

**PUBLIC UTILITIES COMMISSION**

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Ratesetting

TO PARTIES OF RECORD IN APPLICATION 15-05-008:

This is the proposed decision of Administrative Law Judge (ALJ) Katherine Kwan MacDonald. It will appear on the Commission's December 1, 2016 agenda. The Commission may act then, or it may postpone action until later.

When the Commission acts on the proposed decision, it may adopt all or part of it as written, amend or modify it, or set it aside and prepare its own decision. Only when the Commission acts does the decision become binding on the parties.

Pursuant to Rule 14.6(c)(2), comments on the proposed decision must be filed within 10 days of its mailing and reply comments must be filed within 15 days of its mailing.

Comments must be filed pursuant to Rule 1.13 either electronically or in hard copy. Comments should be served on parties to this proceeding in accordance with Rules 1.9 and 1.10. Electronic and hard copies of comments should be sent to ALJ MacDonald at kk3@cpuc.ca.gov and the assigned Commissioner. The current service list for this proceeding is available on the Commission's website at www.cpuc.ca.gov.

/s/ KAREN V. CLOPTON

Karen V. Clopton, Chief
Administrative Law Judge

KVC:liI

Attachment

Decision **PROPOSED DECISION OF ALJ MACDONALD** (Mailed
11/10/2016)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Liberty Utilities (CalPeco Electric) LLC (U933E) for Authority to among other Things, Increase its Authorized Revenues for Electric Service, Update its Energy Cost Adjustment Clause Billing Factors, Establish Marginal Costs, Allocate Revenues, and Design Rates, as of January 1, 2016.

Application 15-05-008
(Filed May 1, 2015)

**DECISION ADOPTING A MODIFIED ALL-PARTY SETTLEMENT IN THE
2016 GENERAL RATE CASE FOR LIBERTY UTILITIES, LLC**

Table of Contents

<u>Title</u>	<u>Page</u>
DECISION ADOPTING A MODIFIED ALL-PARTY SETTLEMENT IN THE 2016 GENERAL RATE CASE FOR LIBERTY UTILITIES, LLC	1
Summary	2
1. Procedural History	3
2. Background.....	5
3. Summary of Proposed Settlement	7
4. Modifications to the Settlement.....	14
4.1. Implementation Dates for Settlement	14
4.2. Safe Harbor Repair Deduction.....	15
4.2.1. Terminology	15
4.2.2. Repairs Deduction Background	17
4.2.3. Liberty's Safe Harbor Repairs Deduction Election	19
4.2.4. Discussion.....	20
5. Standard of Review	23
5.1. Factual Record and Timing	24
5.2. Proposed Settlement is Reasonable.....	24
6. Safety	25
7. Compliance with Decision 12-11-030; Vegetation Management Options	26
8. Future GRC Application Guidance	26
9. Motions.....	28
10. Categorization and Need for Hearing.....	30
11. Comments on Proposed Decision	30
12. Assignment of Proceeding	30
Findings of Fact	31
Conclusions of Law	32
ORDER	34
ATTACHMENT A- All-Party Settlement Agreement	
ATTACHMENT B - Revised Summary of Results of Operations	
ATTACHMENT C - Repairs Deduction - Flow-Through Impact Chart	
ATTACHMENT D - Revised Comparison Exhibit	

DECISION ADOPTING A MODIFIED ALL-PARTY SETTLEMENT IN THE 2016 GENERAL RATE CASE FOR LIBERTY UTILITIES, LLC**Summary**

Today's decision addresses the test year 2016 general rate case filed by Liberty Utilities (CalPeco Electric), LLC (Liberty). This decision adopts the all-party settlement of Liberty, the Office of Ratepayer Advocates, and the A-3 Customer Coalition with some modification. In addition to modifications that take into account the timing of this decision, we modify the treatment of certain taxable income.

With these adjustments, today's decision adopts a test year revenue requirement of \$77.8 million, which represents a 0.71% decrease over present rates effective January 1, 2016. Today's decision will reduce the average residential customer's monthly bill by approximately \$10.98. The adopted 2016 revenue requirements shall become effective upon filing of tariffs pursuant to the directives of this decision.

The settlement includes the following components:

- An authorized return on equity of ten (10) percent resulting in an overall rate of return of 7.51 percent;
- A debt equity structure of 47.5 percent/52.5 percent;
- An annual decrease to its Energy Cost Adjustment Clause revenues of \$10.07 million;
- An increase to its annual Vegetation Management Program of \$23,000;
- An annual increase of \$ 0.7 million to amortize the costs it recorded as of March 31, 2015 in its Catastrophic Emergency Management Account;
- An annual increase of \$ 0.104 million to implement its Energy Efficiency programs; and

- An annual increase of \$ 0.371 million to implement the solar incentive program.

Because the California Public Utilities Commission modified the settlement; parties to this proceeding shall have the opportunity, as discussed below, to accept the adjustments or request other options.

This proceeding is closed.

1. Procedural History

On May 1, 2016 Liberty Utilities (CalPeco Electric) LLC (U933E) (Liberty) filed the instant general rate case Application (A.) 15-05-008 (GRC Application or Application) requesting authority to increase its overall rates by \$13.571 million annually or 17.34 percent over present rates, effective January 1, 2016.

The Office of Ratepayer Advocates (ORA) and the A-3 Customer Coalition (Customer Coalition) timely protested the GRC Application on June 11, 2015. The assigned Administrative Law Judge (Judge) conducted a prehearing conference on July 22, 2015. Assigned Commissioner Liane Randolph issued a Scoping Memorandum and Ruling on September 29, 2015. On October 28, 2015, the California Public Utilities Commission (Commission) authorized Liberty to establish a GRC Memorandum Account to track the difference between the general rates effective December 31, 2015 and the rates adopted for Test Year 2016.¹ On November 9, 2015, ORA served Phase I testimony. On November 23, 2015, ORA served Phase II testimony. The Customer Coalition served its Phase I and II testimony on November 23, 2015. Liberty and ORA initiated discussions regarding their respective positions, consistency between the models, and

¹ See Decision (D.) 15-12-035.

possible approaches to settlement shortly after submission of rebuttal testimony in December 2015.

The Commission held public participation hearings on January 7-8, 2016 in North and South Lake Tahoe. Settlement discussions continued over the next several months. On March 30, 2016, the Judge issued a ruling requesting Liberty serve supplemental testimony regarding its use of the safe harbor repair tax election method of accounting for repair of electric transmission and distribution property. Liberty served the supplemental testimony on April 15, 2016.

On April 27, 2016, Liberty and ORA reached a settlement in principle on all of the issues relating to the revenue requirement aspect of the proceeding. Shortly thereafter, the Customer Coalition and ORA began settlement discussion relating to the revenue allocation issues raised by the Customer Coalition. ORA and the Customer Coalition reached a settlement in principle on May 2, 2016. Liberty agreed to join in their settlement. On May 3, 2016, Liberty distributed, on behalf of the settling parties, a Comparison Exhibit setting forth the primary terms of the settlement. On May 4, 2016, Liberty presented an overview of the settlement terms contained in the Comparison Exhibit and the settling parties responded to questions regarding the settlement during a hearing. On May 4, 2016, parties provided written notice to the service list that a settlement conference call would be held on May 12, 2016 pursuant to Rule 12.1(b) of the Commission's Rules of Practice and Procedure. On May 18, 2016, Liberty filed the *Joint Motion to Adopt All-Party Settlement Agreement Among Liberty Utilities (CalPeco Electric) LLC (U933E), the Office of Ratepayer Advocates, and the A-3 Customer Coalition* (Joint Motion) and moved for adoption of the all-party settlement.

On June 3, 2016 Liberty filed additional information relating to the safety and reliability benefits of its vegetation management program² and served supplemental testimony updating the results of operations model and related testimony on September 23, 2016.

2. Background

Liberty serves approximately 49,000 electric customers in California, in and around the Lake Tahoe Basin. Liberty's California service territory differs greatly from the three major electric utilities in California. It is geographically compact and generally encompasses the western portions of the Lake Tahoe Basin. Liberty's customers are located in portions of Placer, El Dorado, Nevada, Sierra, Plumas, Mono, and Alpine Counties. The City of South Lake Tahoe contains the largest population center in the service territory. Liberty serves a unique customer base as well, over half (54 percent) of all its residential customers are seasonal residents.

In addition to Liberty, ORA and the Customer Coalition are active parties in this proceeding. ORA is a statutorily created entity within the Commission, which advocates on behalf of ratepayers for the lowest possible rates for service consistent with reliable and safe levels of service. The Customer Coalition is an ad hoc coalition of large commercial customers taking service under Liberty's Schedule A-3. The South Lake Tahoe Public Utility District, Lake Tahoe Resort Hotel, Heavenly Mountain Resort, Northstar California Resort, Grand Residence Club/Timber Lodge, Squaw Valley Resort and Alpine Meadow resort comprise

² See Response of Liberty Utilities (CalPeco Electric) LLC (U933E) to Administrative Law Judge's Request for Additional Information Relating to Safety and Reliability of its Vegetation Management Program.

the members of the Customer Coalition. In its GRC Application,³ Liberty initially requested an overall rate increase of 17.34 percent over the present rates in effect at the time of the filing of its GRC Application, i.e., a revenue increase of \$13.571 million annually, effective January 1, 2016. The requested increase reflects the following:

- An authorized return on equity of 10.5 percent resulting in an overall rate of return of 7.92 percent;
- A debt/equity structure of 45 percent/55 percent;
- An Annual increase to the Energy Cost Adjustment Clause (ECAC) revenues of \$0.951 million;
- An increase to its annual vegetation management program budget of \$23,000;
- An annual increase of \$0.700 million to amortize the costs it recorded as of March 31, 2015 Catastrophic Emergency Memorandum Account (CEMA);
- An annual increase of \$0.130 million to implement its Energy Efficiency programs; and
- An annual increase of \$0.371 million to implement the Solar Incentive Program.

Liberty states the requested increase to its general rates allows Liberty to continue its focus on safety and reliability and to recover the costs of investment in and the costs associated with the ownership of infrastructure facilities and increases in operations and maintenance (O&M) costs.

³ Application of Liberty Utilities (CalPeco Electric), LLC (U903E) to, among other things, Increase its Authorized Revenues for Electric Service, Update its Energy Cost Adjustment Clause Billing Factors, Establish Marginal Costs, Allocate Revenues, and Design Rates as of January 1, 2016.

In its protest, ORA questioned whether Liberty's requested increases were supported, justified and reasonable. ORA indicated it would develop its own comparative forecasts and analysis on a number of issues including Summaries of Earnings and Results of Operations; forecasts of sales, customers and revenues; O&M expenses; Energy Efficiency (EE) increases; Solar Incentive Program; plant additions; depreciation; Federal and State tax expenses; Rate Base; Vegetation Management expenses; CEMA; Costs of Capital components; Post Test Year Adjustment Mechanism (PTAM), and ECAC. ORA requested additional time to complete its on-site audit and conduct discovery.

The Customer Coalition protested Liberty's requested return on equity and rate adjustment mechanisms because they are too risky. The Customer Coalition also protested Liberty's proposed capital structure, contending it would increase rates. The Customer Coalition's primary focus in this proceeding, however, was on the revenue allocation and rate design issues presented in Phase II of this proceeding.

Liberty customers and community members in Liberty's service territory had an opportunity to communicate their concerns to the assigned Judge and Commissioner regarding Liberty's GRC during the public participation hearings held in North and South Lake Tahoe. Customers in both areas were concerned with the rate increase Liberty was seeking. Some customers felt that Liberty should have conducted better outreach by providing customers with more detailed information in multiple languages about the GRC.

3. Summary of Proposed Settlement

The Settlement, attached to this decision as Attachment A, provides that the annual aggregate change in the total revenue requirement (i.e., Base Rate and ECAC) shall be an increase of just under \$1.0 million in 2016. The Settlement

adopts a Commission-jurisdictional Base Rate revenue requirement increase of \$9.819 million for Liberty. It further provides that this increase will be largely offset by Liberty's projected over-collection of \$6,673,297 as of September 30, 2016 in its ECAC Balancing Account. Liberty, ORA, and the Customer Coalition, collectively referred to as the Settling Parties, agreed that the over-collection shall be amortized over a 27 month period beginning October 1, 2016. The combination of over-collection and amortization period results in an ECAC 2016 revenue requirement of \$29.903 million, which is a reduction of over \$10 million from the 2015 ECAC revenue requirement.⁴

Section 4.4 of the Settlement adopts Liberty's proposed total rate base of \$143.943 million. Parties agreed that Liberty be authorized a rate of Return on Equity of 10 percent, based upon a capital structure of 47.50 debt and 52.50 percent equity using a long-term debt cost of 4.92 percent and resulting in an overall rate of return of 7.51 percent.⁵ (Settlement, Section 4.5). Section 4.6 of the Settlement provides that Liberty shall use an Allowance for Funds Used During Construction rate of 6.558 percent. Section 4.7 memorializes the Settling Parties agreement to use the methodology Liberty proposed to calculate federal and

⁴ We note this reduction is essentially why Liberty's initial request to increase rates by approximately 17 percent has been eliminated.

⁵ Joint Motion to Adopt All-Party Settlement Agreement Among Liberty Utilities (CalPeco Electric_ LLC (U933E), The Office of Ratepayer Advocates, and the A-3 Customer Coalition at 6-7.

state tax rates.⁶ Section 4.8 of the Settlement adopts Liberty's proposed Depreciation Rate of 2.21 percent.⁷

Sections 4.9-4.10 reflect the agreement to use the electric sales and energy use per customer forecasts that Liberty proposed. The Settling Parties agree to use 46,683 customer accounts for the purpose of forecasting in the Settlement.

Section 4.11 of the Settlement adopts Test Year 2016 O&M expenses of \$8.499 million. Liberty included its Short Term Incentive Plan as one of the many components included in O&M. As part of the overall Settlement, ORA and Liberty agreed that 50 percent of Liberty's Short Term Incentive Plan could be recovered from ratepayers but the remainder should be borne by shareholders.

Section 4.12 of the Settlement adopts Test Year 2016 Administrative and General (A&G) expense of \$8.308 million. The Settling Parties agreed Liberty should be authorized ratepayer funding for 50 percent of the expense it requested to retain outside services to provide necessary governmental affairs functions. Liberty acknowledged the general prohibition on customers funding lobbying efforts initiated by utilities and explained it used such funds to keep informed of legislative activities and their impact on customers. Section 4.12 also authorizes Liberty to reclassify its forecasted incremental rate case costs that are being recorded in a Miscellaneous Deferred Debit (Federal Energy Regulatory Commission (FERC) Account 186) as a Regulatory Asset (FERC Account 182)

⁶ We propose to modify this section of the Settlement. The modifications adopted by this decision are discussed in detail below.

⁷ This Depreciation Rate was revised based upon a new depreciation study Liberty conducted in late 2014. See Ex. Liberty Utilities-1 at 5-2:2-5-2:8.

and amortize those costs over a three-year period starting January 1, 2016 as an adjustment to recorded A&G expenses. Liberty accepted the condition that these incremental GRC costs (and the associated accounts) for the 2013 and 2016 GRCs remain subject to audit in Liberty's next GRC.

Section 4.13 adopts the use of Franchise Fees and Uncollectible Rate of 1.35 percent.

Section 4.14 of the Settlement authorizes Liberty to make a debit entry to its GRC Memorandum Account on the last day of the month before the month in which the rates to be approved in this proceeding become effective. That debit amount shall be equal to:

- 1) The difference for the period between
 - (i) Liberty's current non-fuel generation and distribution Base Rate revenue requirement (inclusive of the Energy Efficiency (EE) and Vegetation Balancing accounts); and
 - (ii) the non-fuel generation and distribution Base Rate revenue requirement (inclusive of the Solar Incentive Program, CEMA, EE and Vegetation management balancing accounts) Liberty would be authorized to recover through rates authorized in the Settlement; and
- 2) Interest accrued on such difference calculated in the manner set forth in the GRC Memorandum Account.

The Settlement authorizes Liberty to recover in rates the amount recorded in the GRC Memorandum Account including interest accrued on the unrecovered balance in the GRC Memorandum Account over a twenty seven month period commencing October 1, 2016 and terminating on December 31, 2018. Liberty shall also identify as a separate line item in its bills to customers the amount which is being collected through the GRC Memorandum Account.

The Settlement addresses EE in section 4.15 and authorizes Liberty recovery of EE expenses for Test Year 2016 of \$0.471 million with the three-year GRC cycle aggregate authorization of \$1.413 million. Liberty would maintain its current EE Balancing Account tariff and record in this account the difference between the authorized \$1.413 million revenue requirement for EE programs during 2016, 2017, and 2018 and the expenses Liberty records for EE programs during this period.

Section 4.16 of the Settlement authorizes Liberty to recover \$2.523 million annually for recovery for its Vegetation Management program expenses with a three-year GRC aggregate authorization of \$7.569 million. Liberty shall continue its current practice of identifying the rates associated with expenditures for the Vegetation Management program as a separate line item in its customers' bills. The settlement also allows Liberty to recover these revenues authorized for its Vegetation Management program over a thirty-six month period through the implementation of the GRC Memorandum Account and through the increase in general rates to be directly charged to customers starting as of October 1, 2016.

Section 4.17 of the Settlement authorizes Liberty to recover a principal amount of \$0.71 million in each of 2016, 2017, and 2018 plus interest accrued on the unrecovered amounts in its CEMA. In addition, the Settlement allows Liberty to recover these amounts over a thirty-six month period through the implementation of the GRC Memorandum Account and through the increase in general rates to be directly charged to customers starting as of October 1, 2016.

Section 4.18 of the Settlement allows Liberty to recover expenditures for the Solar Incentive Program for Test Year 2016 of \$0.371 million with a three-year GRC aggregate authorization of \$1.113 million. The start date for the implementation of the Solar Incentive Program will be October 1, 2016 until

December 31, 2018. Liberty may request authority to extend the initial term of the Solar Incentive Program in its next GRC application or request authority to initiate a revised program to provide incentives for increased solar penetration in its service territory.

The Settlement specifies that Liberty shall recover its costs for the Solar Incentive Program as an additional element of its Public Purpose Program Charges and that these costs are to be allocated among its customer classes in the same manner as the Public Purpose Program Charges. Liberty shall establish a Solar Incentive Balancing Account to track collections and expenditures for the program. The proposed tariff implementing the Solar Incentive Program is attached as Exhibit C to the Settlement.

Section 4.19 of the Settlement would authorize Liberty to implement the Electric Vehicle Time-of-Use and Electric Vehicle Time-of-Use Small General Service tariff in accordance with the pro forma illustrative tariffs Liberty provided in its testimony. The pro forma tariff shall be revised to reflect the revised revenue requirement authorized in and the time periods relevant to the Settlement adopted by this decision.

Section 4.20 of the Settlement authorizes Liberty to submit a Tier-2 Advice Letter to establish a tariff to implement a permanent voluntary curtailment program consistent with that described in Liberty's testimony. The current interim tariff, approved in Resolution E-4694, which provides incentives to A-3 customers to curtail load when Liberty is facing or approaching capacity limits to

deliver electricity, would become permanent and allow Liberty a necessary system tool to prevent outages and maintain system reliability.⁸

Sections 5.1 and 5.2 of the Settlement provide for revenue allocation based on Liberty's Marginal Cost Study as revised in response to issues raised by ORA and certain agreed to adjustments. Exhibit D to the Settlement illustrates the resulting allocations and provides a comparison between an allocation based strictly on the Marginal Cost Study and one based on the agreed-upon allocation among customer class. In addition, Section 5.1 memorializes the agreement that in preparation for Liberty's 2019 GRC application, Liberty shall use its best efforts to propose an alternative to its current "backcast"⁹ methodology for development of its Marginal Cost Study and will meet with ORA three months prior to submitting its 2019 GRC application to report on the status of its efforts to use a different methodology.

Section 5.2 of the Settlement recites the Settling Parties agreement on the percentage decreases in revenue allocation for each customer class.

Section 5.3 provides that the cost responsibility for the \$2.523 million in annual Vegetation Management Program expenses be allocated among the various customer classes as shown in Exhibit E to the Settlement. The Settlement maintains the Vegetation Management Program rate design for the Customer

⁸ See Resolution E-4694 Liberty Utilities request for approval of an interim voluntary electric curtailment program for larger than 200kW users from November 2014 to December 2015.

⁹ Liberty does not use actual recorded or historical system peak demand data to develop its marginal cost study. Instead Liberty relies on a "backcast" method which estimates its historical system peak demand levels using a forecast growth rate for the 2015 through 2019 period. Liberty's demand backcast is based on its forecast assumptions.

Coalition's customer class approved in Decision (D.) 12-11-030, Liberty's last GRC.

Section 5.4.1 of the Settlement provides a residential rate design that incorporates a residential monthly customer charge of \$6.56 and maintains the 17 percent composite tier differential. The agreed upon residential and California Alternative Rate for Energy (CARE) customer classes is presented in Exhibit F to the Settlement. The agreed upon rate design for the Customer Coalition's customer class is shown in Exhibit G to the Settlement. The agreed upon rate design for all other customer classes is presented in Exhibit H to the Settlement.

Attachment B to this decision contains the Revised Summary Results of Operations supporting tables for Liberty Utilities, which incorporates the forecasted costs we find to be reasonable, and which are adopted in today's decision. Liberty updated the Results of Operations Model to correct the Cost of Removal as presented in its Depreciation Testimony and provided the revised ECAC revenue forecast components that are incorporated into the model Liberty used to present the Results of Operations set forth in the all-party Settlement.

4. Modifications to the Settlement

4.1. Implementation Dates for Settlement

The Settlement is structured and based upon the assumption that Liberty will be authorized to directly charge its customers the revised rates agreed to in the Settlement commencing October 1, 2016. Based on the date of this decision, the Settlement as modified shall be effective on January 1, 2017. Accordingly, we make the following modifications to the Settlement:

1. Over-collection in the ECAC Balancing Account shall be

amortized over a 24 month period commencing January 1, 2017 and terminating December 31, 2018;

2. The Solar Incentive Program shall begin January 1, 2017 and run for an initial 24 month period, terminating on December 31, 2018; and
3. The unrecovered balance recorded in the GRC Memorandum Account shall be recovered over a 24 month period commencing on January 1, 2017.

4.2. Safe Harbor Repair Deduction

The income tax issue of the Safe Harbor repairs deduction arises in this GRC because Liberty elected to change its tax treatment for deducting repair costs shortly after filing the instant application. Prior to electing the Safe Harbor repair deduction, the repair costs would have been capitalized for tax purposes and subsequently depreciated.¹⁰ The taxes on those costs were normalized creating a deferred tax adjustment to rate base.¹¹ We discuss both the income tax change and the associated regulatory accounting treatment of that change in detail below. Due to the complexity of the issue, we begin with an overview of the terminology relevant to this discussion.

4.2.1. Terminology

For tax purposes, a corporation reports its “taxable income.” Taxable income is reported differently from the corporation’s “book income.” The book income is what is used for utility regulatory rate making purposes.

To derive its taxable income, a corporation is permitted to make adjustments and deductions under the Internal Revenue Code (IRC), to their

¹⁰ Liberty 7 at Exhibit A, p.4.

¹¹ *Ibid.*

book income. These adjustments and deductions include the repairs deduction. For federal tax reporting purposes the differences between taxable income and book income are reconciled in Schedule M¹² to the federal Corporation Income Tax Return. The adjustment for the repairs deduction represents the difference between expenditures that are permitted to be deducted as repairs for tax purposes and those same expenditures that are required to be capitalized for financial reporting purposes.

The difference in how income is reported for tax and book purposes, affects how depreciation is used for tax and regulatory purposes. Tax depreciation refers to the depreciation method allowed by the taxing authority, which includes accelerated depreciation. Depreciation to determine income tax expense for ratemaking purposes is based on book depreciation.

There are two methods to account for income tax expense for regulatory purposes; flow-through and normalization. Under the flow-through method, the income tax expense recognized for regulatory purposes during a given period is equal to the taxes that are forecasted and paid during the period. Under the normalization method, the income tax expense for a given period is based on the net income recognized for regulatory accounting purposes during the period, regardless of when taxes associated with the accounting income are actually paid. The flow-through method can be viewed as cash basis accounting, while the normalization method reflects accrual accounting.

¹² Depending on income and assets, a different Schedule M (Schedule M-1, M-2 or M-3) may apply.

4.2.2. Repairs Deduction Background

The repairs deduction involves IRC §§ 162 and 163, and the characterization and tax treatment of expenditures that are related to maintenance, repair, and improvement activities. IRC § 162 allows for the deduction of all ordinary and necessary business expenses, including the costs of certain supplies, repairs, and maintenance. IRC § 163 generally requires the capitalization of amounts paid to acquire, produce, or improve tangible property.

IRS Regulation § 1.167(a)-11(d)(2)(i)(a) states in part that:¹³

In general ... expenditures which substantially prolong the life of an asset, or are made to increase its value or adapt it to a different use are capital expenditures, ... [and] it is subject to the allowance for depreciation. On the other hand, in general, expenditures which do not substantially prolong the life of an asset or materially increase its value or adapt it for a substantially different use may be deducted as an expense in the taxable year in which paid or incurred.

In Internal Revenue Service (IRS) Revenue Procedure 2011-43, which was issued on August 19, 2011, the tangible property regulations were explained in the context of "when to claim repair deductions associated with electric transmission and distribution property." This IRS Revenue Procedure was established to "minimize disputes regarding the deductibility or capitalization of expenditures to maintain, replace, or improve transmission and distribution property...." (IRS Revenue Procedure 2011-43, § 2.02.) According to § 2.02 of this IRS Revenue Procedure:

¹³ See 26 Code of Federal Regulations at 1007.

[T]his revenue procedure provides a “transmission and distribution property safe harbor method of accounting” for determining the amount of expenditures required to be capitalized under § 263(a). This revenue procedure classifies transmission and distribution property as either linear property (for example, conductor, poles) or nonlinear property (for example, transformers, and customer electric meters). For linear property, this revenue procedure defines the appropriate units of property and provides a simplified method of determining when the cost of replacing a portion of a unit of linear property must be capitalized. For non-linear property, this revenue procedure defines the appropriate units of property but does not provide a simplified method of determining when the cost of replacing a portion of a unit of non-linear property must be capitalized. Taxpayers must follow the principles of § 263(a) to determine whether the replacement of a portion of a non-linear unit of property is deductible or capitalizable.

On December 27, 2011, in Treasury Decision (TD) 9564, the IRS issued its temporary tangible property regulations interpreting IRC §§ 162 and 163. (See 76 Federal Register 81060.) These temporary regulations provided guidance regarding the deduction and capitalization of expenditures related to tangible property, and specified when taxpayers must capitalize, and when they can deduct, their expenses. These temporary regulations were later replaced and finalized in TD 9636. (See 78 Federal Register 57686, amended July 21, 2014, 79 Federal Register 42189.)

4.2.3. Liberty's Safe Harbor Repairs Deduction Election

The IRS issued regulations and guidance on whether repairs should be expensed or capitalized in the interim between Liberty's last GRC filing¹⁴ and filing of the current GRC application. At the time Liberty filed the instant application, Liberty had not yet elected to take the Safe Harbor repairs deduction. Liberty first elected to take the Safe Harbor repair deduction in September 2015 for its 2014 tax filing.¹⁵ In its 2014 tax filing, Liberty also made a Section 481(a) election to reflect its election to take the Safe Harbor Repair Deduction, which resulted in decreases to Liberty's taxable income for 2013 and 2014.¹⁶ For Liberty, the increases in deductions and their corresponding decreases in taxable income did not affect the amount of Liberty's tax obligations for these years.

Liberty's choice to take the Safe Harbor repairs deduction and the impact of that decision was included in the Results of Operations (RO) Model utilized for purposes of settlement discussions. It was, unclear, however whether Liberty normalized or flowed-through the income tax expense. In Supplemental Testimony, Liberty clarified that it had applied normalization rules to the Safe Harbor repairs deduction. Liberty responded with information from a revised RO Model showing the impact to rate base and rates if the Safe Harbor repair deductions were accounted for on a flow through basis.¹⁷

¹⁴ Application 12-02-014, Liberty's 2013 GRC preceded its September 2015 election to take the Safe Harbor Repair Deduction. As a result it was not forecasted nor reflected in Liberty's 2013 Test Year GRC proceeding.

¹⁵ Liberty 7 at Exhibit A.

¹⁶ *Ibid.*

¹⁷ Liberty 8 at pp. 1.4-1.6.

For its Test Year 2016 GRC forecast, Liberty forecasted repair deductions of \$5.071 million. (Liberty 8 at 1-4.) Liberty applied the federal tax rate of 34 percent to \$5.071 million, resulting in a \$1.725 million reduction to Accumulated Deferred Income Taxes (ADIT).¹⁸ The reduction in ADIT changes the “Additional Revenue Required” amount in the RO Model. Liberty explains the application of flow-through treatment also causes a slight offsetting increase to other components of the revenue requirement.¹⁹ Liberty provided a table showing the impact of utilizing flow-through methodology which is attached to this decision as Attachment C.

In summary, Liberty explains that utilizing flow-through methodology as opposed to normalizing results in the following:

- Total Operating Revenue Requirement of \$79.301 million is reduced by \$1.501 million to \$77.8 million;
- Rate Base is increased by \$1.719 million from \$143.943 million to \$145.662 million.

4.2.4. Discussion

The Commission has addressed the Safe Harbor repairs deduction and corresponding regulatory accounting treatment of that deduction in several recent GRC proceedings²⁰. The Commission has consistently required the

¹⁸ Liberty 8 at p.1.5.

¹⁹ *Ibid.*

²⁰ D.16-06-054 Decision Addressing the General Rate Cases of San Diego Gas and Electric Company and Southern California Gas Company and the Proposed Settlements and D.15-11-021 Decision on Test Year 2015 General Rate Case for Southern California Edison Company.

utilities to apply the flow through method of accounting for income tax expense for regulatory purposes and we do so here as well.²¹

The Settlement shall be modified to reflect flow-through treatment of the Safe Harbor repairs deduction. As a result, the adopted Total Operating Revenue Requirement is \$77.8 million and Rate Base is \$145.662 million.

In addition, we direct Liberty to establish a memorandum account to record revenue differences resulting from the differences in forecasted income tax expense with the tax expenses incurred by Liberty during the GRC period. Establishment of such a memorandum account provides the Commission with greater information of the tax expenses incurred by the utility during a GRC period and will allow the Commission to review the reasonableness of various tax options, such as tax policies, tax laws, or tax accounting changes, elected by the utility. This is particularly important for Liberty, since Liberty incurred a Net Operating Loss (NOL), which is an income loss in terms of its taxable income, during the test year. As a result of the NOL, Liberty's ADIT decreases, this subsequently increases its revenue requirement for the test year. Should Liberty carry forward the NOL to decrease tax expenses in a year with positive taxable income, Liberty would increase its ADIT and lower its revenue requirement. In this tax memorandum account, Liberty will be required record the actual tax expenses incurred by the utility, so that the Commission can review this information and examine the tax options Liberty elects to take and the impact those choices have for ratepayers.

²¹ See D.84-05-036 Investigation on the Commission's own motion into the method to be utilized by the Commission to establish the proper level of income tax expense for rate making purposes of public utilities and other regulated entities, FOF 23 and COL 6.

Within 30 days from the effective date of this decision, Liberty shall file a Tier 2 Advice Letter to establish a two-way tax memorandum account to record any revenue differences resulting from the differences in the income tax expense adopted in this decision and the tax expenses incurred by Liberty during each GRC period beginning with 2016-2018. This tax memorandum account shall remain open and the balance in the account shall be reviewed in every subsequent GRC until a Commission decision closes the account. The account shall have separate line items detailing the differences between tax expenses forecasted and tax expenses incurred, specifically resulting from 1) net revenue changes, 2) mandatory tax law changes, tax accounting changes, tax procedural changes, or tax policy changes, and 3) elective tax law changes, tax accounting changes, tax procedural changes or tax policy changes. Along the same line, we expect and will require, Liberty to notify the Commission of any tax-related changes, and tax-related accounting changes or any tax-related procedural changes that materially affect, or may materially affect, revenues, and to establish a memorandum account to track any revenue differences if applicable. Our reference to “materially affect” means a potential increase or decrease of \$155,000 or more. The factors that shape our definition of “materially affect” include how large of an impact the tax change affected or may affect forecasted expenses and whether this amount is fair and reasonable.²²

The establishment of a memorandum account is consistent with Resolution L-411A at 13 in which the Commission stated, “we believe that an

²² See D.16-06-054 where the Commission recently addressed the definition of “materially affect” in the context of implementation of a Tax Memorandum Account for San Diego Gas & Electric Company and Southern California Gas Company. The amount adopted here is proportionately similar to the amount adopted in D.16-06-054.

even handed approach to regulation requires us to consider, when there has been a large and unexpected decrease in expenses between rate cases, whether it is appropriate to establish a memorandum account to allow for a future decrease in rates.” If the 2012-2015 repairs deduction estimated in this decision are different from the repairs deductions that Liberty ultimately claimed in its tax returns, we expect Liberty to bring that to the Commission’s attention. Liberty may look to Southern California Edison’s Advice Letter 3368-E should it seek an example.²³

5. Standard of Review

Liberty bears the burden of proof to show that the regulatory relief it requests is just and reasonable. In order for the Commission to consider the proposed settlement in this proceeding as being in the public interest, the Commission must be convinced that the parties had a sound and thorough understanding of the underlying issues.

The Commission’s Rules of Practice and Procedure (Rules) specifically address the standard of review on proposed settlements. Pursuant to Rule 12.4, the Commission may reject a proposed settlement whenever it determines that the settlement is not in the public interest. Upon rejection, the Commission may propose alternative terms that are acceptable to the Commission while allowing the parties reasonable time to accept the terms or to request other relief.

²³ Southern California Edison filed AL 3368-E to reduce its revenue requirement because the 2012-2014 repairs deduction that was estimated in its 2015 GRC proceeding was lower than it claimed on its tax returns.

5.1. Factual Record and Timing

This settlement comes before the Commission after service of testimony and rebuttal but before any evidentiary hearings. Based upon the intervening parties' discovery, review and prepared testimony, they were able to agree upon a settlement with Liberty. Liberty also provided a Revised Comparison Exhibit, attached to this Decision as Attachment D, showing the differences between the original application/protests and the Settlement updated for flow-through of the repair deduction. Therefore we must rely on the settlement's factual recital by the settling parties of the circumstances which lead us to the findings in this decision. Based on this recital, which, along with all filed and served documents, forms our factual record, we find the settlement is consistent with the facts as summarized in the testimony and supplemental testimony of the applicant and the intervenors. (Rule 12.1(d).)

5.2. Proposed Settlement is Reasonable

Based on our review of all filed information and a careful review of the proposed settlement as modified with respect to the safe harbor repair deduction, as discussed, we find the proposed settlement was offered by competent and adequately prepared parties able to make informed choices in the settlement process. Nothing in the settlement as modified violates any existing law or order of this Commission or precludes or limits in any way the Commission's ability to regulate the rates or terms and conditions of service by Liberty now or in the future. No item settled in this proceeding is dispositive of the appropriate rate treatment in subsequent proceedings. (Rule 12.5) We can find, as required by Rule 12.1, the proposed settlement is reasonable in light of the whole record, consistent with the law, and in the public interest. We therefore adopt the settlement as modified.

Pursuant to Rule 12.4(c), since the adjustment to the adopted revenue requirement is addressed within the Settlement Agreement (Attachment 1 to the Settlement Motion), the settling parties shall have 15 days from the issuance of this decision to file a “Notice to Accept Liberty’s Adopted Test Year 2016 Revenue Requirement” or to file a “Motion Requesting Other Relief” with the Docket Office. In the event of a “Motion Requesting Other Relief”, parties may respond to the motion as provided for in Rule 11.1. The adopted Test Year 2016 revenue requirement shall remain in effect until a decision resolving the request for other relief is adopted by the Commission.

6. Safety

The Commission sets safe utility operation as a priority, and we expect the utilities to make safety a foundational priority in everything they do. Liberty reflected its consciousness and attention to safety and risk mitigation in testimony and responsive pleadings.²⁴ When evaluating the revenue requirements requested by Liberty, the Commission placed an emphasis on programs and activities that enhance the safety and reliability of its infrastructure and operations. Liberty’s GRC Application was filed before the Liberty the Commission’s recent decision addressing safety in GRCs, D.14-12-025. Liberty directly addressed the impact of its Vegetation Management Program in response to the Commission’s request for additional information on Liberty’s safe operations and the safety of both its customers and the general public. Liberty’s Vegetation Management Program has substantially reduced the

²⁴ See Response of Liberty Utilities (CalPeco Electric) LLC (U933E) to Administrative Law Judge’s Request for Additional Information Relating to the Safety and Reliability Benefits of its Vegetation Management Program (June 3, 2016).

number of vegetation related outages by 40-50 percent each year after 2011. Such reductions enhance Liberty's ability to provide both safe and reliable service.

7. Compliance with Decision 12-11-030; Vegetation Management Options

D.12-11-030 ordered Liberty to present a cost-causation based option for vegetation management²⁵ and to assume it to be the first dollars in the service charge not the last incremental dollars. The Commission directed Liberty to calculate this as a fully allocated charge to all classes and thus not necessarily the identical fixed charge applied to all classes of customers. As a result, the overall service charge with this option had two components: vegetation management and other fixed costs. Liberty was also given the option to file for any other preferred alternative form of rate recovery for vegetation management in addition to the fixed charged options. Liberty complied with D.12-11-030 in submission of the current GRC application by including both a cost-causation based option and a fixed-charge option. The Settlement adopts the fixed-charge option.

8. Future GRC Application Guidance

Liberty should ensure that future GRC applications are consistent with Commission decisions. Commission decisions, including D.84-05-036, provide guidance on the proper treatment of income tax expense for ratemaking purposes.²⁶ We also remind Liberty to follow the Commission's long standing

²⁵ In addition to the fixed-charge option historically provided by Liberty in prior GRC applications.

²⁶ See also D.16-06-054 and D.15-11-021, GRC decisions for San Diego Gas and Electric Company and Southern California Gas Company and Southern California Edison respectively;

Footnote continued on next page

policies with respect to excluding long-term employee incentive costs for bonuses from the revenue requirement.²⁷

The Commission issued several decisions in recent years that have required significant changes to the GRC application, which Liberty should consider when preparing its next GRC application. We encourage Liberty to work with the Commission's Energy Division to update its RO Model to more accurately reflect Liberty Utilities business practices²⁸ and to reflect the many changes since its predecessor CalPeco Electric created the RO model used in this and prior GRC applications.

As discussed above, the Commission prioritizes safe utility operations. After the 2010 San Bruno pipeline explosion and fire, the Commission moved towards the use of a risk based approach to assess the different kinds of risk inherent in operating a utility, and how those potential risks affect the costs of operating a utility. In D.14-12-025, the Commission revised the rate case plan to adopt a risk based approach to ratemaking. In that decision, the Commission adopted procedures that will result in additional transparency and participation on how the safety risks for the energy utilities are prioritized by the energy utilities and the Commission, and to provide accountability for how these safety risks are managed, mitigated and minimized.²⁹

which include guidance on bonus depreciation, incentive compensation and the Safe Harbor repairs deduction.

²⁷ See D.09-03-025 at COL 115.

²⁸ Liberty utilized CalPeco Electric's RO Model after acquiring the company.

²⁹ The implementation of some of these procedures is being examined in the consolidated proceedings of Application (A.) 15-05-002, A.15-05-003, A.15-05-004, and A.15-05-005.

In Liberty's next GRC, Liberty shall include a risk-based decision-making framework in its GRC application filing.³⁰ That means the GRC application must address the safety risks Liberty faces in its system and operations and explain how Liberty plans to manage, mitigate and minimize those risks during the GRC cycle in the context of its GRC revenue requirement request.³¹

9. Motions

In the Joint Motion, the Settling Parties moved to have their respective testimonies marked and moved into the record. The motion is granted. The testimony identified is marked as follows:

- Liberty 1: Summary and Results of Operations
- Liberty 2: Cost of Capital/Return on Equity/Rate of Return
- Liberty 3: Electric Distribution Programs
- Liberty 4: Marginal Cost Study, Revenue Allocation, Rate Design
- Liberty 5: Witness Statements of Qualification
- Liberty 6: Rebuttal Testimony Served December 7, 2015;
- Liberty 7: Supplemental Testimony in Response to Administrative Law Judge's Ruling on March 30, 2016
- Liberty 8: Supplemental Testimony in Response to Administrative Law Judge's Ruling on September 20, 2016
- ORA 1R: Executive Summary and Post-Test Year Ratemaking - Revised³²
- ORA 2R: Revenue Requirement and Income Tax
- ORA 3: Administrative & General Expenses and Operation & Maintenance Expenses

³⁰ D.14-12-025 at Ordering Paragraph 4.

³¹ D.14-12-025 at 17-18.

³² Served on November 23, 2015.

- ORA 4: Energy Cost Adjustment Clause and Fuel and Purchase Power
- ORA 5: Other Taxes Energy Efficiency Programs and Solar incentive Program
- ORA 6: Depreciation
- ORA 7: Plant and Rate Base
- ORA 8: Sales, Customer, and Revenues Forecast
- ORA 9: Cost of Capital Rate of Return and Return on Equity
- ORA 10: Results of Examination Vegetation Management and Catastrophic Event Management Account
- ORA 11: Qualifications
- ORA 12: Revenue Allocation and Rate Design
- Customer Coalition 1: Prepared Direct Testimony of Geoffrey B. Inge³³
- Customer Coalition 2: Prepared Rebuttal Testimony of Geoffrey B. Inge³⁴

On November 7, 2016, Liberty filed a joint motion on behalf of the Settling Parties requesting the following testimony also be marked and moved into the record:³⁵

- Liberty 6c: Rebuttal Testimony (Confidential Version), served December 7, 2015
- ORA 3C: Administrative & General Expenses and Operation & Maintenance Expenses (Confidential Version);

³³ Served on November 23, 2015.

³⁴ Served on December 7, 2015.

³⁵ Liberty also filed a joint motion to shorten the time permitted for responses to be filed to the joint motion to mark and move confidential versions of the testimony into the record. The Judge granted the motion to shorten time, and responses were due on November 8, 2016. No responses were filed.

- ORA4C: Energy Cost Adjustment Clause and Fuel and Purchase Power
- Customer Coalition1C: Prepared Direct Testimony of Geoffrey B. Inge (Confidential Version), served November 23, 2015

The Settling Parties further agreed that the above listed testimony, initially marked Confidential, no longer requires confidential treatment. All marked testimony listed in this section is marked as noted and moved into the record of this proceeding.

The record is closed.

10. Categorization and Need for Hearing

The Commission preliminarily categorized this application as ratesetting, and preliminarily determined that hearings would be needed. The preliminary determinations are hereby confirmed.

11. Comments on Proposed Decision

On October 28, 2016, parties to this proceeding stipulated to a shortened comment period. The proposed decision was mailed to the parties in accordance with Pub. Util. Code § 311 and comments were allowed under Rule 14.6(b). Parties to the proceeding stipulated to a shortened comment period. Parties may file comments on the proposed decision within 10 days of the date of its service on the parties. Replies to comments shall be filed in accordance with rule 14.3(d), 15 days after the last day for filing comments. Comments were filed by _____ on _____. Reply comments were filed by _____ on _____.

12. Assignment of Proceeding

Liane M. Randolph is the assigned Commissioner and Katherine Kwan MacDonald is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. D.15-12-035 authorized Liberty to establish a memorandum account to track the difference between the general rates effective December 31, 2015 and rates to be adopted in these proceedings was granted on October 28, 2015.
2. There is an adequate record comprised of all filed and served documents.
3. On May 18, 2016, Liberty, ORA, and the Customer Coalition moved for the Commission to adopt an all-party settlement and for testimony to be marked and moved into the record.
4. On November 7, 2016, the Settling Parties moved for confidential versions of the testimony to also be marked and moved into the record.
5. On November 7, 2016, the Settling Parties moved for a ruling shortening time to respond to the motion to mark and move confidential versions of the testimony into the record. The motion was granted.
6. The All-Party Settlement is based on the record.
7. The Safe Harbor repairs deduction is an income tax issue relevant to Liberty's GRC Application.
8. The Safe Harbor repairs deduction involves the characterization and tax treatment of expenditures that are related to maintenance, repair, and improvement activities.
9. Liberty elected to take the Safe Harbor repairs deduction shortly after filing this GRC Application.
10. In addition to election of the Safe Harbor repairs deduction, Liberty normalized the income tax expense rather than flowing through the benefits to ratepayers.
11. Liberty's tax obligations did not change as a result of the Safe Harbor repairs deduction because of a NOL Liberty also incurred.

12. The revised RO Model used for purposes of settlement negotiations included Liberty's choice to take the Safe Harbor repairs deduction and the impact of that choice.

13. Application of the flow-through method reduces the Total Operating Revenue Requirement to \$77.8 million and increases Rate Base to \$145.662 million.

14. The Commission has required utilities to apply the flow-through method of accounting for income tax expenses for regulatory purposes.

15. A tax memorandum account will provide the Commission with information to review in order to evaluate the reasonableness of various tax options

Conclusions of Law

1. The Commission's duty and obligation under Pub. Util. Code. § 451 is to establish just and reasonable rates to enable Liberty to provide safe and reliable service, while allowing Liberty the opportunity to earn a fair return on property that it uses in providing their utility services.

2. The testimony marked and identified in Section 9 of this decision should be moved into the record for this proceeding.

3. Rule 12.1(d) provides that the Commission will not approve settlements, unless the settlement is reasonable in light of the whole record, consistent with the law and in the public interest.

4. Liberty bears the burden of proof to show that the proposed Settlement is just and reasonable.

5. The All-Party Settlement, as modified, is reasonable in light of the whole record, consistent with the law, and in the public interest, and should be adopted.

6. The income tax savings resulting from the changes to accounting methods should flow-through to ratepayers.

7. If an adjustment for the repairs deduction is not made, the Commission would not be fulfilling its duty under Pub. Util. Code § 451 to ensure that all charges demanded or received by any public utility are just and reasonable.

8. The establishment of a tax memorandum account is consistent with Resolution L-411A at 13.

9. Liberty should file a Tier 2 Advice Letter to establish a two-way tax memorandum account to record any revenue differences resulting from the differences in the income tax expense forecasted in the GRC proceeding and the tax expenses incurred by Liberty during each GRC period beginning with 2016-2018.

- a. This tax memorandum account should remain open and the balance in the account should be reviewed in every subsequent GRC until a Commission decision closes the account.
- b. The account should have separate line items detailing the differences between tax expenses forecasted and tax expenses incurred, specifically resulting from 1) net revenue changes, 2) mandatory tax law changes, tax accounting changes, tax procedural changes, or tax policy changes, and 3) elective tax law changes, tax accounting changes, tax procedural changes or tax policy changes.
- c. Liberty should notify the Commission of any tax-related changes, and tax-related accounting changes or any tax-related procedural changes that materially affect, or may materially affect, revenues, and to establish a memorandum account to track any revenue differences if applicable.
 - i. “Materially affect” means a potential increase or decrease of \$155,000 or more.

10. The Commission has the discretion and authority to order additional specific testimony in the subsequent general rate case.

11. Liberty should include a risk-based decision-making framework in its next GRC application to comply with D.14-12-025.
12. The decision should be effective today.
13. The proceeding should be closed.

O R D E R

IT IS ORDERED that:

1. The May 18, 2016 Joint Motion to Adopt All-Party Settlement Agreement (Settlement Agreement) Among Liberty Utilities (CalPeco Electric) LLC (U933E), The Office of Ratepayer Advocates, and the A-3 Customer Coalition, attached hereto as Attachment A, is granted, except for the adjustments as discussed in Section 4 of this decision. The adjustments result in:
 - a. Test Year 2016 Revenue Requirement of \$77.8 million; and
 - b. Rate Base of \$145.662 million.
2. The Joint Motion of Liberty Utilities (CalPeco Electric) LLC (U933E), The Office of Ratepayer Advocates, and the A-3 Customer Coalition to Admit Testimony of the Settling Parties Into the Evidentiary Record is granted.
3. Liberty Utilities (CalPeco Electric) LLC (U933E), The Office of Ratepayer Advocates, and the A-3 Customer Coalition shall have 15 days from the issuance of this decision to file with the Docket Office, and serve, a "Notice to Accept Liberty's Adopted Test Year 2016 Revenue Requirement" or to file a "Motion Requesting Other Relief."
 - a. In the event a "Motion Requesting Other Relief" is filed, parties may respond to the motion as provided for in Rule 11.1.
 - b. The adopted Test Year 2016 revenue requirement for Liberty shall remain in effect until a decision resolving the request for other relief is adopted by the Commission.

4. Within 15 days from the effective date of this Order, Liberty Utilities (CalPeco Electric) LLC (U933E) shall file a Tier 1 Advice Letter, with revised tariff sheets, to implement the Test Year 2016 revenue requirement authorized by Ordering Paragraph 1 of this decision. The revised tariff sheets shall become effective on January 1, 2017, subject to a finding of compliance by the Commission's Energy Division, and compliance with General Order 96-B.

5. The balances recorded in Liberty Utilities (CalPeco Electric) LLC (U933E) General Rate Case Revenue Requirement Memorandum Account, authorized by Decision 15-12-035 on December 17, 2015, shall be amortized in rates beginning January 1, 2017 through December 31, 2018.

6. Liberty Utilities (CalPeco Electric) LLC (Liberty) shall file a Tier 2 Advice Letter within 30 days of the effective date of this decision to establish a tax memorandum account to record any revenue differences resulting from the income tax expenses forecasted in their general rate case (GRC) proceedings, and the tax expenses incurred by Liberty during this (2016-2018) and each subsequent GRC period.

- a. This tax memorandum account shall remain open and the balance in the account should be reviewed in every subsequent GRC until a Commission decision closes the account.
- b. The account shall have separate line items detailing the differences between tax expenses forecasted and tax expenses incurred, specifically resulting from 1) net revenue changes, 2) mandatory tax law changes, tax accounting changes, tax procedural changes, or tax policy changes, and 3) elective tax law changes, tax accounting changes, tax procedural changes or tax policy changes.

7. Liberty Utilities (CalPeco Electric) LLC (U933E) shall notify the Energy Division of the California Public Utilities Commission of any tax-related changes, tax-related accounting changes or any tax-related procedural changes that

materially affect or may materially affect, revenues and to establish a memorandum account if applicable. Materially affect is defined as a potential increase or decrease of \$155,000 or more.

8. Liberty Utilities (CalPeco Electric) LLC (U933E) shall include a risk-based decision-making framework in its next General Rate Case (GRC) application filing. The GRC application shall address the safety risks Liberty faces in its system and operations and explain how Liberty plans to manage, mitigate and minimize those risks during the GRC cycle in the context of its GRC revenue requirement request.

9. Application 15-05-008 is closed.

This order is effective today.

Dated _____, at San Francisco, California.