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Witness: Julia Frayer
Request from: Public Utilities Regulatory Authority

Question:

(OM&A PFP and X-FACTOR) Exhibit CLP-PBR-2, p. 34–36. LEI states that it assumes a 35-year average service life for electric distribution assets. Explain in detail how LEI determined that 35 years is the appropriate estimate for average service life, including all data sources, calculations, and assumptions used. Provide these data sources, calculations, and assumptions in an unlocked Excel workbook, with formulas and links unhidden and unprotected. Explain how a different service-life assumption would affect the analysis. Include both the direction and magnitude impact on the results.

Response:

As explained in Section 3.3.3 of Exhibit CLP-PBR-2, LEI estimated a 35-year average service life ("ASL") for electric distribution assets based on an empirical analysis of asset turnover of historical distribution plant balances and retirements reported by the 88 US EDCs in in LEI's sample for the TFP study. The objective of this analysis was to estimate the approximate period over which the electric distribution industry retires an amount of distribution plant equivalent in historical book value to an established initial asset base, thus providing confirmatory evidence that the selected ASL assumption is appropriate for the industry and the TFP analysis.

LEI's analysis of asset turnover relied on publicly available data reported by investor-owned utilities and contained in FERC Form 1, specifically the Electric Plant in Service schedule (pages 204 – 207, line 75), which include annual distribution plant balances, additions, and retirements. LEI first aggregated the year-end 1988 distribution plant balances across the 88 utilities, resulting in a total initial gross distribution plant balance of approximately $88.7 billion for the industry (based on historical cost dollar terms of the various assets when each was initially placed into service). LEI then calculated cumulative distribution plant retirements for each utility by summing the annual retirement amounts reported from 1989 through 2024 (these are also reported in historical cost dollar terms). These utility-level cumulative retirements were subsequently aggregated across the sample to obtain an industry-wide cumulative retirement amount.

The results indicate that over the 36-year period from 1989 through 2024, the cumulative book value of distribution plant retirements across the sample reached approximately 99.9% of the gross book value of distribution plant recorded in the benchmark year (at year-end 1988). The close

correspondence between these two values provides an empirical indication of the industry's historical distribution plant turnover period.

Please refer to UPA-078, Attachment 1, which provides the utility-level data and calculations supporting this analysis. The worksheet titled Dist. Plant in Service presents the 1988 year-end distribution plant balances and their aggregate total, while the worksheet titled Dist. Plant Retirements presents the annual distribution plant retirements from 1989 through 2024, the cumulative retirement amounts for each utility, and the aggregate retirements across the sample.