Date Filed: October 09, 2026

Witness: Julia Frayer
Request from: Public Utilities Regulatory Authority

Question:

(OM&A PFP AND X-FACTOR) Exhibit CLP-PBR-2; Interrog Resp. OCC 537. Conduct a sensitivity analysis and provide the average annual OM&A growth rate and resulting X-factor using reasonable alternative non-labor deflators. Identify the alternative series used and compare the results with LEI's proposed –0.03 X-factor.

Response:

LEI selected the Implicit Price Deflator for Final Sales to Domestic Purchasers ("GDP-FSDP") as the non-labor component of the OM&A input price index because the purpose of the deflator is to convert nominal non-labor OM&A expenditures incurred by U.S. electric distribution companies ("EDCs") into measures of real input quantities. For this purpose, LEI considers a purchaser-based price measure more closely aligned with the inflation faced by EDCs when acquiring goods and services. GDP-FSDP reflects prices paid by domestic purchasers, including for imported goods and services, whereas the Gross Domestic Product Price Index ("GDP-PI") measures prices associated with goods and services produced in the United States, including exports but excluding imports.

In response to UPA-051, LEI performed a sensitivity analysis replacing GDP-FSDP with GDP-PI as the non-labor component of the OM&A input price index, while holding all other elements of the methodology unchanged. The sensitivity produces an average annual OM&A PFP growth rate of approximately +0.03%, compared with -0.03% using GDP-FSDP. Because the Company's proposed X Factor is based directly on the corresponding industry OM&A PFP measure, the sensitivity would likewise produce an X Factor of approximately +0.03%.

The difference results from the mechanics of converting nominal OM&A expenditures into real OM&A input quantities. As described in Exhibit CLP-PBR-2, LEI combines the Utilities Employment Cost Index for labor with the selected non-labor price index using each EDC's labor and non-labor cost shares, and uses the resulting composite price index to deflate nominal OM&A expenditures. A faster-growing non-labor price index attributes a greater portion of nominal OM&A growth to inflation, resulting in lower measured growth in real OM&A inputs and, with customer output unchanged, higher measured OM&A PFP growth.

Over the 2005–2024 study period, GDP-PI increased somewhat faster on average than GDP-FSDP. Based on the series used in LEI's sensitivity, the annualized growth rate was approximately

2.34% for GDP-PI, compared with 2.27% for GDP-FSDP. GDP-PI grew faster than GDP-FSDP in most years, with the principal exceptions occurring during 2005–2008 and 2010–2011. Over the full study period, the somewhat faster growth in GDP-PI results in a higher composite OM&A price index, lower measured growth in real OM&A inputs, and therefore a modestly higher OM&A PFP result.

Although GDP-PI has been used by some practitioners in productivity analyses, LEI continues to consider GDP-FSDP the more appropriate non-labor price measure for the OM&A PFP analysis. As explained in Exhibit CLP-PBR-2 and the Company's response to OCC-537[i], U.S. EDCs purchase materials, equipment, and services from both domestic and foreign sources. GDP-FSDP therefore more closely reflects the broad price environment for the non-labor inputs EDCs actually acquire. Its use is also consistent with the Company's proposed inflation ("I") factor and maintains a common non-labor price measure between the Industry TFP Study and the proposed PBMRP adjustment.

Prior Referenced Response:

[i] OCC-537 Question:

Performance Based Ratemaking Panel Exhibit CLP-PBR-1
Please explain why LEI determined that GDP-FSDP is an appropriate price measure for the entirety of the non-labor component of OM&A expense. In your response:

a. Identify the principal categories of expense included in the non-labor OM&A component and quantify the share attributable to outside services, contractors, and other labor-intensive purchased services, to the extent available;
b. Explain how LEI's methodology accounts for the labor component embedded in outsourced or contracted services that are classified as non-labor OM&A expense;
c. State whether LEI evaluated alternative materials-and-services or non-labor price indices, including any measure designed to reflect the labor intensity of purchased services, and provide the results of any such analysis; and
d. Provide a sensitivity analysis showing the effect on industry OM&A input growth, OM&A PFP, and the proposed X Factor of using any alternative non-labor input-price measure considered by LEI.

OCC-537 Response:

LEI selected Gross Domestic Product- Final Sales to Domestic Purchasers ("GDP-FSDP") as a broad proxy for price changes in the aggregate non-labor component of OM&A. GDP-FSDP is related to the more commonly referenced Gross Domestic Product Implicit Price Index ("GDP-IPI"). Both are broad BEA price measures, but GDP-FSDP measures prices associated with final purchases by domestic purchasers, whereas GDP-IPI measures prices associated with goods and services produced domestically.

As explained in Section 3.2 of Exhibit CLP-PBR-2, because electric distribution utilities procure both domestically produced and imported materials, equipment, and services to support their operations, GDP-FSDP provides a more representative measure of inflation in utility input purchases than GDP-based measures focused on domestic production.

a. As discussed in Section 3.2, page 27 of Exhibit CLP-PBR-2, the OM&A inputs included in LEI's Industry TFP Study reflect non-capital expenses associated with the (i) distribution, (ii) customer accounts, (iii) customer service, (iv) sales, and (v) allocated administrative and general ("A&G") functions reported in FERC Form 1.

   FERC Form 1 data is not reported in such a way as to provide the share attributable to outside services, contractors, and other labor-intensive purchased services.

   Under FERC's Uniform System of Accounts, Account 923, "Outside Services Employed," applies to general outside services that are not attributable to a particular operating function or other account; contracted services associated with a specific function may therefore be recorded in the applicable functional expense account.[1] LEI therefore did not quantify the share of modeled non-labor OM&A attributable specifically to labor embedded in outsourced or contracted services. 1 In addition, the standardized FERC Form 1 data used in LEI's Industry TFP Study do not separately identify the portion of payments to outside service providers attributable to the contractor's labor as distinguished from other components of the purchased service. FERC Form 1 separately reports utility salaries and wages by functional category, while payments for outside services are reported as expenses without a corresponding breakdown of the service provider's underlying labor and non-labor costs.[2]

b. LEI's methodology does not separately reclassify the labor embedded in purchased or contracted services. Please refer to subpart (a), above. FERC Form 1 separately identifies the utility's own salaries and wages, which LEI uses as the measured labor component.

c. LEI did not perform a quantitative evaluation of an alternative materials-and-services index, or of a special index designed to reflect the labor intensity of purchased services, for the non-labor OM&A component.

d. LEI did not perform the requested alternative non-labor input-price sensitivity and therefore has no existing results showing the effect on OM&A input growth, OM&A PFP, or the proposed X Factor.

[1] 18 C.F.R. Part 101, Uniform System of Accounts, Account 923, "Outside Services Employed"; FERC Form No. 1, Electric Customer Accounts, Service, Sales, Administrative and General Expenses, p. 325.

[2] FERC Form No. 1, p. 354, "Distribution of Salaries and Wages"; 18 C.F.R. Part 101, Uniform System of Accounts, Account 923, "Outside Services Employed.