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Witness: Julia Frayer
Request from: Public Utilities Regulatory Authority

Question:

(CONSUMER DIVIDEND) Exhibit CLP-PBR-1; Exhibit CLP-PBR-3. Identify which of the 88 utilities included in LEI's econometric benchmarking sample operate in restructured or deregulated electricity markets and which operate as vertically integrated utilities. Explain and provide any analysis performed by LEI to test or control for differences in market or regulatory structure in the unit and econometric benchmarking analysis.

Response:

LEI's Unit Cost and Econometric Benchmarking Studies use the same sample of 88 electric distribution companies ("EDCs") included in the Industry TFP Study. Accordingly, the sample includes utilities operating in deregulated electricity markets as well as in jurisdictions that continue to rely on vertically integrated utilities. Please refer to the Company's response to UPA-066[i].

The Unit Cost Benchmarking Study did not separately test or control for differences in market or regulatory structure. However, the Econometric Benchmarking Study incorporated several explanatory variables to account for differences in operating characteristics and cost drivers across utilities. These include customer scale, input prices, network density, and distribution business share, as applicable to each model. In particular, distribution business share accounts for differences in the scope of utilities' operations, including the extent to which utilities have non-distribution business activities that may affect the allocation of shared costs.

Prior Referenced Response:

[i] UPA-066 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.

UPA-066 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.