Date Filed: September 03, 2026

**Witness: Julia Frayer**
**Request from: Office of Consumer Counsel**

**Question:**

**Exhibit CLP-PBR-1 PBR Testimony** Please explain the basis for LEI's conclusion that the Company's above-benchmark OM&A costs do not necessarily indicate lower operating efficiency but instead reflect the Company's historical reliance on OM&A expenditures relative to capital-related expenditures. In your response:

a. Please identify any quantitative analysis performed by LEI demonstrating a relationship between the Company's below-benchmark capital costs and its above-benchmark OM&A costs;

b. Please explain whether LEI tested whether the Company's above-benchmark OM&A costs would remain after controlling for differences in capital investment, capital intensity, asset age, or other factors that may affect the relationship between capital investment and OM&A expenses;

c. Please explain how LEI distinguishes, in its benchmarking analysis, between above-benchmark OM&A costs attributable to a different capital-versus-OM&A spending strategy and above-benchmark OM&A costs attributable to lower operating efficiency.

**Response:**

a. On page 36 of Exhibit CLP-PBR-3, LEI wrote:

> *"As discussed in the preceding section, LEI's benchmarking analysis indicates that CL&P's total costs have generally remained below the benchmark level predicted by the econometric model over the study period, reflecting particularly strong performance with respect to capital-related costs. At the same time, CL&P's OM&A costs have, on average, exceeded benchmark levels, indicating that opportunities remain for additional operating efficiency improvements. While CL&P's OM&A costs remain above the industry average and the benchmark under the unit cost and econometric benchmarking analyses, respectively, these findings should not be interpreted as evidence of widespread operational inefficiency. Instead, they indicate that CL&P's cost structure has historically been characterized by a greater reliance on OM&A expenditures, and a correspondingly lower reliance on capital-related expenditures, relative to its peer utilities."*

LEI did not perform a separate quantitative analysis designed specifically to estimate the relationship between the separate cost models for capital expenditures versus OM&A. LEI has also not tested for any co-integrated relationship between CL&P's capital cost trends and OM&A cost trends. Rather, the basis for LEI's findings summarized in the Exhibit CLP-PBR 3, is the overall pattern in benchmarking outcomes between the capital and OM&A cost models on one hand, and the total cost model on the other hand.

The econometric analysis showed that, after controlling for the business drivers included in the models, OM&A costs averaged 11.9% above the model-predicted benchmark, while capital costs averaged 13.5% below. Total costs averaged 2.3% below the model-predicted benchmark, as presented in Exhibit CLP-PBR 3, pages 32-33.

The unit cost analysis provides additional context. As shown in Exhibit CLP-PBR-3, at pages 8 and 21-22, the unit cost analysis found that, over the time period 2015–2024, CL&P's OM&A costs averaged 22.9% above the industry average while capital costs averaged 11.7% below the industry average. Lastly, total costs – which combine OM&A and capital - were much closer to the industry average (indicating a small comparative cost advantage to the Company), as CL&P's total costs over this period came in 2.6% below the industry average. Overall, these results demonstrate an offsetting cost profile, but they do not establish causation between the capital and OM&A results.

b. LEI did not conduct this sensitivity analysis and data for these types of variables is not readily available across all utilities.

c. LEI's benchmarking analysis was designed to assess CL&P's relative cost performance after accounting for observable business drivers, not to assign each difference between actual and benchmarked costs to a particular management decision, spending strategy, or singular source of inefficiency.

   Rather, the benchmarking results identify areas in which CL&P's costs are relatively higher or lower than those of its peers, thereby indicating where opportunities for improvement may exist. Under a PBR framework, management should retain the flexibility and incentive to determine the most cost-effective mix of capital and operating expenditures, while continuing to meet applicable service and performance requirements. Providing utilities with incentives to pursue such efficiencies and optimize their use of resources is one of the underlying objectives of PBR.