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Witness: Julia Frayer
Request from: CLF and Acadia Center

Question:

(Productivity Factor) Refer to Exhibit CLP-PBR-2, p. 12, and the Study's use of "number of customers" as the output metric in the index method. Explain why the Study uses number of customers as the output metric, and state whether the Company agrees that growth in customer count is not a goal the Company can materially influence, depend upon, or utilize as a justification for seeking an increased revenue requirement.

Response:

Exhibit CLP-PBR-1, pp. 34–36 discusses the reasons for using the number of customers served as the output metric in LEI's Industry TFP Study. Customers served are commonly used as the output metric in TFP studies of the electric distribution industry. The goal of a TFP study is to identify output in physical unit terms. The use of Customer count fits this requirement. Customer counts are objective, consistently defined, and readily available across EDCs, allowing for meaningful comparison over time and aggregation across utilities. In contrast, electricity sales can be materially affected by factors largely outside a utility's control, including weather, economic activity, changes in customer usage, electrification, and the addition of large loads. Changes in electricity sales therefore do not necessarily reflect changes in an EDC's underlying productivity. In addition, EDCs invest in and maintain distribution infrastructure to provide customers with safe and reliable access to electricity and sufficient capacity to meet system demand, rather than to deliver a specific volume of electricity over the course of a year. Accordingly, LEI determined that the number of customers served provides a stable and comparable measure of the scale of distribution service for purposes of measuring industry productivity.

The Company agrees that growth in customer count is largely driven by factors outside the Company's control and that customer count growth, by itself, is not a justification for seeking an increased revenue requirement. The use of customer count in LEI's Industry TFP Study is intended to measure productivity trends; it is not intended to be interpreted as a business objective, where increasing the number of customers is a Company goal or, standing alone, a basis for increasing the Company's revenue requirement.