Date Filed: October 20, 2026

Witness: Julia Frayer
Request from: Public Utilities Regulatory Authority

Question:

(I-FACTOR) Interrog. Resp. OCC-428; Interrog. Resp. OCC-537. The proposed I-Factor is constructed over a 20-year historical industry OM&A labor/non-labor split of approximately 33%/67%. Identify any analysis performed to determine whether these industry labor/non-labor cost shares are representative of the labor/non-labor composition of the Company's Core Operating Expenses. 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 Company's proposed I-Factor is designed to reflect industry-wide OM&A input price inflation rather than changes in the Company's own cost composition. As explained in the Company's response to OCC-428[i], the I-Factor combines the Employment Cost Index ("ECI") for labor costs and the GDP Implicit Price Deflator for Final Sales to Domestic Purchasers ("GDP-FSDP") for non-labor costs, weighted using the 20-year historical average labor/non-labor cost shares of the 88 electric distribution utilities included in LEI's Industry TFP Study (approximately 33%/67%).

The use of industry-based weights is intentional and consistent with the methodology underlying the proposed X-Factor, which is also derived from industry-wide OM&A productivity trends. This approach establishes an external inflation benchmark that is not dependent on the Company's specific cost allocations or operating decisions. It also reinforces the competitive incentives underlying PBR by reducing the influence of Company-specific spending decisions on the inflation adjustment, thereby encouraging the Company to manage its costs efficiently relative to industry norms.

For comparison, the Company's projected labor/non-labor cost shares for Core Operating Expenses in Rate Year 1 (ending June 2028) are approximately 35%/65%, broadly similar to the industry shares of 33%/67%. However, the two measures reflect different time periods and cost definitions, as the Company's Core Operating Expenses exclude certain separately recovered or non-controllable costs, including vegetation management, major storm costs, and pension expenses. Accordingly, an exact match between the industry and Company cost shares is neither expected nor necessary for the proposed I-Factor.

LEI did not undertake a separate analysis reconciling the industry labor/non-labor shares to the Company's Core Operating Expenses. Please refer to OCC-428 Attachment 1, for the historical industry cost shares and calculation of the composite I-Factor. No separate reconciliation workbook was prepared.

Prior Referenced Response:

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[i] OCC-428 Question:

Exhibit CLP-ELP-1 Please provide the annual value of the composite O&M input price index used in the Company's proposed I-Factor for each of the past 20 years. Please also compare the annual composite O&M input price index to economy-wide inflation over the same period, including the annual percentage-point difference between the two measures. Please provide all calculations in an unlocked Excel workbook with formulas intact.

OCC-428 Response:

Please refer to OCC-428, Attachment 1, for the requested information. The table produced in OCC-428, Attachment 1, shows the comparison of the composite O&M input price index and the economy wide inflation for the 20-year period, 2006 to 2024. The Company's proposed I factor is composed of the GDP Implicit Price Deflator for Final Sales to Domestic Purchasers ("GDP-FSDP"), as the non-labor cost index and the Employment Cost Index ("ECI"), as the labor cost index weighted to reflect the 20-year historical industry OM&A labor and non-labor split (33%/67%). Because the Company's proposed PBMRP applies the X Factor to OM&A costs, the corresponding I Factor is intended to measure changes in the prices of the same OM&A inputs whose productivity is measured by the X Factor.

The requested 20-year historical I Factor values are provided for informational purposes. However, these values will be updated periodically during the PBMRP term. Specifically, the proposed I Factor is intended to reflect current changes in OM&A input prices and would be updated using more recent ECI and GDP-FSDP data, as that information is released by the BLS and BEA.