In 2007, labor costs increased due to the addition of an ethics investigator to help manage and respond to the greatly increased Helpline volume; a project manager to assist in managing the ethics and compliance review process and related risk assessment, which is being rolled out this year as a new activity to address the compliance assessment language of the FSG and to provide an avenue for early identification of compliance challenges and compliance best practices; an analyst to assist with budget, payroll, invoice processing, monthly Helpline reporting and data analysis; and a training specialist to assist with ethics training development, implementation, roll-out, and facilitator management. While core ethics training is already underway, this new position will be responsible for development of more targeted training based on issues identified through the Helpline investigation process, the annual certification, and feedback from the compliance risk assessment rolling out in 2007.

The forecast shows FERC Accounts 920/921 increasing to add two additional resources to the Ethics and Compliance Department. Given our increased call volume on the Helpline, an important function for ethics and compliance is to identify trends regarding ethics and compliance challenges. Where we see workgroups or regions with recurring issues, ethics and compliance plans to assign ethics and compliance personnel to focus on investigating the underlying causes of the patterns and overseeing interventions to eliminate the recurring issues.

Table V-10 shows the breakdown of incremental staffing and corresponding labor costs between 2007 and 2009.

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52 Helpline call volume data discussed in Section B.2 above.
Table V-10
Ethics & Compliance
FERC Accounts 920/921 – Incremental Labor Forecast
(Constant 2006 $000)

<table>
<thead>
<tr>
<th>Incremental Staffing</th>
<th># of Positions</th>
<th>Yearly Salary</th>
<th>Total Labor Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manager - Project/Product</td>
<td>2</td>
<td>$115,200</td>
<td>$115,200</td>
</tr>
<tr>
<td>Business Analyst</td>
<td>2</td>
<td>$72,000</td>
<td>$144,000</td>
</tr>
<tr>
<td>Training Specialist</td>
<td>1</td>
<td>$66,000</td>
<td>$66,000</td>
</tr>
<tr>
<td>Investigator 1</td>
<td>3</td>
<td>$98,300</td>
<td>$294,900</td>
</tr>
<tr>
<td><strong>Total Increase in Labor</strong></td>
<td></td>
<td></td>
<td><strong>$548,100</strong></td>
</tr>
</tbody>
</table>

Therefore, in 2008, Ethics and Compliance anticipates adding two additional investigators to its staff. These investigators will play a role in overseeing complex investigations that come through the Helpline. For example, they will partner with investigators from other areas that may not have detailed ethics and compliance expertise. This will help improve the quality of the investigations and reduce the cycle time for handling cases of a complex nature. Overall in 2009, we plan to have an established workforce of 13 employees at an annual cost of $1.256 million. The corresponding annual non-labor cost is $442 thousand. This amount covers costs associated with corporate ethics & compliance training, internal communications, regulatory compliance, employee expenses, and materials and supplies.

2. **FERC Account 923**

Figure V-19 below shows the breakdown of recorded costs for the years 2002 through 2006, plus the forecast of costs (labor, non-labor, other) for the years 2007 through 2009 for FERC Account 923.
The historical information provided for 2002 – 2005 does not provide a reasonable basis for forecasting cost, as the Ethics and Compliance Department was not created until 2005. The last recorded year (2006) expenses support the Test Year operational requirements.

The primary costs we record to FERC Account 923 are for the outside vendor that provides the company’s Helpline service and case management database, as well as costs for the outside consulting firm, Ethical Leadership Group, which has been retained to assist with the development of the company’s ethics training, ethics communications, ethics and compliance review process, and other ethics-related matters, as needed.

For the period 2002 through 2004, no costs were recorded in FERC Account 923 as the Helpline, at that time, was a direct line to the Audit Services Department. As stated in Section B.2 above, the Helpline received relatively few calls during that period (an average of 11 calls per month). Therefore, it was not necessary to retain an external Helpline provider. As the...
Company increased its communication to employees regarding the importance of ethical
decision-making and the importance of raising issues with management or via the Helpline the
calls began to increase. In addition, the Sarbanes Oxley Act calls for the implementation of an
anonymous reporting mechanism. As a result, the Company determined that an outside provider,
who could answer and track calls 24 hours per day, 7 days per week and allow for anonymous
reporting would be retained. The Helpline volume steadily increased in the mid-to-latter part of
2005, and now averages approximately 51 SCE calls per month. The cost associated with the
Helpline provider covers call taking, incident write-up and transmission to SCE, call tracking,
and monthly case management reports. Costs for the Helpline provider increased in 2006 as the
Company changed vendors. The change was necessary given quality concerns and the need to
work with a vendor who transmitted calls to the Company via a case management system that
would allow for assignment and tracking of cases through resolution. The current vendor,
Global Compliance Services, is a nationally recognized Helpline provider. Global Compliance
Services has over 25 years of experience in the ethics and compliance industry. It currently
provides ethics and compliance helpline services to numerous industry clients, including PG&E
Corporation and Duke Energy Corporation.

Once the Ethics and Compliance Department was formed in 2005, Ethical
Leadership Group was retained to provide advice regarding establishment of the Department’s
core functions, and to begin immediate development of ethics training for executives. In 2006,
the costs increased as Ethical Leadership Group was involved in development of
manager/supervisor training and acted as facilitators in those training sessions. Ethical
Leadership Group also assisted with formation of the compliance review team in 2006 and initial
assessment and development of ethics training for the all-employee roll-out.

The costs for the services of Ethical Leadership Group are expected to remain
relatively stable over the next 3 years given its on-going role in assisting in developing the next
round of ethics and compliance training and its on-going role in providing expertise in the area of
compliance assessment and related FSG requirements. In addition, Ethical Leadership Group will be engaged to assist in developing target/area specific training on an as-needed basis. While there may be minor fluctuations in the costs associated with services provided by Global Compliance Services and Ethical Leadership Group, we expect their costs to remain relatively stable in the relevant time period. In addition, as stated in section B.1. above, Ethics and Compliance is responsible for providing standardized training and investigation support to the internal investigators at the company. Therefore, there will be costs incurred in FERC Account 923 associated with bringing in external experts to provide skills-based training to investigators on an annual basis.
Appendix A
Witness Qualifications
SOUTHERN CALIFORNIA EDISON COMPANY
QUALIFICATIONS AND PREPARED TESTIMONY
OF ELIZABETH JENNERSON

Q. Please state your name and business address for the record.
A. My name is Elizabeth Jennerson, and my business address is 2244 Walnut Grove Avenue, Rosemead, California 91770.

Q. Briefly describe your present responsibilities at the Southern California Edison Company.
A. I am a Manager of Finance in the Law Department. I am responsible for budget forecasting and monitoring, as well as, responding to internal and external audit inquiries on financial matters related to the Law Department.

Q. Briefly describe your educational and professional background.
A. I received my Bachelor in Accountancy from Polytechnic University of the Philippines in 1983. I passed the Certified Public Accountant Board Examination from the Philippines in 1983 and from the State of California in 1990. I was in public accounting for two years and pursued private accounting thereafter. I joined SCE’s Workers’ Compensation Division in 1997 where I left as a Manager of Operations. I was with SCE’s Power Procurement Finance from 2004 thru 2006 as an Advisor on Technical Accounting Issues. I joined the Law Department’s Finance and Administration group on July 1, 2006.

Q. What is the purpose of your testimony in this proceeding?
A. The purpose of my testimony in this proceeding is to sponsor the portions of Exhibit SCE-07, Volume 2, entitled Administrative & General – Legal and Ethics & Compliance as identified in the Table of Contents thereto.

Q. Was this material prepared by you or under your supervision?
A. Yes, it was.

Q. Insofar as this material is factual in nature, do you believe it to be correct?
A. Yes, I do.
Q. Insofar as this material is in the nature of opinion or judgment, does it represent your best judgment?
A. Yes, it does.
Q. Does this conclude your qualifications and prepared testimony?
A. Yes, it does.
Q. Please state your name and business address for the record.

A. My name is Theresa L. Muir, and my business address is 8631 Walnut Grove Avenue, Rosemead, California 91770.

Q. Briefly describe your present responsibilities at the Southern California Edison Company.

A. I am SCE’s Director of the Workers’ Compensation Division. I am responsible for all aspects of the utility’s self-insured, self-administered workers’ compensation program and OSHA recordkeeping compliance and reporting.

Q. Briefly describe your educational and professional background.

A. I attended UCLA from 1983-1986. From 1974 to 1979, I worked for the Bekins Company as the Corporate Manager of Workers’ Compensation. From 1979 to 1994, I was Vice President of Statutory Benefits for Carter Hawley Hale Stores. I was Director of Sales and Marketing for Health Net Comp until I joined Southern California Edison Company in December, 1996.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony in this proceeding is to sponsor the portions of Exhibit SCE-07, Volume 2, entitled Administrative & General – Legal and Ethics & Compliance as identified in the Table of Contents thereto.

Q. Was this material prepared by you or under your supervision?

A. Yes, it was.

Q. Insofar as this material is factual in nature, do you believe it to be correct?

A. Yes, I do.
Q. Insofar as this material is in the nature of opinion or judgment, does it represent your best judgment?

A. Yes, it does.
Q. Please state your name and business address for the record.
A. My name is Stephen E. Pickett, and my business address is 8631 Rush Street, Rosemead, California 91770.

Q. Briefly describe your present responsibilities at the Southern California Edison Company.
A. I am Vice President and General Counsel of Southern California Edison Company. I oversee the Law Department, Claims, and Workers’ Compensation Divisions.

Q. Briefly describe your educational and professional background.
A. I received a Bachelor of Science degree in Electrical Engineering from California State University, Los Angeles, in 1974, and a Juris Doctor degree from Southwestern University in 1980. I have been an employee of Southern California Edison since 1978. Since 1982, I have been an attorney in the Law Department.

Q. What is the purpose of your testimony in this proceeding?
A. The purpose of my testimony in this proceeding is to sponsor the portions of Exhibit SCE-07, Volume 2, entitled Administrative & General – Legal and Ethics & Compliance as identified in the Table of Contents thereto.

Q. Was this material prepared by you or under your supervision?
A. Yes, it was.

Q. Insofar as this material is factual in nature, do you believe it to be correct?
A. Yes, I do.

Q. Insofar as this material is in the nature of opinion or judgment, does it represent your best judgment?
A. Yes, it does.

Q. Does this conclude your qualifications and prepared testimony?
A. Yes, it does.
SOUTHERN CALIFORNIA EDISON COMPANY

QUALIFICATIONS AND PREPARED TESTIMONY

OF ROBERT E. RAMOS

Q. Please state your name and business address for the record.
A. My name is Robert E. Ramos, and my business address is 2244 Walnut Grove Avenue, Rosemead, California 91770.

Q. Briefly describe your present responsibilities at the Southern California Edison Company.
A. I am an Investigations Manager in the Claims Division. My primary responsibilities include overseeing the investigation and litigation of third party claims. In addition, I am familiar with the Division’s operations with respect to collections activities.

Q. Briefly describe your educational and professional background.
A. I earned a Bachelors Degree from USC in 1989. I joined SCE in 1997 as a Claims Representative in the Law Department. I have worked in this department since then. I became Investigations Manager in 2002.

Q. What is the purpose of your testimony in this proceeding?
A. The purpose of my testimony in this proceeding is to sponsor the portions of Exhibit SCE-07, Volume 2, entitled Administrative & General – Legal and Ethics & Compliance as identified in the Table of Contents thereto.

Q. Was this material prepared by you or under your supervision?
A. Yes, it was.

Q. Insofar as this material is factual in nature, do you believe it to be correct?
A. Yes, I do.

Q. Insofar as this material is in the nature of opinion or judgment, does it represent your best judgment?
A. Yes, it does.

Q. Does this conclude your qualifications and prepared testimony?
A. Yes, it does.
Q. Please state your name and business address for the record.
A. My name is Kenneth S. Stewart, and my business address is 2244 Walnut Grove Avenue, Rosemead, California 91770.

Q. Briefly describe your present responsibilities at Southern California Edison Company.
A. I am the Vice President and Chief Ethics and Compliance Officer of Southern California Edison Company. I am responsible for SCE’s ethics and compliance program. This includes responsibility for overseeing compliance functions, developing and maintaining ethics policies, developing communications about SCE’s policies and expectations of ethical and legal conduct, administering ethics training, maintaining an ethics and compliance helpline, overseeing investigations of ethics and compliance matters, and monitoring and advising on corrective and disciplinary actions. I direct a staff that includes a Deputy Ethics and Compliance Officer, an Ethics Training and Programs Manager, an Ethics Communications Manager, a Helpline and Investigations Manager, and additional analysts and administrative personnel.

Q. Briefly describe your educational and professional background.
A. I received a Bachelor of Arts degree from Brigham Young University in 1975 and a Juris Doctor degree from the J. Reuben Clark Law School at Brigham Young University in 1978. During 1978 through 1980, I was an associate attorney at the law firm of O’Melveny & Myers in Los Angeles. I joined SCE as a staff attorney in December 1980. During 1984 through 1987, I worked for Financial Market Services in Orange, California as their Vice President and General Counsel. After returning to SCE in 1987, I became Senior Counsel in charge of the Corporate and Finance Section of the SCE Law Department. In 1992, I was elected Assistant General Counsel by the SCE Board of Directors, which position I held until February 2005, when I was elected to my current
position. I also served as the Corporate Secretary of SCE during 1992-95 and the Compliance and Ethics Officer of SCE during 1994-2005. I have been a member of the Ethics and Compliance Officer Association for about 10 years.

Q. What is the purpose of your testimony in this proceeding?
A. The purpose of my testimony in this proceeding is to sponsor the portions of Exhibit SCE-07, Volume 2, entitled *Administrative & General – Legal and Ethics & Compliance* as identified in the Table of Contents thereto.

Q. Was this material prepared by you or under your supervision?
A. Yes, it was.

Q. Insofar as this material is factual in nature, do you believe it to be correct?
A. Yes, I do.

Q. Insofar as this material is in the nature of opinion or judgment, does it represent your best judgment?
A. Yes, it does.

Q. Does this conclude your qualifications and prepared testimony?
A. Yes, it does.
Appendix B
Attorney Timekeeping
Appendix C
Milliman Study