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Witness: Douglas P. Horton, David L. Gladey, Leanne M. Landry and Jeffrey D. Turano
Request from: Office of Education, Outreach, and Enforcement

Question:

(F-FACTOR; CAPITAL ADDITIONS) Refer to Response to EOE-156, Att.1-Att.2. Explain how the F-Factor calculation and the Company's Targeted System Performance (TSP) plan accounts for unplanned capital additions.

Response:

The Company's F-Factor proposal does not make the distinction between "Capital Plan" and "Non-Capital Plan."

As the Company explained in Docket No. 21-05-15RE01, some projects cannot be planned with precision. For example, it would be impossible for the Company to perfectly predict Emergent Failures. The Company cannot predict which specific pole or cross-arm will fail. The Company can, however, reasonably forecast a volume and severity of such failures based on system conditions and recent experience, which is the type of information that the Company uses to develop its forecasted capital plan.

The Company is proposing to (1) set a hard cap on the annual plant additions that may be recovered through the F-Factor; and (2) set that cap on the basis of the Company's forecast annual capital expenditures, as presented in this case. If Emergent Failures were to develop in year beyond what is budgeted, it would not change the cap. The cap would operate to allow a quantity of plant additions into rates, while the rest would have to wait until the next rate case, similar to how the ESI works now with the $300 million annual allowance.

With this perspective in mind, there is no distinction between "Capital Plan" and "Non-Capital Plan" that is necessary for two reasons:

First, the hard cap on core capital investment eligible for the F-Factor is based on the capital forecast presented in this proceeding, but in the end, it will be the actual plant additions that are entered into rates – whether planned or unplanned. This approach results in the circumstances where the Company is providing upfront, during this proceeding, indicative revenue increases necessary to support those investments while committing to cap resulting revenue increases during the PBMRP even if actual capital investment exceeds the forecast. Additionally, the downward-only reconciliation of the Company's proposed F-Factor protects customers from the bill impacts

associated with plant additions over the threshold, including necessary emergent, or unplanned investments unforeseen today.

Second, all capital plant additions, whether planned, unplanned, "Capital Plan" or "Non-Capital Plan," ultimately must pass PURA's prudence review before actual rate recovery of those specific projects costs may commence. This critical gate, successfully demonstrating prudence, is and should remain the ultimate determinant of recovery regardless of whether a particular investment was forecast in advance. Applying this test renders the distinction between Capital Plan and Non-Capital Plan items irrelevant.