Date Filed: October 20, 2026

Witness: Julia Frayer
Request from: Public Utilities Regulatory Authority

Question:

(TFP Study) Exhibit CLP-PBR-2; Interrog. Resp. OCC-560. LEI states that an industry TFP study "reports historical trends." Since the proposed performance-based rate (PBR) term spans 4 years, projecting a forward-looking productivity factor requires identifying an appropriate trend rather than selecting a single historical average. Explain why a single historical value is considered appropriate for projection, especially given periods of atypical conditions (such as the COVID-19 pandemic) in the selected timeframe.

Response:

LEI agrees that the productivity factor used in a forward-looking PBR framework should reflect an appropriate industry productivity trend. The proposed -0.03% OM&A PFP factor is not based on a single historical observation, but represents the average of 19 annual productivity growth observations over the 2005–2024 study period. The objective is to establish a reasonable estimate of the long-term industry productivity trend to inform the X Factor applied during the Company's four-year PBMRP, rather than to forecast the precise productivity growth rate in each individual year of the plan.

As discussed in Section 2 of Exhibit CLP-PBR-2, the theoretical foundation of PBR is to replicate the competitive pressures that firms face in competitive markets. In competitive markets, individual firms generally cannot unilaterally determine market prices and must manage their costs and improve efficiency to remain competitive. Similarly, under an index-based PBR framework, an industry productivity trend serves as an external benchmark for setting the X Factor, rather than relying on the regulated utility's own historical productivity performance. By linking the Company's revenue adjustments to industry-wide productivity trends and inflation, the PBR framework creates incentives for the Company to manage costs and improve efficiency, while allowing customers to benefit from productivity improvements.

As discussed in Section 2.4 of Exhibit CLP-PBR-2 and in response to OCC-534[i], LEI considered alternative 10-year and 15-year productivity trends but selected the 20-year period because it provides a balance between reducing the influence of short-term volatility and retaining sufficiently recent observations to reflect evolving industry conditions. The use of a longer study period also reduces the influence of atypical individual years, whether favorable or unfavorable, by incorporating a broader range of economic and operating conditions into the calculation of the historical average productivity trend.

Accordingly, LEI considers the 2005–2024 average OM&A PFP growth rate an appropriate estimate of the long-term industry productivity trend and, therefore, an appropriate basis for establishing the proposed X Factor. While actual productivity growth during the PBMRP may differ from the historical average, the purpose of the X Factor is not to predict annual productivity outcomes with certainty, rather to establish an industry-based productivity benchmark for the multi-year rate-setting formula.

Prior Referenced Response:

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[i] OCC-534 Question:

Performance Based Ratemaking Panel Exhibit CLP-PBR-1
Please explain the statement in Exhibit CLP-PBR-1, that the average OM&A PFP growth rate for 2015–2024 is -0.03% (page 64), with the results reported in Figure 5, LEI's Industry TFP results (2005-2024), which report an average OM&A PFP growth rate of -0.03% for 2005–2024, 0.30% for 2010–2024, and -0.35% for 2015–2024. In your response:

a. Identify the study period and OM&A PFP result actually relied upon to establish the proposed -0.03% X Factor;

b. Explain the basis for selecting that study period over the alternative periods presented in Exhibit CLP-PBR-1;

c. State whether the reference to 2015–2024 in Exhibit CLP-PBR-1, is an error and, if so, provide the corrected testimony; and

d. Explain whether selection of a different study period would change the Company's proposed X Factor and, if not, why not.

e. Please provide all calculations, workpapers, and supporting data used to derive the –0.03% X Factor in an Excel format.

OCC-534 Response:

a. The Company relied on the 20-calendar-year period from 2005 through 2024, which encompasses a total of 19 annual year-over-year growth observations. Please refer to Figure 22, on page 47, of Exhibit CLP-PBR-2.

b. As stated in Section 2.4, of Exhibit CLP-PBR 2, "the 20-year study period overcomes the high variability of year-on-year trends but is also not so long term as to capture "stale" industry trends that would not likely repeat themselves in the future." Further, as discussed in that section, the "last 20 years reflect the changing business circumstances in the electric distribution industry, which are also going to continue to drive productivity in the next several years." Please also refer to OCC-441i.

c. Yes. The phrase "2015-2024" in the identified sentence contains a typographical error. The corrected sentence should read: "Based on LEI's Industry TFP Study, the average OM&A PFP growth rate for **2005-2024** is negative 0.03% (or -0.03%), which is the proposed X Factor." No numerical correction to the proposed X Factor is required.

d. A different study period would produce a different measured historical OM&A PFP rate, as shown in Figure 22, of Exhibit CLP-PBR-2. However, LEI would not recommend using a different study period for purposes of setting the X Factor. As discussed in response to part (b) and Section 2.4, of Exhibit CLP-PBR-2, LEI considers the 2005–2024 period appropriate because it is sufficiently long enough to reduce the influence of short-term volatility and one-off events, while remaining recent enough to reflect industry conditions relevant to the prospective PBR term. Accordingly, LEI continues to recommend a -0.03% value for the X factor that would be applied to the OM&A portion of revenue requirement.

e. Please refer to Exhibit CLP-PBR-2a, the native workpapers supporting the Industry TFP Study.