PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

Agenda Id 16145
RESOLUTION E-4896
January 11, 2018

R E S O L U T I O N

Resolution E-4896. Liberty Utilities ("Liberty") requests implementation of changes to electric rates effective January 1, 2017.

PROPOSED OUTCOME:

- This Resolution adopts Liberty's request in Advice Letter ("AL") 72-E to implement 2017 electric rates. Liberty's General Rate Case Memorandum Account, for the purposes of AL 72-E, is approved without modification.

SAFETY CONSIDERATIONS:

- There is no impact on safety.

ESTIMATED COST:

- This Resolution is not expected to lead to increased ratepayer costs because Liberty's billing system has already implemented rate increases previously approved by the Commission in D.16-12-024, D.16-12-013, Advice Letter 65-E (Energy Division approval on December 27, 2016) and Resolution M-4830.

By Advice Letter 72-E, Filed on December 28, 2016.

SUMMARY

This resolution approves, without modification, Liberty's Advice Letter 72-E requesting to implement new rates as of January 1, 2017 consolidating the Test Year 2016 revenue requirement adopted in D.16-12-024 during General Rate Case

proceeding A.15-05-008, along with three additional previously approved rate changes.[1]

BACKGROUND

During Liberty's Test Year 2016 General Rate Case proceeding A.15-05-008, it became apparent that a final decision would not be completed in time to implement new rates by January 1, 2016. As a result, the Commission granted Liberty's request for a General Rate Case Memorandum Account ("GRCMA") in D.15-12-035.

On December 8, 2016 the Commission issued D.16-12-024 that adopted a Settlement resolving A.15-05-008 and required implementation of the Settlement's new rates to be effective January 1, 2017.[2]

On December 28, 2016 Liberty filed Tier 1 Advice Letter 72-E requesting to implement new rates as of January 1, 2017, pursuant to D.16-12-024. Advice Letter 72-E also contained Liberty's calculation for the GRCMA.

On January 17, 2017 A-3 Customer Coalition ("A-3 CC"), a coalition of Liberty's large commercial customers, filed a protest to Advice Letter 72-E related to Liberty's calculation of the GRCMA. Liberty formally responded to the protest on January 23, 2017.

NOTICE

Notice of AL 72-E was made by publication in the Commission's Daily Calendar. Liberty states that a copy of the Advice Letter was mailed and distributed in accordance with Section 4 of General Order 96-B.

PROTESTS

Liberty's Advice Letter 72-E was timely protested by A-3 CC on January 17, 2017.

Liberty responded to the protest of A-3 CC on January 23, 2017.

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[1] D.16-12-013, Liberty Advice Letter 65-E and Resolution M-4830.
[2] D.16-12-024, p. 14.

The following is a more detailed summary of the major issues raised in the protest(s).

DISCUSSION

A-3 CC's protest of Advice Letter 72-E focuses on two specific issues:

1. Liberty's calculation of the balance in the GRC Memorandum Account ("GRCMA") and;
2. Liberty's allocation of that balance to the A-3 CC customer class.

Protest to Liberty's Calculation of the GRCMA Balance

GRCMA-type mechanisms are generally used when a GRC decision is not going to be issued in time to implement the new rates for the beginning of a test year (the delay period). There are two primary methods used to calculate GRCMA-type mechanisms:

1. Method 1 captures the difference between the recorded sales using the *rates in effect* during the delay period and the recorded sales using *rates that would have been in effect* if the final decision in the GRC had been issued in time to implement new rates during that same delay period.

2. Method 2 captures the difference between the *previously adopted revenue requirement* in effect during the delay period and the *newly adopted revenue requirement* that would have been in effect if the final decision in the GRC had been issued in time to be implemented during that same delay period.

A-3 CC's protest centers on the argument that Liberty's GRCMA balance should be calculated using the Method 1 "rates" method, but that Liberty has instead calculated the GRCMA balance using the Method 2 "revenue requirement" method.

To support its argument for Method 1, A-3 CC contends that "Liberty has not calculated the GRCMA balance in the manner required in decision (D.)15-12-035."[3] A-3 CC cites the following language from D.15-12-035, where

[3] A-3 CC Protest of Advice Letter 72-E at p. 1.

the Commission granted Liberty's original request for a GRCMA during proceeding A.15-05-008:

> "This decision authorizes Liberty to establish a memorandum account to record the difference between current rates as of December 31, 2015 and the final rates the California Public Utilities Commission will authorize to become effective for Liberty's Test Year 2016 General Rate Case."[4]

However, A-3 CC fully acknowledges that it was a signatory to the Settlement adopted by the GRC D.16-12-024 that addresses the GRCMA methodology. According to A-3 CC, the Settlement's GRCMA methodology "provides for a comparison of base rate revenue requirements rather than the comparison of rates authorized in D.15-12-035."[5] Thus, as a party to the Settlement, A-3 CC explicitly agreed to Method 2 for Liberty's GRCMA. Furthermore, in its protest A-3 CC states that it continues to support the Settlement agreement.[6]

As acknowledged by A-3 CC, Section 4.14 of the Settlement is unambiguous in its agreement with Method 2, the comparison of revenue requirements:

> **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 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 the difference for the period between: (i) Liberty Utilities' <u>current non-fuel generation and distribution Base Rate Revenue Requirement</u> and (ii) the non-fuel generation and distribution revenue requirement Base Rate <u>Revenue Requirement Liberty Utilities is being authorized to recover</u> through rates in this Settlement.[7]

When the Commission adopted the Settlement in D.16-12-024, it erased any remaining uncertainties by explicitly including the same "revenue requirement" Method 2 language from the Settlement seen above when adopting the settled

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[4] A-3 CC Protest of Advice Letter 72-E at p. 2, FN 4 citing to D.15-12-035, p. 1.
[5] A-3 CC Protest of Advice Letter 72-E at p. 4.
[6] A-3 CC Protest of Advice Letter 72-E at p. 4.
[7] Emphasis added.

terms for the GRCMA.[8]

For the reasons discussed above, we decline A-3 CC's request to change the terms of the Settlement adopted in D.16-12-024.

Protest to Liberty's Allocation of the GRCMA Balance to A-3 CC

A-3 CC also protests Advice Letter 72-E due to Liberty's "allocation" to A-3 CC of the calculated balance in the GRCMA.

A-3 CC states that even if Liberty's balance in the GRCMA is deemed by the Commission to be acceptable, the allocation to A-3 CC does not conform to the allocation agreed to in the Settlement adopted by D.16-12-024.[9] However, A-3 CC does not provide a citation to the Settlement indicating any agreement on the allocation of Liberty's GRCMA.

A-3 CC apparently believes it should only be responsible for 20.57% of the $8,317,419 GRCMA balance because A-3 CC's portion of Liberty's new adopted 2016 revenue requirement is 20.57% of the total revenue requirement.[10] A-3 CC is incorrect in its belief.

As mentioned above, the balance in Liberty's GRCMA captures the difference between the previously adopted 2013 revenue requirement and the 2016 newly adopted revenue requirement during the delay period, which in this case lasted the entirety of 2016. A-3 CC's 2013 adopted revenue requirement portion was $5,769,014 while A-3 CC's 2016 adopted revenue requirement portion is $8,648,008, an increase of $2,878,994.[11] This $2,878,994 increase for A-3 CC is 34.61% of Liberty's total 2016 revenue requirement *increase* of $8,317,419 captured in the GRCMA. Moreover, this $2,878,994 increase in A-3 CC's 2016 adopted revenue requirement comprises part of the $8,317,419 balance in the GRCMA and is directly attributable to A-3 CC's 2016 revenue requirement increase as agreed to by A-3 CC in the Settlement.

[8] D.16-12-024, p. 10.
[9] A-3 CC Protest of Advice Letter 72-E at p. 1.
[10] A-3 CC Protest of Advice Letter 72-E at p. 6.
[11] Liberty's Reply to A-3 CC's Protest of Advice Letter 72-E at p. 5.

Therefore, we find that simply because A-3 CC's 2016 revenue requirement happens to be 20.57% of Liberty's newly adopted total 2016 revenue requirement it does not follow that A-3 CC should be responsible for only 20.57% of the total revenue requirement *increase* amount from 2013 to 2016 as captured in the GRCMA. Because A-3 CC agreed to be responsible for 34.61% of the total revenue requirement *increase*, it follows that A-3 CC is responsible for 34.61% of the GRCMA balance which simply captures the total revenue requirement *increase* of $8,317,419. To apply 20.57% of the GRCMA balance to A-3 CC would unfairly burden other customer classes with the results of the forecasted sales increase agreed to by A-3 CC in the Settlement section 4.9:

> **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.[12]

In the same vein, A-3 CC's protest states that Liberty's allocation approach "unfairly disadvantages customer classes whose 2016 sales are forecasted to increase over 2013 sales by more than the average increase,"[13] yet as we note above, A-3 CC agreed to this "more than average" sales increase forecast when it became a signatory to the Settlement, and this "more than average" sales increase forecast is a significant driver of the balance in the GRCMA.

As a result, we decline to require Liberty to change the amount allocated to A-3 CC from the GRCMA.

<u>For the reasons stated above, A-3 CC's protest of Liberty AL 72-E is denied.</u>

COMMENTS

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g)(2) provides that this 30-day

[12] Settlement Section 4.9, p. 5.
[13] A-3 CC Protest of Advice Letter 72-E at p. 6.

period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day comment period for the draft of this resolution was neither waived nor reduced. Accordingly, this draft resolution was mailed to parties for comments, and will be placed on the Commission's agenda no earlier than 30 days from today.

FINDINGS

1. Ordering Paragraph 4 of D.15-12-035 granted Liberty's request to establish the General Rate Case Memorandum Account (GRCMA) to track the difference between rates in effect on December 31, 2015 and the final rates authorized in A.15-05-008.
2. Ordering Paragraph 1 of D.16-12-024 adopted an all-party Settlement Agreement ("Settlement Agreement") for A.15-05-008 that resulted in Liberty's Test Year 2016 revenue requirement of $77.8 million and a rate base of $145.662 million.
3. Section 4.14 of the Settlement Agreement contains explicit terms for the GRCMA that direct Liberty to capture the difference between the current base rate revenue requirement and the new base rate revenue requirement to be adopted through the Settlement Agreement.
4. A-3 CC is a signatory to the Settlement Agreement and plainly states that it continues to support the Settlement Agreement.
5. Section 4.9 of the Settlement Agreement contains the stipulation of all parties agreeing to Test Year 2016 sales forecasts.
6. A significant portion of the balance in the GRCMA is the direct result of the sales forecast increase agreed to by A-3 CC when it became a signatory to the Settlement Agreement.

THEREFORE IT IS ORDERED THAT:

1. Liberty Utilities' Advice Letter 72-E is approved without modification.
2. The protest of A-3 CC is denied.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on January 11, 2018; the following Commissioners voting favorably thereon:

TIMOTHY J. SULLIVAN
Executive Director