Date Filed: September 03, 2026

Witness: Douglas P. Horton
Request from: Office of Consumer Counsel

Question:

Exhibit CLP-ELP-1 Please explain in detail how the Company determined that a threshold significance of 0.5% of total distribution revenue is appropriate for Z-Factor eligibility. Please explain why the Company proposes a 0.5% threshold rather than the 0.75% threshold proposed in the Docket No. 21-05-15RE01, Proposed Final Decision, and provide all analyses, calculations, benchmarks, or other information relied upon in selecting the proposed 0.5% threshold.

Response:

The 0.75% materiality threshold proposed in the Docket No. 21-05-15RE01, Proposed Final Decision is unnecessarily high, and inconsistent with other jurisdictions. Although the Company supports the intention of establishing a materiality threshold as a means of balancing administrative burden with the Company's need to cover the costs of service, including those over which it has no control, a materiality threshold set too high actually renders the mechanism increasingly ineffective, raising the likelihood that the utility cannot commit to the PBR stay-out because it will be unable to obtain a fair or reasonable level of recovery of its operating costs, also barring customers from benefitting from the efficiency gains that come from an extended stay-out.[1]

In the extreme, a materiality threshold of 10%, for example, would indicate that for an event to qualify as exogenous in terms of its materiality, it must be at least $192.19 million ($1,921.9 million revenue requirement x 10%, using the Company's cost of service filed in this proceeding). The likelihood of a single event meeting this criteria is exceedingly rare, meaning the Z-factor, in practice, would be effectively rendered moot.

Additionally, PURA provided no basis for how it determined a threshold of 0.75% was appropriate. In fact, in its proposed final decision, PURA stated, "[t]he threshold [of 0.75%] better aligns with the thresholds established in other PBR jurisdictions," and then provided the following footnote referencing those other jurisdictions, each one of which is substantially below the 0.75% it proposed:

[1] AUC. Decision 2012-237 Rate Regulation Initiative Distribution Performance-Based Regulation. September 2012. at 111-112.

> "*Hawaii set thresholds equivalent to 0.2%, 0.25%, and 0.28%; Ontario set a threshold equivalent to 0.5%; Massachusetts set a threshold equivalent to 0.37%; and Alberta Utilities Commission set a threshold equivalent to 0.25%*."[2]

The Company's proposed Z-Factor of 0.5% *is* more closely aligned to those other jurisdictions.

[2] Proposed Final Decision, Docket No. 21-05-15RE01, July 14, 2025 at page 26.