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Witness: Julia Frayer
Request from: Public Utilities Regulatory Authority

Question:

(X-FACTOR) Exhibit CLP-PBR-1; Exhibit CLP-PBR-2. Identify which utilities included in London Economics International's (LEI) industry total factor productivity study (Industry TFP Study) operate in restructured or deregulated electricity markets and which operate as vertically integrated utilities. Identify any analysis performed by LEI to evaluate whether differences in market or regulatory structure affect the comparability of the utilities included in the Industry TFP Study or the resulting operations, maintenance, and operating expenses (OM&A) PFP estimate.

Response:

LEI's Industry TFP Study was designed to measure long-term productivity trends for the U.S. electric distribution industry, rather than the productivity of utilities operating under particular market or regulatory structures. As discussed in Section 2.6 of Exhibit CLP-PBR-2, LEI sought to include as many investor-owned electric distribution companies ("EDCs") as possible, subject to the availability and quality of historical data. The resulting sample includes 88 EDCs across 48 states, encompassing utilities operating in restructured electricity markets where utilities functionally/financially unbundled, as well as in jurisdictions that continue to rely on vertically integrated utilities. The utilities included in the study are identified in Appendix A of Exhibit CLP-PBR-2.

LEI did not separately classify the utilities by market or regulatory structure for purposes of the Industry TFP Study, nor did it perform additional analyses to isolate or quantify the effects of such differences on the resulting OM&A PFP estimate.

As described in Section 3.2 of Exhibit CLP-PBR-2, LEI focused on the electric distribution function of utility operations, irrespective of the business model and regulatory framework adopted. More specifically, LEI excluded costs unrelated to electric distribution, such as generation fuel and electricity supply costs, allocated corporate administrative and general expenses based on the share of distribution assets, and excluded FERC Account 908 to reduce differences arising from jurisdiction-specific public policy programs. These methodological choices were intended to provide a consistent basis for measuring industry-level electric distribution productivity.