

Decision 16-12-024 December 1, 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**

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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 percent 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 6.588 percent. Section 4.7 memorializes the Settling Parties agreement to use the methodology Liberty proposed to

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.

calculate federal and 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) and amortize those costs over a three-year period starting January 1, 2016 as an

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

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 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 27-month period commencing October 1, 2016 and terminating on December 31, 2018. Liberty

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.

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 36-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 36-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 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 book income. These adjustments and deductions include the repairs deduction.

¹⁰ Liberty 7 at Exhibit A at 4.

¹¹ *Ibid.*

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.

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

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

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:

[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

¹³ See 26 Code of Federal Regulations at 1007.

(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

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.

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

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

¹⁵ Liberty 7 at Exhibit A.

¹⁶ *Ibid.*

¹⁷ Liberty 8 at pp. 1.4-1.6.

¹⁸ Liberty 8 at p.1.5.

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 proceedings.²⁰ The Commission has consistently required the 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.

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.

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, Finding of Fact 23 and Conclusion of Law (COL) 6.

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 to 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.

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 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

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.

may look to Southern California Edison's Advice Letter (AL) 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.

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

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.

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 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 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

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).

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

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 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

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

²⁷ See D.09-03-025 at COL 115.

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

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

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 A.15-05-002, A.15-05-003, A.15-05-004, and A.15-05-005.

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

³¹ D.14-12-025 at 17-18.

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
- 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

³² Served on November 23, 2015.

- 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)
- ORA 4C: Energy Cost Adjustment Clause and Fuel and Purchase Power
- Customer Coalition 1C: 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.

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.

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. Liberty and the Customer Coalition filed comments on November 21, 2016. On November 28, 2016 Liberty filed reply comments.

Liberty supports the Commission's proposed decision. Liberty identified a typographical error, which has been corrected. The Customer Coalition supported the proposed decision adopting a modified all-party settlement but asked the Commission to make additional modifications requiring Liberty to issue a refund/bill credit in January to return "excess collections in the GRC Memorandum Account and the ECAC balancing account. The Customer Coalition state this offsets a large rate increase sought in Liberty's PTAM and the impact on customers resulting from the delay in implementing the Settlement Agreement. We decline the Customer Coalition proposal. Liberty's PTAM is the subject of another proceeding that has been separately protested by the Customer Coalition. In addition, as Liberty noted in reply comments, the slight

delay in the effectiveness of the revised GRC rates has not permitted nor will such delay permit Liberty to collect excess revenues. Over the three-year GRC cycle, the balancing account mechanism ensures that the customer is indifferent as to the date the revised GRC rates become effective. As a result, there is not excess revenue to warrant approval of the Customer Coalition request.

12. Assignment of Proceeding

Liane M. Randolph is the assigned Commissioner and Katherine Kwan MacDonald is the assigned 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 December 1, 2016, at San Francisco, California.

MICHAEL PICKER

President

MICHEL PETER FLORIO

CATHERINE J.K. SANDOVAL

CARLA J. PETERMAN

LIANE M. RANDOLPH

Commissioners

ATTACHMENT A
ALL-PARTY SETTLEMENT AGREEMENT

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Application of Liberty Utilities (CalPeco Electric) LLC (U 933-E) 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 No. 15-05-008
(Filed May 1, 2015)

**ALL-PARTY SETTLEMENT AGREEMENT AMONG LIBERTY UTILITIES
(CALPECO ELECTRIC) LLC (U933E); THE OFFICE OF RATEPAYER ADVOCATES;
AND THE A-3 CUSTOMER COALITION**

1. INTRODUCTION

- 1.1. In accordance with Rule 12.1, subdivision (a) of the California Public Utilities Commission (“Commission”) Rules of Practice and Procedure (“Rule”), the Settling Parties (as defined in Section 2 below) enter into this settlement agreement (“Settlement”) for purposes of resolving this matter without having an evidentiary hearing.
- 1.2. The attached Settling Parties’ 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 (“Settlement Approval Motion”) sets forth the factual and legal bases of the Settlement; advises the Commission of its scope; and presents the grounds on which Commission approval and adoption are urged.
- 1.3. As the Settlement Approval Motion explains, the Settlement complies with Commission requirements for approval of settlements, because it is reasonable in light of the whole record, consistent with the law, and in the public interest. Accordingly, the Settling Parties respectfully request the Commission to adopt and approve this Settlement.
- 1.4. The Settling Parties are entering into this Settlement to avoid the expense and uncertainty of an evidentiary hearing and to expedite Commission approval of tariffs consistent with this Settlement.
- 1.5. Since this Settlement represents a compromise by them, the Settling Parties have entered into each component of this Settlement on the basis that its approval by the Commission not be construed as an admission or concession by any Settling Party regarding any fact or matter of law in dispute in this proceeding or in any other proceeding before the Commission. Furthermore, the Settling Parties intend

that the approval of this Settlement by the Commission not be construed as a precedent or statement of policy of any kind for or against any Settling Party in any current or future proceeding.

- 1.6. All issues among and between the Settling Parties have been resolved.
- 1.7. The Settling Parties agree to the following with respect to the new general and Energy Cost Adjustment Clause rates agreed to in this Settlement: (a) the revised general rates should be deemed effective as of January 1, 2016 and begin being recovered through the General Rate Case Memorandum Account which Commission Decision 15-12-035 authorized Liberty Utilities to establish and implement; (b) the revised general rates shall commence being directly charged to customers as of October 1, 2016 and (c) the revised Energy Cost Adjustment Clause rates shall become effective as of October 1, 2016.

2. DEFINITIONS

- 2.1. The term “Liberty Utilities” means Liberty Utilities (CalPeco Electric) LLC (U 933-E), the Applicant in this proceeding.
- 2.2. The term “ORA” means the Office of Ratepayer Advocates.
- 2.3. The term “Customer Coalition” means the A-3 Customer Coalition.
- 2.4. The term “Settling Parties” means collectively Liberty Utilities, ORA, and the Customer Coalition.

3. EXHIBITS

- 3.1. Liberty Utilities requests that its testimonies be marked as Exhibits (Ex.) Liberty Utilities-1 through Liberty Utilities-7, as follows, and admitted into the record:
 - 3.1.1. Ex. Liberty Utilities-1: Summary and Results of Operations;
 - 3.1.2. Ex. Liberty Utilities-2: Cost of Capital/Return on Equity/Rate of Return;
 - 3.1.3. Ex. Liberty Utilities-3: Electric Distribution Programs;
 - 3.1.4. Ex. Liberty Utilities-4: Marginal Cost Study, Revenue Allocation, Rate Design;¹
 - 3.1.5. Ex. Liberty Utilities-5: Witness Statements of Qualifications;
 - 3.1.6. Ex. Liberty Utilities-6: Rebuttal Testimony, served December 7, 2015; and
 - 3.1.7. Ex. Liberty Utilities-7: Supplemental Testimony in response to Administrative Law Judge’s Ruling Directing Submission of Supplemental Testimony on March 30, 2016.

¹ This exhibit was initially marked as Phase Two, Ex. 1.

- 3.2. ORA requests that its written direct testimonies, entitled “Report on the Results of Operations for Liberty Utilities (formerly CalPeco Electric) Test Year 2016 General Rate Case” and served on November 9, 2015², be marked as follows, and admitted into the record:
 - 3.2.1. Ex. ORA-1R: Executive Summary and Post-Test Year Ratemaking;
 - 3.2.2. Ex. ORA-2R: Revenue Requirement and Income Tax;
 - 3.2.3. Ex. ORA-3: Administrative & General Expenses and Operation & Maintenance Expenses;
 - 3.2.4. Ex. ORA-4: Energy Cost Adjustment Clause and Fuel and Purchase Power;
 - 3.2.5. Ex. ORA-5: Other Taxes Energy Efficiency Programs and Solar Incentive Program;
 - 3.2.6. Ex. ORA-6: Depreciation;
 - 3.2.7. Ex. ORA-7: Plant and Rate Base;
 - 3.2.8. Ex. ORA-8: Sales, Customers, and Revenues Forecast;
 - 3.2.9. Ex. ORA-9: Cost of Capital Rate of Return and Return on Equity;
 - 3.2.10. Ex. ORA-10: Results of Examination Vegetation Management and Catastrophic Event Memorandum Account;
 - 3.2.11. Ex. ORA-11: Qualifications; and
 - 3.2.12. Ex. ORA-12: Revenue Allocation and Rate Design.
- 3.3. Customer Coalition requests its testimony be marked as follows, and admitted into the record:
 - 3.3.1. Ex. Customer Coalition-1: Prepared Direct Testimony of Geoffrey B. Inge, served on November 23, 2015; and
 - 3.3.2. Ex. Customer Coalition-2: Prepared Rebuttal Testimony of Geoffrey B. Inge, served on December 7, 2015.

² The current versions of ORA-1 and ORA-2 are revisions to the exhibits which ORA served on November 23, 2015.

4. TERMS AND CONDITIONS REGARDING REVENUE REQUIREMENT

- 4.1. **Overall Change in Rates.** The Settling Parties agree that the annual aggregate change in the Base Rate and Energy Cost Adjustment Clause revenue requirements will be an annual increase in the total amount of \$1.0 million. Liberty Utilities initially requested an overall annual increase of \$13.571 million³ and ORA had recommended an overall increase of \$ 3.613 million.⁴

Attached as Exhibit A to this Settlement is a summary of the Results of Operations showing the increase in total revenue requirement as a result of this Settlement, a revenue comparison from revenues at filing to revenues at Settlement, and total revenues for Test Year 2016.

- 4.2. **Overall Base Rate Revenue Requirement.** The Settling Parties agree to an overall 2016 Commission-jurisdictional Base Rate revenue requirement increase in the total amount of \$9.819 million. Liberty Utilities initially requested an overall annual Base Rate increase of \$11.40 million; ORA had recommended an overall increase of \$7.601 million.
- 4.3. **Overall Energy Cost Adjustment Clause Revenue Requirement.** The Settling Parties agree that the Energy Cost Adjustment Clause 2016 revenue requirement should be \$29.903 million, representing a decrease of \$11.020 million from the 2015 Energy Cost Adjustment Clause revenue requirement. The Settling Parties further agree that Energy Cost Adjustment Clause rates should be set presently based on a projection that Liberty Utilities shall have an overcollection in its Energy Cost Adjustment Clause balancing account as of September 30, 2016 in the amount of \$6,673,297 and that the overcollection should be amortized over a twenty-seven month period commencing October 1, 2016 and terminating December 31, 2018.
- 4.4. **Rate Base.** The Settling Parties agree that Liberty Utilities' total Rate Base is \$143.943 million.
- 4.5. **Return on Equity and Capitalization.** The Settling Parties agree to a return on equity of 10.00% and a capital structure of 47.5%/52.5% debt/equity. The Settling Parties also agree to a long-term debt cost of 4.92% and an overall rate of return of 7.51%.

Attached as Exhibit B is a Cost of Capital table with the agreed-upon capital structure, debt and equity costs, and rate of return. Liberty Utilities initially requested a return on equity of 10.5%⁵ and a capital structure of 45.0%/55.0%

³ Ex. Liberty Utilities-1, at 1-10:6-7.

⁴ Ex. ORA-1, at 2:6-7.

⁵ Ex. Liberty Utilities-2, at 2-4:19-20.

debt/equity.⁶ ORA initially recommended a return on equity of 9.71%⁷ and a capital structure of 51.63%/48.37% debt/equity.⁸

- 4.6. **Allowance for Funds Used During Construction.** The Settling Parties agree that Liberty Utilities shall use an Allowance for Funds Used During Construction rate of 6.558%.
- 4.7. **Taxes.** The Settling Parties agree on the federal and state tax rates used in Liberty Utilities' testimony.⁹
- 4.8. **Depreciation.** The Settling Parties agree to Liberty Utilities' proposed depreciation rate of 2.21%.¹⁰
- 4.9. **Forecasts of Sales and Energy Use Per Customer.** The Settling Parties agree to Liberty Utilities' proposed electric sales and energy use per customer forecasts.¹¹
- 4.10. **Forecast of Monthly Customer Accounts.** The Settling Parties agree to use ORA's recommendation of 46,683 customer accounts. Liberty Utilities had initially recommended a forecast of 46,910.
- 4.11. **Operations and Maintenance Expenses.** The Settling Parties agree to Operations and Maintenance Expenses of \$8.499 million for Test Year 2016. Liberty Utilities requested Operations and Maintenance Expenses of \$8.608 million; ORA recommended \$7.004 million.¹²
- 4.12. **Administrative and General Expenses.** The Settling Parties agree to Administrative and General Expenses of \$8.308 million for Test Year 2016. Liberty Utilities requested \$8.613 million;¹³ ORA recommended \$7.663 million.¹⁴

The Settling Parties also agree that Liberty Utilities should be authorized to reclassify its forecasted incremental rate case costs that are being recorded in a Miscellaneous Deferred Debit (FERC Account 186) to a Regulatory Asset (FERC Account 182) and amortize those costs over a 3-year period starting January 1, 2016 as an adjustment to recorded Administrative and General Expenses. The incremental rate case costs (and the associated accounts) for the 2013 and 2016 general rate cases remain subject to audit in Liberty Utilities' next general rate case proceeding.
- 4.13. **Franchise Fees and Uncollectible Rate.** The Settling Parties agree that Liberty Utilities shall apply a Franchise Fees and Uncollectible Rate of 1.3512%.
- 4.14. **General Rate Case Memorandum Account.** The Settling Parties agree that Liberty Utilities shall on the last day of the month before the month in which the

⁶ *Id.*, at 1-2:13–20.

⁷ Ex. ORA-9, at 1:14.

⁸ *Id.*, at 1:11–13.

⁹ See Ex. Liberty Utilities-1, at 4-1:1–4-8:13.

¹⁰ See Ex. Liberty Utilities-1, at 5-1:1–5-3:12.

¹¹ See Ex. Liberty Utilities-1, at 7-1:1–7-5:11.

¹² Ex. ORA-3, at 3:4–6.

¹³ Ex. Liberty Utilities-1, at Table 1-2A, page 3, line 27.

¹⁴ Ex. ORA-3, at 2:11–13.

rates to be approved in this proceeding become effective make a debit entry to its General Rate Case Memorandum Account in an amount equal to: (a) the difference for the period between (i) Liberty Utilities' current non-fuel generation and distribution Base Rate revenue requirement (inclusive of the Energy Efficiency and Vegetation Management balancing accounts) and (ii) the non-fuel generation and distribution Base Rate revenue requirement (inclusive of Solar Incentive Program, Catastrophic Event Memorandum Account, Energy Efficiency, and Vegetation Management balancing accounts) Liberty Utilities is being authorized to recover through rates in this Settlement; and (b) interest accrued on such difference calculated in the manner set forth in the General Rate Case Memorandum Account.

The Settling Parties further agree that Liberty Utilities shall recover in rates the amount recorded in the General Rate Case Memorandum Account, including interest accrued on the unrecovered balance in the General Rate Case Memorandum Account, over a 27 month period commencing October 1, 2016 and terminating on December 31, 2018.

Liberty Utilities shall also identify as a separate line item in its bills to customers the amount which is being collected through the General Rate Case Memorandum Account. To the extent necessary, Liberty Utilities shall submit revisions to the General Rate Case Memorandum Account tariff to be updated and otherwise consistent with the provisions of this Section 4.14.

- 4.15. **Energy Efficiency.** The Settling Parties agree to Energy Efficiency expenditures for Test Year 2016 of \$471,000, with the 3-year aggregate authorization of \$1.413 million. Liberty Utilities had requested \$495,000 annually¹⁵ and ORA had recommended \$445,417 annually.¹⁶ The Settling Parties further agree that Liberty Utilities shall maintain its current Energy Efficiency Balancing Account tariff and record in such account the difference between the \$1.413 million revenue requirement authorized for Energy Efficiency programs during 2016, 2017, and 2018 and Liberty Utilities' recorded Energy Efficiency programs expenses; provided Liberty Utilities shall update and revise its Energy Efficiency Balancing Account tariff to incorporate the revised revenue requirement authorized in, the resulting rates, and the time periods relevant to, this Settlement. The Settling Parties additionally agree that Liberty Utilities shall recover these amounts over a thirty-six month period through the implementation of the General Rate Case Memorandum Account and through the increase in general rates to be directly charged to customers starting October 1, 2016.
- 4.16. **Vegetation Management.** The Settling Parties agree that Liberty Utilities may recover Vegetation Management Program expenses of \$2.523 million annually¹⁷ and that the 3-year aggregate authorization is \$7.569 million. The Settling Parties further agree that Liberty Utilities will continue to identify the rates associated

¹⁵ Ex. Liberty Utilities-3, at 3-1:12-15.

¹⁶ Ex. ORA-5, at 5:12-13.

¹⁷ Ex. Liberty Utilities-3, at 1-2:15-18; *see also* Ex. ORA-10, at 2:2-3 (ORA did not recommend any adjustments to Liberty Utilities' request).

with its expenditures for the Vegetation Management Program as a separate line item on the bill to customers.¹⁸

The Settling Parties additionally agree that the current version in Liberty Utilities Preliminary Statement of the Vegetation Management Balancing Account tariff shall remain in effect, but shall be revised and amended to reflect the revised revenue requirement authorized in, and the time periods relevant to, this Settlement. The Settling Parties additionally agree that Liberty Utilities shall recover these amounts over a thirty-six month period through the implementation of the General Rate Case Memorandum Account and through the increase in general rates to be directly charged customers starting as of October 1, 2016.

4.17. ***Catastrophic Event Memorandum Account.*** The Settling Parties agree that Liberty Utilities recorded the amounts in its Catastrophic Event Memorandum Account in accordance with its Catastrophic Event Memorandum Account tariff, that the costs that Liberty Utilities incurred and recorded in its Catastrophic Event Memorandum Account were reasonable, and that the Commission should authorize its recovery of its Catastrophic Event Memorandum Account-incurred costs in accordance with the Catastrophic Event Memorandum Account tariff. The Settling Parties further agree that Liberty Utilities shall recover a principal amount of \$700,000 in each of 2016, 2017, and 2018, plus interest accrued on the unrecovered amounts. The Settling Parties additionally agree that Liberty Utilities shall recover these amounts over a thirty-six month period through the implementation of the General Rate Case Memorandum Account and through the increase in general rates to be directly charged customers starting as of October 1, 2016.

4.18. ***Solar Incentive Program.*** The Settling Parties agree that Liberty Utilities shall be authorized to implement the Solar Incentive Program proposed in its direct testimony, as modified by this Section 4.18. The start date for implementation of the Solar Incentive Program shall be October 1, 2016 and it shall run for an initial term of twenty-seven months terminating as of December 31, 2018; provided, however, that Liberty Utilities has the right to request authority to extend the term of this Solar Incentive Program and/or request authority to initiate a revised program to provide incentives for increased solar penetration in its service territory.

The Settling Parties further agree that Liberty Utilities shall recover its costs to fund and administer the Solar Incentive Program as an additional element of its Public Purpose Program Charges and allocated in the same manner as the Public Purpose Program Charges. Liberty Utilities shall be authorized in the manner provided in this Section 4.18 to recover \$371,000 in each 2016, 2017, and 2018 to fund the Solar Incentive Program. The Settling Parties additionally agree that Liberty Utilities shall recover the amounts to fund the Solar Incentive Program through the implementation of the General Rate Case Memorandum Account and through the increase in general rates to be directly charged customers starting as of October 1, 2016.

¹⁸ D.15-10-030, mimeo at 17 (Ordering Paragraph No. 2).

Liberty Utilities shall establish the Solar Incentive Program Balancing Account to track collections and expenditures for the Solar Incentive Program. A copy of the agreed-upon form of Solar Incentive Program Balancing Account tariff is attached hereto as Exhibit C.

- 4.19. **Electric Vehicle Tariff.** The Settling Parties agree that Liberty Utilities shall be authorized to implement the Electric Vehicle Time-of-Use Domestic Service and Electric Vehicle Time-of-Use Small General Service tariffs in the manner and form Liberty Utilities proposed in its testimony,¹⁹ but such tariff shall be revised and amended to reflect the revised revenue requirement authorized in, and the time periods relevant to, this Settlement.
- 4.20. **Voluntary Curtailment Tariff.** The Settling Parties agree that Liberty Utilities shall be authorized to submit a Tier 2 Advice Letter to establish a tariff to implement a permanent voluntary curtailment program in the manner described in its testimony.²⁰

5. TERMS AND CONDITIONS REGARDING REVENUE ALLOCATION AND RATE DESIGN

- 5.1. **Marginal Cost Study.** The Marginal Cost Study Liberty Utilities presented in Ex. Liberty Utilities-6 is used as the basis for the revenue allocation and rate design proposed below. Liberty Utilities' revised Marginal Cost Study incorporated the correction of some arithmetic errors ORA identified and also adopted the revised marginal energy costs and marginal customer cost methods ORA proposed. In the preparation of its 2019 general rate case proceeding, Liberty Utilities shall use its best efforts to propose an alternative to its current "backcast" methodology for purposes of developing its Marginal Cost Study and shall meet with ORA three (3) months before submitting its Application and report on the status of its efforts to use a different methodology to develop the Marginal Cost Study it shall use in its Application.²¹
- 5.2. **Revenue Allocation.** The Settling Parties agree, based on the Liberty Utilities' revised Marginal Cost Study and deploying agreed-on revisions, on the total revenue requirement (i.e., Base Rates and Energy Cost Adjustment Clause rates). Such revision resulted in the following percentage decreases in revenue allocation: Residential customers (8.64%), A-1 customers (12.00%), A-2 customers (12.00%), A-3 customers (10.95%), Streetlight customers (0.06%), Outdoor Lighting customers (7.98%), and Interruptible Irrigation customers (PA Schedule) (0.44%). In each case these decreases compare revenues at present rates and forecast 2016 sales and customers with revenues at proposed rates and forecast 2016 sales and customers. This revenue allocation does not include the revenues that are to be collected from a variety of program costs – such as Energy Efficiency, that are proposed to be collected on an equal cents/kWh basis.

¹⁹ Ex. Liberty Utilities-4, at 3, 3-17:1-3-20:8, Attachment A.

²⁰ Ex. Liberty Utilities-4, at 3-21:7-3-24:8.

²¹ E.g., an alternative method that makes use of actual or recorded data.

Liberty Utilities initially proposed reallocation of class revenue requirements based on Equal Percentage of Marginal Cost (“EPMC”) constrained by an 8.34% cap.²² ORA proposed a reallocation of class revenue requirements based on System Average Percent Change (“SAPC”) with its calculated SAPC of (6.79)% as a floor and 0% as a cap.²³ Customer Coalition proposed removing Liberty Utilities’ proposed cap.²⁴ Attached is Exhibit D, which provides the settlement among the Settling Parties on revenue allocation.

5.3. **Revenue Allocation of Vegetation Management Program Expenses.** Exhibit E shows the results of the revenue allocation of the \$2.523 million agreed upon Vegetation Management Program annual expense. Liberty Utilities initially proposed a separate allocation of the expenses associated with the Vegetation Management Program on an equal cents/kWh-per-kilowatt-hour basis.²⁵ Customer Coalition proposed allocations of Vegetation Management Program costs to be based on miles of overhead lines, number of customers in each class, and miles of secondary voltage lines versus primary voltage lines. The Settling Parties agreed to allocate the Vegetation Management Program costs in the same proportion they were allocated in the settlement of Liberty Utilities’ 2013 general rate case (D.12-11-030). As in the 2013 Liberty Utilities general rate case proceeding, the allocation to the A-3 customer class will be collected through a customer charge.

5.4. **Rate Design**

5.4.1. **Residential Customer Rates.** The rate design incorporates a residential monthly Customer Charge of \$6.56 and maintenance of the 17% composite tier differential between the residential tiers. Liberty Utilities initially proposed a Customer Charge of \$7.67 per month with a volumetric energy rate.²⁶ ORA proposed no increase to the existing residential Customer Charge of \$7.10.²⁷ This settlement position results in rates for Residential Customers as summarized in Exhibit F.

5.4.2. **A-3 Customer Rates.** Rate design for the A-3 customer class includes a decrease in the A-3 Customer Charge, a decrease in certain demand charges, and a decrease in all A-3 total Energy Rates. Vegetation Management Program costs allocated to the A-3 customer class are allocated as described in Section 5.3 above, and will be recovered through a fixed monthly per-customer charge. The agreed-upon rates for A-3 customers are summarized in Exhibit G.

5.4.3. **All Other Rates.** The Settling Parties agree to a rate design for all other customers as summarized in Exhibit H.

²² Ex. Liberty Utilities-4, at 2-1:14–2-3:13.

²³ Ex. ORA-12, at 30:9–17.

²⁴ Ex. Customer Coalition, at 3:14-16.

²⁵ Ex. Liberty Utilities-4, at 2-4:15–19.

²⁶ Ex. Liberty Utilities-4, at 3-5:9–10.

²⁷ Ex. ORA-12, at 33:20–34:2.

6. Other Terms and Conditions

- 6.1. **Commission's Primary Jurisdiction.** The Settling Parties agree that the Commission has primary jurisdiction over any interpretation, enforcement, or remedies regarding this Settlement. None of the Settling Parties may bring an action regarding this Settlement in any court or before another administrative agency without having first exhausted its administrative remedies at the Commission.
- 6.2. **Further Actions.** The Settling Parties acknowledge that this Settlement is subject to approval by the Commission. As soon as practicable after all the Settling Parties have signed the Settlement, the Settling Parties through their respective attorneys will prepare and file the Settlement Approval Motion. The Settling Parties will furnish such additional information, documents, or testimonies as the Commission may require for purposes of granting the Settlement Approval Motion and approving and adopting the Settlement.
- 6.3. **No Personal Liability.** None of the Settling Parties, or their respective employees, attorneys, or any other individual representative or agent, assumes any personal liability as a result of the Settling Parties signing this Settlement.
- 6.4. **Non-Severability.** The provisions of this Settlement are non-severable. If any of the Settling Parties fails to perform its respective obligations under this Settlement, the Settlement will be regarded as rescinded.
- 6.5. **Voluntary and Knowing Acceptance.** Each Settling Party hereto acknowledges and stipulates that it is agreeing to this Settlement freely, voluntarily, and without any fraud, duress, or undue influence by any other Settling Party. Each Settling Party has read and fully understands its rights, privileges, and duties under this Settlement, including its right to discuss this Settlement with its legal counsel, which has been exercised to the extent deemed necessary.
- 6.6. **No Modification.** This Settlement constitutes the entire Settlement among the Settling Parties regarding the matters set forth herein, which may not be altered, amended, or modified in any respect except in writing and with the express written and signed consent of all the Settling Parties hereto. All prior settlements, agreements, or other understandings, whether oral or in writing, regarding the matters set forth in this Settlement are expressly waived and have no further force or effect.
- 6.7. **No Reliance.** None of the Settling Parties has relied or presently relies on any statement, promise, or representation by any other Settling Party, whether oral or written, except as specifically set forth in this Settlement. Each Settling Party expressly assumes the risk of any mistake of law or fact made by such Settling Party or its authorized representative.
- 6.8. **Counterparts.** This Settlement may be executed in separate counterparts by the different Settling Parties hereto and all so executed will be binding and have the same effect as if all the Settling Parties had signed one and the same document. All such counterparts will be deemed to be an original and together constitute one

and the same Settlement, notwithstanding that the signatures of all the Settling Parties and/or of a Settling Party's attorney or other representative do not appear on the same page of this Settlement or the related Settlement Approval Motion.

- 6.9. ***Binding upon Full Execution.*** This Settlement will become effective and binding on each of the Settling Parties as of the date when it is fully executed. It will also be binding upon each of the Settling Parties' respective successors, subsidiaries, affiliates, representatives, agents, officers, directors, employees, and personal representatives, whether past, present, or future.
- 6.10. ***Commission Adoption Not Precedential.*** In accordance with Rule 12.5, the Settling Parties agree and acknowledge that unless the Commission expressly provides otherwise, its adoption of this Settlement does not constitute approval of or precedent regarding any principle or issue of law or fact in this or any other current or future proceeding.
- 6.11. ***Enforceability.*** The Settling Parties agree and acknowledge that after issuance of a Commission decision approving and adopting this Settlement, the Commission may reassert jurisdiction and reopen this proceeding to enforce the terms and conditions of this Settlement.
- 6.12. ***Finality.*** Once fully executed by the Settling Parties and adopted and approved by a Commission decision, this Settlement fully and finally settles any and all disputes among and between the Settling Parties in this proceeding, unless otherwise specifically provided in the Settlement.
- 6.13. ***No Admission.*** Nothing in this Settlement or related negotiations may be construed as an admission of any law or fact by any of the Settling Parties, or as precedential or binding on any of the Settling Parties in any other proceeding, whether before the Commission, in any court, or in any other state or federal administrative agency. Further, unless expressly stated herein this Settlement does not constitute an acknowledgement, admission, or acceptance by any of the Settling Parties regarding any issue of law or fact in this matter, or the validity or invalidity of any particular method, theory, or principle of ratemaking or regulation in this or any other proceeding.
- 6.14. ***Authority to Sign.*** Each Settling Party who executes this Settlement represents and warrants to each other Settling Party that the individual signing this Settlement and the related Settlement Approval Motion has the legal authority to do so on behalf of the Settling Party.
- 6.15. ***Limited Admissibility.*** Each Settling Party signing this Settlement agrees and acknowledges that this Settlement will be admissible in any subsequent Commission proceeding for the sole purpose of enforcing the Terms and Conditions of this Settlement.
- 6.16. ***Estoppel or Waiver.*** Unless expressly stated herein, the Settling Parties' execution of this Settlement is not intended to provide any of the Settling Parties in any manner a basis of estoppel or waiver in this or any other proceeding.
- 6.17. ***Rescission.*** If the Commission, any court, or any other state or federal administrative agency, rejects or materially alters any provision of the Settlement,

it will be deemed rescinded by the Settling Parties and of no legal effect as of the date of issuance of the Commission decision or final ruling, decision, or modification by any court or any other state or federal administrative agency, rejecting or materially altering the Settlement. The Settling Parties may negotiate in good faith regarding whether they want to accept the changes by the Commission, any court, or any other state or federal administrative agency, and resubmit a revised Settlement to the Commission.


7. Conclusion

- 7.1. Each of the Settling Parties has executed this Settlement as of the date appearing below their respective signatures.

[SIGNATURES PAGE FOLLOWS NEXT]

IN WITNESS WHEREOF, the Settling Parties have each executed this Settlement on the date stated below.

**LIBERTY UTILITIES (CALPECO
ELECTRIC) LLC**



Gregory S. Sorenson, President
Dated: May __, 2016

A-3 CUSTOMER COALITION

**OFFICE OF RATEPAYER
ADVOCATES**

Brian Cragg
Attorney for A-3 Customer Coalition
Dated: May __, 2016

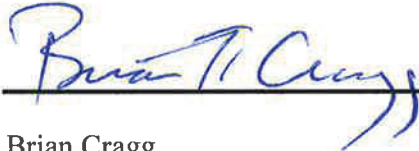
Elizabeth Echols, Director
Dated: May __, 2016

IN WITNESS WHEREOF, the Settling Parties have each executed this Settlement on the date stated below.

**LIBERTY UTILITIES (CALPECO
ELECTRIC) LLC**

Gregory S. Sorenson, President
Dated: May __, 2016

A-3 CUSTOMER COALITION



Brian Cragg
Attorney for A-3 Customer Coalition
Dated: May 18, 2016

**OFFICE OF RATEPAYER
ADVOCATES**

Elizabeth Echols, Director
Dated: May __, 2016

IN WITNESS WHEREOF, the Settling Parties have each executed this Settlement on the date stated below.


**LIBERTY UTILITIES (CALPECO
ELECTRIC) LLC**

Gregory S. Sorenson, President
Dated: May __, 2016

A-3 CUSTOMER COALITION

**OFFICE OF RATEPAYER
ADVOCATES**

Brian Cragg
Attorney for A-3 Customer Coalition
Dated: May __, 2016



Elizabeth Echols, Director
Dated: May 18, 2016

EXHIBIT A

Results of Operations

LIBERTY UTILITIES (CALPECO ELECTRIC) LLC
SUMMARY OF RESULTS OF OPERATIONS - TOTAL ELECTRIC
FOR THE FORECASTED TWELVE MONTHS ENDING DECEMBER 31, 2016
(\$ IN THOUSANDS)

Ln. No.	(a) Items	(b) Forecast Results of Operations at Present Rates	(c) ECAC, Energy Efficiency, and Vegetation Management Revenues at Present Rates	(d) Forecast Base Rate Revenues at Present Rates <i>[col. (b) - col. (c)]</i>	(e) Additional Base Rate Revenues Required	(f) Base Rate Revenue Requirement at Settlement Rates <i>[col. (d) + col. (e)]</i>	(g) ECAC, Vegetation Management, CEMA, Energy Efficiency, Solar Incentive Revenues at Settlement Rates	(h) Total Revenue Requirement at Settlement Rates <i>[col. (f) + col. (g)]</i>	Ln. No.
1	Operating Revenues								1
2	Sales Revenue	73,688.98	39,973.40	33,715.58	9,818.97	43,534.55	29,903.00	73,437.55	2
3	Other Operating Revenue	433.70	-	433.70	-	433.70	-	433.70	3
4	Revenue Credits	1,365.80	-	1,365.80	-	1,365.80	-	1,365.80	4
5	Energy Efficiency (EE)	367.00	367.00	-	-	-	471.00	471.00	5
6	Solar Initiative Program (SIP)	-	-	-	-	-	370.80	370.80	6
7	Vegetation Management (VM)	2,500.00	2,500.00	-	-	-	2,522.50	2,522.50	7
8	Catastrophic Event Memo Acct. (CEMA)	-	-	-	-	-	700.14	700.14	8
9	Total Operating Revenues	78,355.48	42,840.40	35,515.08	9,818.97	45,334.05	33,967.44	79,301.48	9
10									10
11	Operating Expenses								11
12	Fuel & Purchased Power	39,973.00	39,973.40	(0)	-	(0)	29,903.00	29,902.60	12
13	ECAC	-	-	-	-	-	-	-	13
14	Total Fuel & Purchased Power Expense	39,973.00	39,973.40	(0)	0	(0)	29,903.00	29,902.60	14
18	VM, CEMA, EE, SIP	2,867.00	2,867.00	-	-	-	4,064.00	4,064.00	18
15	Other O&M Expense	16,807.50	-	16,807.50	3.44	16,810.94	-	16,810.94	15
16	Total Operation & Maintenance	59,647.50	42,840.40	16,807.10	3.44	16,810.54	33,967.00	50,777.54	16
17	Depreciation & Amortization Expense	6,357.60	-	6,357.60	-	6,357.60	-	6,357.60	17
19	Taxes Other Than Income	4,856.36	-	4,856.36	112.03	4,968.39	-	4,968.39	19
20	Deferred Income Taxes	6,357.80	-	6,357.80	-	6,357.80	-	6,357.80	20
21	Amortization of ITC	-	-	-	-	-	-	-	21
22	Federal Income Tax	(3,422.10)	-	(3,422.10)	3,018.69	(403.41)	-	(403.41)	22
23	California Corporate Franchise Tax	(429.50)	-	(429.50)	860.97	431.47	-	431.47	23
24	Total Operating Expenses	73,367.66	42,840.00	30,527.26	3,995.13	34,522.38	33,967.00	68,489.38	24
25									25
26	Operating Income	4,987.83	0.00	4,987.83	5,823.84	10,811.67	0.44	10,812.10	26
27									27
28	Rate Base								28
29	Gross Plant in Service	270,183.80	0.00	270,183.80	0.00	270,183.80	0.00	270,183.80	29
30	Accum Prov for Depr & Amort	(76,749.10)	-	(76,749.10)	-	(76,749.10)	-	(76,749.10)	30
31	Net Plant in Service	193,434.70	-	193,434.70	-	193,434.70	-	193,434.70	31
32									32
33	Additions								33
34	Construction Work In Progress	-	-	-	-	-	-	-	34
35	Materials & Supplies	4,011.30	-	4,011.30	-	4,011.30	-	4,011.30	35
36	Prepayments	319.10	-	319.10	-	319.10	-	319.10	36
37	Other Additions	-	-	-	-	-	-	-	37
38	Working Capital	3,604.72	-	3,604.72	(1,438.64)	2,166.08	-	2,166.08	38
39	Total Additions	7,935.12	-	7,935.12	(1,438.64)	6,496.48	-	6,496.48	39
40									40
41	Deductions								41
42	Customer Advances for Construction	(13,437.20)	-	(13,437.20)	-	(13,437.20)	-	(13,437.20)	42
43	Accumulated Deferred Income Tax	(19,426.50)	-	(19,426.50)	-	(19,426.50)	-	(19,426.50)	43
44	Other Deductions	(23,124.00)	-	(23,124.00)	-	(23,124.00)	-	(23,124.00)	44
45	Total Deductions	(55,987.70)	-	(55,987.70)	-	(55,987.70)	-	(55,987.70)	45
46									46
47	Rate Base	145,382.12	0.00	145,382.12	(1,438.64)	143,943.48	0.00	143,943.48	47
48									48
49	Rate of Return (%)	3.43%		3.43%		7.51%		7.51%	49

EXHIBIT B

Weighted Cost of Capital

LIBERTY UTILITIES (CALPECO ELECTRIC) LLC
WEIGHTED COST OF CAPITAL
FOR THE FORECAST PERIOD ENDING DECEMBER 31, 2016

Ln No	(a) <u>Description</u>	(b) <u>Capital Amount (\$000)</u>	(c) <u>Capital Ratio</u>	(d) <u>Cost of Capital</u>	(e) <u>Weighted Cost of Capital</u>	Ln No
1	Debt					1
2	Short-Term Debt	5,058	1.84%	1.47%	0.03%	2
3	Customer Deposits	698	0.25%	0.12%	0.00%	3
5	Long-Term Debt	124,935	45.41%	4.92%	2.23%	5
6						6
7	Total Debt	130,691	47.50%	6.51%	2.261%	7
8						8
9						9
	Equity					10
11	Common Stock	1,268	0.46%	10.00%	0.05%	11
12	Preferred Equity	0	0.00%	10.00%	0.00%	12
13	Common Equity	143,176	52.04%	10.00%	5.20%	13
14						14
15	Total Equity	144,444	52.50%	10.00%	5.25%	15
16						16
17						17
18	Total Capital	275,135	100.00%		7.51%	18
19						19
20						20

EXHIBIT C

Solar Initiative Program Balancing Account Tariff

PRELIMINARY STATEMENT
(Continued)

21. SOLAR INITIATIVE PROGRAM BALANCING ACCOUNT

Liberty Utilities (CalPeco Electric) LLC (Liberty shall maintain a Solar Initiative Program Balancing Account (SIPBA)).

A. Purpose

The purpose of the SIPBA is to record the difference between the 3-year revenue requirement of \$1,113,000 for the Solar Initiative Program expense the Commission authorized for Liberty in its 2016 General Rate Case (GRC) Decision (16-09-____) and Liberty's recorded Solar Initiative Program expenses.

B. Applicability

The SIPBA is applicable to all rate schedules.

C. SIPBA rates

The SIPBA has a rate component. The Solar Initiative Program rate will be collected on an equal cents per kilowatt basis at a rate of \$0.00061 per kWh.

D. Accounting Procedures

Liberty shall maintain the SIPBA by making entries at the end of each month as follows:

1. A debit entry equal to Liberty's recorded Solar Initiative Program expense for the month.
2. A credit entry equal to the revenue collected during the month through the Solar Initiative Program rate.
3. Liberty shall apply interest to the average net balance in the SIPBA at a rate equal to one-twelfth the interest rate on three-month Commercial Paper for the previous month as reported in the Federal Reserve Statistical Release, H.15, or its successor publication. Accumulated interest will be included in the amount on which interest is accrued, but will be identified as a separate component of the SIPBA.

The Solar Initiative Program will be fully funded for the calendar years 2016, 2017 and 2018. As Liberty will not directly charge its customers the rates authorized in the 2016 GRC until a date after January 1, 2016, Liberty shall make the following entry in the last day of the month in which the Commission issues its final decision authorizing such revised rates:

A credit entry equal to \$30,916.67 times the number of months from January 2016 until the month that the Commission issues a decision in the 2016 GRC¹.

E. Effective Date

The SIPBA shall become effective on the last day of the month in which the Commission issues its final decision in the 2016 GRC authorizing such revised rates and shall terminate in accordance with Section F.

F. Account Disposition

The SIPBA is a one-way balancing account. Liberty in its next GRC application shall include a summary of the entries to the SIPBA and a proposal for the disposition of any credit balance in the account; provided that Liberty in its next GRC application shall have the right to seek the authority to extend the SIPBA and include in such request a proposal for the disposition of any such credit balance.

¹ The corresponding debit amount will be recorded to the GRC Memorandum Account and collected as outlined in the GRC Memorandum Account Balancing Account tariff.

Advice Letter No. _____
Decision No. _____

Issued by
Gregory S. Sorensen
Name
President
Title

Date Filed _____
Effective _____
Resolution No. _____

EXHIBIT D

Revenue Allocation Among Customer Classes

EXHIBIT D

Revenue Allocation Among Customer Classes

(a) Customer Class	(b) Base Rate Revenues at Present Rates ¹	(c) Settlement Base Rate Revenue Allocation w/EPMC ²	(d) Change Compared to Base Rate Revenue at Present Rates w/EPMC [100*(col (c) / col (b))-1]	(e) Settlement Base Rate Revenue Allocation w/EPMC and Agreed-on Shift	(f) Change Compared to Base Rate Revenue at Present Rates w/EPMC and Agree-on Shift [100*(col (e) / col(b))-1]
Residential	\$40,107,360	\$36,753,950	(8.36)%	\$36,641,051	(8.64)%
A-1	\$16,091,991	\$14,152,793	(12.05)%	\$14,160,952	(12.00)%
A-2	\$7,612,881	\$6,500,510	(14.61)%	\$6,699,335	(12.00)%
A-3	\$17,438,003	\$15,576,386	(10.68)%	\$15,529,058	(10.95)%
Street Lights (SL)	\$71,188	\$83,184	16.85%	\$71,147	(0.06)%
Outdoor Lighting (OL)	\$158,921	\$146,683	(7.70)%	\$146,237	(7.98)%
Irrigation (PA)	\$161,370	\$194,667	20.63%	\$160,659	(0.44)%
Totals	\$81,641,713	\$73,408,174	(10.08)%	\$73,408,440 ³	(10.08)%

¹ Does not include revenues collected for Energy Efficiency, Energy Cost Adjustment Clause, and Vegetation Management.

² Settlement Base Rate Revenues additionally do not include Catastrophic Event Memorandum Account and Solar Incentive Program revenues.

³ Nominal difference between column (c) and column (e) due to rounding.

EXHIBIT E

Revenue Allocation by Customer Class of the Vegetation Management Program

EXHIBIT E

Revenue Allocation by Customer Class of the Vegetation Management Program

Customer Class	Allocation of Vegetation Management Program Cost Recovery	Vegetation Management Program Rate (\$/kWh)
Residential	\$1,290,513	\$0.00430
A-1	\$477,896	\$0.00430
A-2	\$279,271	\$0.00498
A-3	\$461,790	N/A ¹
Street Lights (SL)	\$2,415	\$0.00698
Outdoor Lighting (OL)	\$2,802	\$0.00431
Irrigation (PA)	\$8,301	\$0.00430

¹ A-3 Customers will pay a monthly Customer Charge at a flat rate of \$675.13.

EXHIBIT F

Rate Design - Residential and CARE Customer Class

EXHIBIT F

Rate Design - Residential and CARE Customer Class

D-1 Residential Service	Present	Settlement
Customer Charge (\$/Month)	\$7.10	\$6.56

CARE¹ – CARE Domestic Service	Present	Settlement
CARE Customer Charge (\$/Month)	\$5.68	\$5.25

Energy Charges Up to Baseline Quantities (\$/kWh)

	Distribution Charges	Public Purpose Program Charges	Generation Charges
Residential Present	\$0.04735	\$0.00260	\$0.05908
Residential Settlement	\$0.05258	\$0.00275	\$0.04195
CARE Present	\$0.02574	\$0.00107	\$0.05908
CARE Settlement	\$0.03226	\$0.00113	\$0.04195

Energy Charges Above Baseline Quantities (\$/kWh)

	Distribution Charges	Public Purpose Program Charges	Generation Charges
Residential Present	\$0.04735	\$0.00260	\$0.08846
Residential Settlement	\$0.05258	\$0.00275	\$0.06808
CARE Present	\$0.01978	\$0.00107	\$0.08846
CARE Settlement	\$0.02703	\$0.00113	\$0.06808

¹ Rates for California Alternate Rates for Energy Program.

EXHIBIT G

Rate Design – A-3 Customer Class

EXHIBIT G
Rate Design – A-3 Customer Class

A-3 Large General Service	Present	Settlement
Customer Charge (\$/Meter/Month)	\$643.48	\$349.91
Demand Charges (\$/kW of Billing Demand/Month)		
Winter On-Peak	\$6.32	\$6.01
Winter Mid-Peak	\$2.49	\$2.27
Summer On-Peak	\$12.49	\$9.92
Facilities Charge (\$/kW of Maximum Demand/Month)	\$3.87	\$3.87

Energy Charges (\$/kWh)

	Distribution Charges	Public Purpose Program Charges	Generation Charges
Present			
Winter On-Peak	\$0.01536	\$0.00260	\$0.06006
Winter Mid-Peak	\$0.01312	\$0.00260	\$0.06126
Winter Off-Peak	\$0.00692	\$0.00260	\$0.04903
Summer On-Peak	\$0.02034	\$0.00260	\$0.05991
Summer Off-Peak	\$0.01099	\$0.00260	\$0.04531
Settlement			
Winter On-Peak	\$0.01167	\$0.00275	\$0.05348
Winter Mid-Peak	\$0.00997	\$0.00275	\$0.05460
Winter Off-Peak	\$0.00526	\$0.00275	\$0.04397
Summer On-Peak	\$0.01546	\$0.00275	\$0.05335
Summer Off-Peak	\$0.00835	\$0.00275	\$0.04078

EXHIBIT H

Rate Design – Other Customer Classes

EXHIBIT H

Rate Design – Other Customer Classes

Schedule No. A-1

A-1 Small General Service	Present	Settlement
Customer Charge (\$/Meter/Month)	\$13.44	\$11.83

Energy Charges (\$/kWh)

	Distribution Charges	Public Purpose Program Charges	Generation Charges
Present	\$0.05150	\$0.00260	\$0.08583
Settlement	\$0.06027	\$0.00275	\$0.06059

Schedule No. A-2

A-2 Medium General Service	Present	Settlement
Customer Charge (\$/Meter/Month)	\$92.54	\$29.79
Demand Charges (\$/kWh)		
Summer	\$5.08	\$5.54
Winter	\$7.81	\$8.52

Energy Charges (\$/kWh)

	Distribution Charges	Public Purpose Program Charges	Generation Charges
Present			
Summer	\$0.00000	\$0.00260	\$0.11866
Winter	\$0.01577	\$0.00260	\$0.06103
Settlement			
Summer	\$0.00000	\$0.00275	\$0.10030
Winter	\$0.02673	\$0.00275	\$0.03355

Schedule No. PA

PA – Optional Interruptible Irrigation Service	Present	Settlement
Customer Charge (\$/Customer/Month)	\$13.44	\$11.83

Energy Charges (\$/kWh)

	Distribution Charges	Public Purpose Program Charges	Generation Charges
Present	\$0.01082	\$0.00260	\$0.07150
Settlement	\$0.01667	\$0.00275	\$0.06547

Schedule No. SL/OL- Street and Outdoor Lighting

High Pressure Sodium Streetlights Rates (\$/Lamp/Month)

Lamp Type (Lumen)	kWh/Month	Distribution Charges*	Public Purpose Program Charges*	Generation Charges*
Present				
5,800	29	\$8.10	\$0.07	\$2.81
9,500	41	\$8.12	\$0.10	\$3.55
22,000	79	\$8.78	\$0.21	\$6.23
Settlement				
5,800	29	\$9.96	\$0.07	\$1.66
9,500	41	\$9.98	\$0.11	\$2.11
22,000	79	\$10.79	\$0.22	\$4.06

High Pressure Sodium Outdoor Lights Present Rates (\$/Lamp/Month)

Lamp Type (Lumen)	kWh/Month	Distribution Charges*	Public Purpose Program Charges*	Generation Charges*
Present				
5,800	29	\$6.48	0.07	\$2.42
9,500	41	\$6.64	0.10	\$3.11
16,000	67	\$6.92	0.17	\$4.59
22,000	85	\$7.36	0.22	\$5.66
Settlement				
5,800	29	\$6.69	\$0.08	\$1.50
9,500	41	\$6.85	\$0.11	\$2.13
16,000	67	\$7.14	\$0.18	\$3.48
22,000	85	\$7.60	\$0.24	\$4.39

*The charges have been rounded to two decimal places.

ATTACHMENT B

REVISED SUMMARY OF RESULTS OF OPERATIONS

LIBERTY UTILITIES (CALPECO ELECTRIC) LLC
 REVISED SUMMARY OF RESULTS OF OPERATIONS - TOTAL ELECTRIC
 FOR THE FORECASTED TWELVE MONTHS ENDING DECEMBER 31, 2016
 (IN THOUSANDS)

Ln. No.	(a) Development of Return	(b) Forecast Results of Operations	(c) Less ECAC & Vegetation Management	(d) Forecast Results Ex ECAC {col. (a) - col. (c)}	(e) Additional Revenue Required	(f) Repair Deduction Flow Through	(g) General Rate Revenue Requirement {col. (d) + col. (e) + col. (f)}	(h) Plus ECAC, VM, CEMA EE and SIP	Amended II V24 plant and tax calcs		Ln. No.
									(i) Total Revenue Requirement {col. (f) + col. (g)}		
1	Operating Revenues										1
2	Sales Revenue	\$ 73,689	\$ (39,973)	\$ 33,716	\$ 10,025	\$ (1,707)	\$ 42,033	\$ 29,903	\$ 71,936		2
3	Other Operating Revenue	434	-	434	-	-	434	-	434		3
4	Revenue Credits	1,366	-	1,366	-	-	1,366	-	1,366		4
5	Energy Efficiency (EE)	367	(367)	-	-	-	-	471	471		5
6	Solar Initiative Program (SIP)	-	-	-	-	-	-	371	371		6
7	Vegetation Management (VM)	2,500	(2,500)	-	-	-	-	2,523	2,523		7
8	Catastrophic Event Memo Acct. (CEMA)	-	-	-	-	-	-	700	700		8
9	Total Operating Revenues	78,355	(42,840)	35,515	10,025	(1,707)	43,833	33,967	77,800		9
10											10
11	Operating Expenses										11
12	Fuel & Purchased Power	39,973	(39,973)	(0)	-	-	(0)	29,903	29,903		12
13	ECAC	-	-	-	-	-	-	-	-		13
14	Total Fuel & Purchased Power Expense	39,973	(39,973)	(0)	0	-	(0)	29,903	29,903		14
18	VM, CEMA, EE, SIP	2,867	(2,867)	-	-	-	-	4,064	4,064		18
15	Other O&M Expense	16,808	-	16,808	4	-	16,811	-	16,811		15
16	Total Operation & Maintenance	59,648	(42,840)	16,807	4	0	16,811	33,967	50,778		16
17	Depreciation & Amortization Expense	6,358	-	6,358	-	-	6,358	-	6,358		17
19	Taxes Other Than Income	4,856	-	4,856	114	-	4,971	-	4,971		19
20	Deferred Income Taxes	6,358	-	6,358	-	(1,707)	4,651	-	4,651		20
21	Amortization of ITC	-	-	-	-	-	-	-	-		21
22	Federal Income Tax	(3,428)	-	(3,428)	3,082	-	(346)	-	(346)		22
23	California Corporate Franchise Tax	(431)	-	(431)	879	-	448	-	448		23
24	Total Operating Expenses	73,360	(42,840)	30,520	4,079	(1,707)	32,891	33,967	66,858		24
25											25
26	Operating Income	\$ 4,995	\$ -	\$ 4,995	\$ 5,946	\$ -	\$ 10,941	\$ 0	\$ 10,942		26
27											27
28	Rate Base										28
29	Gross Plant in Service	\$ 270,184	\$ -	\$ 270,184	\$ -	\$ -	\$ 270,184	\$ -	\$ 270,184		29
30	Accum Prov for Depr & Amort	(76,749)	-	(76,749)	-	-	(76,749)	-	(76,749)		30
31	Net Plant in Service	193,435	-	193,435	-	-	193,435	-	193,435		31
32											32
33	Additions										33
34	Construction Work In Progress	-	-	-	-	-	-	-	-		34
35	Materials & Supplies	4,011	-	4,011	-	-	4,011	-	4,011		35
36	Prepayments	319	-	319	-	-	319	-	319		36
37	Other Additions	-	-	-	-	-	-	-	-		37
38	Working Capital	3,607	-	3,607	(1,469)	-	2,139	-	2,139		38
39	Total Additions	7,938	-	7,938	(1,469)	-	6,469	-	6,469		39
40											40
41	Deductions										41
42	Customer Advances for Construction	(13,437)	-	(13,437)	-	-	(13,437)	-	(13,437)		42
43	Accumulated Deferred Income Tax	(17,680)	-	(17,680)	-	-	(17,680)	-	(17,680)		43
44	Other Deductions	(23,124)	-	(23,124)	-	-	(23,124)	-	(23,124)		44
45	Total Deductions	(54,241)	-	(54,241)	-	-	(54,241)	-	(54,241)		45
46											46
47	Rate Base	\$ 147,131	\$ -	\$ 147,131	\$ (1,469)	\$ -	\$ 145,662	\$ -	\$ 145,662		47
48											48
49	Rate of Return (%)	3.40%		3.40%			7.51%		7.51%		49

(End of Attachment B)

ATTACHMENT C

REPAIR DEDUCTION - FLOW - THROUGH IMPACT CHART

Liberty Utilities (CalPeco Electric) LLC
 Repair Deduction - Flow Through
 000's

Ln #	(a)	(b)	(c)
	Reduction in Deferred Income Taxes Caused by Flow Through (California Jurisdiction)		
1	Projected 2016 Repair Deduction Incorporated into Settlement RO Model		\$ 5,071
2	Federal Income Tax Rate		34%
3			<u>1,724</u>
4	Percentage Applicable to California Jurisdiction		99%
5			<u>1,707</u> ¹
6	Reduction in Deferred Income Taxes Caused by Flow Through (California Jurisdiction)		\$ 1,707 ¹
7			
8			
9			
10			
11	Increase in Additional Revenue Required Attributable to Flow Through Repair Deduction		
12			
13	Additional Revenue Required as Per the Settlement RO, Attachment A, Line 9 (g)		<u>\$ 9,819</u>
14			
15	Return on Additional Rate Base - Flow Through of Repair Deduction		
16	Decrease in Accumulated Deferred Income Taxes	\$ 1,747 ²	
17	Decrease in Working Capital	<u>(27)³</u>	
18		1,720	
19	Return on Additional Rate Base		131 ⁴
20			
21	Taxes on Return on Additional Rate Base		
22	Federal		57
23	State		<u>17</u>
24	Offsetting Increase in Additional Revenue Requirement		<u>205</u>
25			
26	Revised Additional Revenue Required		<u>\$ 10,024</u> ⁵
27			
28			
29	Overall Reduction to Total Operating Revenue (In 6 col (c) - In 24 col (c))		<u>\$ 1,501</u> ⁶
30			

¹ Attachment A, Line 20, Column (f)

² Attachment A, Line 43

³ Attachment A, Line 38

⁴ Rate of Return of 7.51%

⁵ Attachment A, Line 9, Column (e)

⁶ See Attachment B, Line 1

(End of Attachment C)

ATTACHMENT D

Revised Comparison Exhibit

A.15-05-008 ALJ/KK3/lil

Line Item	Issue	Current Status	Liberty Utilities Request in Application	ORA Response in Testimony	A-3 Customer Coalition Response in Testimony	Notes	2016 GRC Settlement	2016 GRC Settlement Updated for Flow-Through of Repair Deduction
1	Total Revenue Requirement (\$000s)	\$78,257	\$91,827	\$84,305	N/A	Original Liberty request represented a 17.34% increase; settlement represents a 1.21% increase	\$79,301	\$77,800
2	Increase in Base Rate Revenue Requirement (\$000)	\$0	\$11,400	\$7,601	N/A		\$9,819	\$8,318
3	Energy Revenue (ECAC) Requirement	\$39,973	\$40,923	\$37,243	N/A	Change reflects positive impact of new NV Energy supply agreement effective January 1, 2016; over collection to be amortized over twenty-seven months after the effective date of the decision through December 31, 2018	\$29,903	\$29,903
4	Energy Efficiency (\$000)	\$367	\$495	\$445	N/A	ORA agreed with most Liberty proposed expenditures; settlement reflects compromise on spending for Small Commercial Audit, Energy Lighting and Refrigerator Recycling Programs	\$471	\$471
5	Vegetation Management (\$000)	\$2,500	\$2,523	\$2,523	N/A	Maintenance of VMMA one-way balancing account and separate line item billing	\$2,523	\$2,523
6	Solar Initiative Program (\$000)	\$0.00	\$371	\$371	N/A	Liberty proposed 6 year program, but agreed to ORA proposal for three year with right to request extension in next GRC	\$371	\$371
7	Catastrophic Emergency Memorandum Account (\$000)	N/A	\$700	\$700	N/A	Recovery of \$2.1 million over three years and in response to Governor Brown's January 17, 2014 State of Emergency Proclamation	\$700	\$700
8	Return on Equity	9.88%	10.50%	9.71%	N/A		10.00%	10.00%
9	Overall Rate of Return	7.75%	7.92%	7.17%	N/A		7.51%	7.51%
10	Debt / Equity Ratio	48.5% / 51.5%	45% / 55%	51.63% / 48.37%	N/A		47.50% / 52.50%	47.50% / 52.50%
11	Depreciation Rate	2.33%	2.21%	N/A	N/A	Reduction of depreciation rate from Liberty's 2013 Depreciation Study conducted by an external consultant	2.21%	2.21%
12	Allowance for Funds Used During Construction	8.76%	6.59%	N/A	N/A	As Calculated by FERC Form 2	6.59%	6.59%
13	Number of Residential Customers	-	46,910	46,683	N/A		46,683	46,683
14	Franchise Fee and Uncollectible Rate	1.23%	1.32%	N/A			1.35%	1.35%
15	General Rate Case Memorandum Account	Approved in Decision 15-12-035	Assumes recovery amount to be recorded into GRCMA as of October 1, 2016 and over 27 months				Recovery amount to be recorded upon the Commission issuing a decision in A. 15-05-008 approving the	Recovery amount to be recorded upon the Commission issuing a decision in A. 15-05-008 approving the
16	Rate Base (\$000)	\$119,181	\$150,927	\$135,961	N/A		\$143,943	\$145,662

Line Item	Issue	Current Status	Liberty Utilities Request in Application	ORA Response in Testimony	A-3 Customer Coalition Response in Testimony	Notes	2016 GRC Settlement	2016 GRC Settlement Updated for Flow-Through of Repair Deduction
17	Return on Rate Base ("Operating Income") (\$000)	\$9,235	\$11,954	\$9,699	N/A		\$10,812	\$10,942
18	Operation and Maintenance Expenses (000's)	\$8,793	\$8,608	\$7,004	N/A		\$8,499	\$8,499
19	Administrative and General Expenses (000's)	\$4,924	\$8,613	\$7,663	N/A		\$8,308	\$8,308

(End of Attachment D)