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Witness: Julia Frayer, Matthew Nelson and Michael Goldman
Request from: Public Utilities Regulatory Authority

Question:

(I-FACTOR/CONSUMER DIVIDEND FACTOR INTERACTION) Exhibit CLP-ELP-1, pp. 94–95. The Core Operating Expense per-customer benchmark is adjusted annually by the equation I−X factor and that performance relative to this benchmark determines subsequent adjustments to the Consumer Dividend. Identify any quantitative analysis performed by LEI or the Company evaluating how changes in the I-Factor affect the Core Operating Expense benchmark and resulting Consumer Dividend adjustments. Provide the results in an unlocked Excel workbook with all equations, calculations, links, and underlying assumptions/workpapers unhidden, unprotected, and in a reproducible format.

Response:

The I-Factor is considered in the benchmark only at the approved Core Operating Expense per customer and is increased each year by the I-Factor less the productivity offset. The I-Factor is the same inflation index that applies in the O&M revenue adjustment; and notably it is external to the Company (e.g., the Company cannot influence it). Changes from varying levels of inflation flow through symmetrically: a higher I-Factor raises the benchmark and a lower I-Factor lowers it. Therefore, whether the Consumer Dividend then steps up or down depends on the Company's actual Core Operating Expense per customer compared with that benchmark. Because the benchmark moves only by the I-Factor less the productivity offset formula, the Company's own spending in one year does not change the benchmark (Ex. CLP-ELP-1 p. 94, l. 18 – p. 95, l. 2).

It should be noted that the Company's actual costs will not move one for one with any inflation index or benchmark. The benchmark is the standard the Company’s performance will be measured against, and the difference between this benchmark and the Company’s actual costs determines the change in the Consumer Dividend. The incentive to operate below the benchmark comes from the incentive properties embedded in the I−X structure, and therefore the Consumer Dividend requires a sharing of the financial benefits associated with the incentives to customers during the course of the PBMRP. Please see UPA-071, Attachment 1, for the Company’s illustrative S factor model. Page 2, Line 22, shows how the I factor is used to adjust the Core Operating Expense Benchmark. Line 41, provides the resulting illustrative I-X-CD percentage increase, while Line 47, provides the impact of the Consumer Dividend for a given year.