Date Filed: October 16, 2026

Witness: Julia Frayer
Request from: Public Utilities Regulatory Authority

Question:

(OM&A PFP AND X-FACTOR) Exhibit CLP-PBR-1, p. 32.The Company states that using a 20-year window to calculate the Total Factor Productivity (TFP) is both appropriate and the most conservative option among various timeframes, such as 10 years and 15 years, in relation to industry growth. However, the Company does not recommend using a TFP and instead recommends using a Partial Factor Productivity (PFP). Describe the impact of various potential timeframes for the PFP, including what timeframes are appropriate and what the most conservative timeframe for a PFP is.

Response:

Figure 22 of Exhibit CLP-PBR-2 presents the OM&A Partial Factor Productivity ("PFP") growth rates for the 10-year and 15-year periods, in addition to the 20-year period used in LEI's Industry Productivity Study. The average annual OM&A PFP growth rates are -0.35% (10 years), +0.30% (15 years), and -0.03% (20 years).

As discussed in Section 2.4 of Exhibit CLP-PBR-2, the considerations supporting a longer timeframe for TFP also apply to PFP. Specifically, a longer study period reduces the influence of short-term fluctuations, outliers, and one-time events, while capturing evolving industry conditions. LEI therefore considers the 20-year period most appropriate for estimating both the TFP and the OM&A PFP because it provides a more representative measure of long-term industry productivity trends without relying on outdated industry conditions. This selection is based on methodological considerations rather than which timeframe produces the most favorable result.

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Question:

(OM&A PFP AND X-FACTOR) Exhibit CLP-PBR-2, p. 43.The Companystates the average capital-to-operations split is 46% to 54%. Describe the significance of this split on the TFP, including its effect on both the Company and ratepayers. In addition, discuss how the Company and ratepayers would be affected if it was a 50/50 split.

Response:

The reported 46% capital / 54% OM&A split represents the relative proportions of the summed implicit capital and OM&A input-price series over the 2005–2024 study period. The split is not an assumed or predetermined weighting, but rather a calculated outcome derived from the aggregated historical data of the 88 utilities included in the Study. The implicit capital and OM&A prices are calculated at the industry level for each year from 2005 to 2024, using aggregated capital and OM&A data and the Study's established methodologies for estimating capital service flows and real input quantities. These implicit prices vary annually, rather than remaining fixed throughout the study period. The reported 46%/54% split represents a single, industry-wide summary calculated by summing the respective annual implicit prices over the full 2005–2024 period and determining their proportions of the combined total.

To understand what this split actually means, we need to take it back to how the implicit prices are calculated. Using capital as an example, we take the real service flow in 1988 dollars and apply the capital quantity index to it. This separates changes in the amount of capital used from changes in the price of capital. If capital in dollar terms appears to be growing, it is for one of two reasons; more capital is being acquired, or the cost of capital has increased. The implicit price calculation attempts to isolate the second explanation by removing the effect of changes in the quantity purchased.

The implicit capital and OM&A prices are calculated annually using the underlying data from the 88 utilities. These prices, together with their respective input quantities, are used in the Fisher Ideal calculation to determine total input growth, which is then compared with output growth to calculate TFP. The 46%/54% split is simply a summary of the implicit prices over 2005–2024. It is not used as a weighting in the calculation and therefore has no direct effect on TFP. However, the underlying annual prices and quantities do influence the results.

A hypothetical 50%/50% split would require artificially adjusting the underlying implicit capital or OM&A prices, as the reported 46%/54% split is a calculated outcome of the historical data rather than an assumed weighting. While such adjustments could alter the relative weighting of inputs and consequently the TFP results, they would not reflect the actual data of the 88 utilities. Accordingly, imposing a 50%/50% split would not provide a meaningful assessment of industry productivity or the sensitivity of TFP to alternative economic conditions.

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Question:

(OM&A PFP AND X-FACTOR) Exhibit CLP-PBR-2, pp. 73-74, Fig. 45. TheCompany provides a narrative describing the Northeast Region X-Factor results. Explain why the narrative states certain values that appear to be different from the values in Figure 45. For example, the narrative states "over the 2010–2024 period, the Northeast X-Factor was -3.29%," but Figure 45 provides an X-Factor for the 2010-2024 period of –2.76%.

Response:

LEI acknowledges that the narrative accompanying Figure 45 contains typographical errors and incorrectly references certain study periods. As correctly reported in Figure 45, the Northeast Region's average sales-based X-factor was -3.29% for 2005–2024, rather than -3.19% as stated in the narrative. Similarly, the average X-factor was -2.76% for 2010–2024, rather than -3.29%, and -3.11% for 2015–2024, rather than -2.76% for the incorrectly referenced 2014–2024 period.

These discrepancies are limited to the accompanying narrative and do not affect the underlying calculations or results presented in Figure 45. Importantly, the corrections do not alter the Industry TFP Study's overall findings or conclusions, as the Northeast Region's sales-based X-factor remains negative across all three study periods, primarily reflecting negative TFP differentials.