

Decision 26-03-017 March 19, 2026

**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, Establish Marginal  
Costs, Allocate Revenues, And Design  
Rates, as of January 1, 2025.

Application 24-09-010

**DECISION TO ADOPT AND MODIFY SETTLEMENT AGREEMENT  
AND ADDRESS LIBERTY UTILITIES' (CALPECO ELECTRIC)  
TEST YEAR 2025 GENERAL RATE CASE**

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**Attachment A - Settlement Agreement with Amended Appendix A**

**Attachment B - Summary of Results of Operations 2025**

**DECISION TO ADOPT AND MODIFY SETTLEMENT AGREEMENT AND  
ADDRESS LIBERTY UTILITIES' (CALPECO ELECTRIC)  
TEST YEAR 2025 GENERAL RATE CASE**

**Summary**

This Decision adopts and modifies an uncontested multi-party Settlement Agreement regarding revenue requirements issues and addresses Liberty Utilities' (CalPeco Electric) LLC's (Liberty) Test Year 2025 general rate case to increase its authorized revenues, allocate revenues and design rates. This Decision authorizes Liberty to have a revenue requirement of \$231,938,000, representing an 11.4% increase over the currently authorized revenue requirement of \$208,147,000.

This Decision also authorizes Liberty a return on equity of 9.75%, a cost of debt of 5.87%, a capital structure of 47.5% debt and 52.5% equity, and a rate of return of 7.91%.

This proceeding is closed.

**1. Background**

On September 20, 2024, Liberty Utilities (CalPeco Electric) LLC (Liberty/Applicant) filed Application (A.) 24-09-010 (Application) with the California Public Utilities Commission (Commission) and initiated this proceeding. The Application is a general gate case (GRC) that requests the Commission authorize Liberty to increase its revenue requirement and customers' electric rates starting in 2025.

The Notice of the Filing of the Application appeared on the Commission's Daily Calendar on September 25, 2024.

On October 3, 2024, Liberty filed a Motion to Track Costs in its General Rate Case Memorandum Account (GRCMA).

On October 21, 2024, the Tahoe Energy Ratepayer Group (TERG) filed a Response to the Application.

On October 25, 2024, individual Protests were filed by The Utility Reform Network (TURN), A-3 Customer Coalition (A-3 CC) and the Public Advocates Office at the California Public Utilities Commission (Cal Advocates).

On November 7, 2024, ALJ Resolution 176-3554 issued and preliminarily categorized this proceeding as ratesetting.

On December 19, 2024, Small Business Utility Advocates (SBUA) filed a Motion for Party Status.

On December 23, 2024, a ruling by the assigned Administrative Law Judge (ALJ) issued granting Liberty's Motion to Track Costs in its GRCMA.

On December 26, 2024, an ALJ ruling granted SBUA's Motion for Party Status.

On January 8, 2025, the Alliance for Housing Opportunities in Energy Supporting Permanent Affordable Housing for Residential Kilowatts (Tahoe SPARK) filed a Motion for Party Status.

On January 9, 2025, a Joint Case Management Statement was filed by Liberty, Cal Advocates, A-3 CC, TERG, SBUA and TURN.

On January 16, 2025, the prehearing conference (PHC) was held to address the issues of law and fact, determine the need for hearing, set the schedule for resolving the matter, and address other matters as necessary.

On January 22, 2025, TERG filed a Response to Tahoe SPARK's Motion for Party Status.

On January 30, 2025, Liberty, Cal Advocates, A-3 CC, TERG, SBUA and TURN filed a Motion for Protective Order.

On February 13, 2025, an ALJ ruling denied Tahoe SPARK's Motion for Party Status.

On February 20, 2025, an ALJ ruling granted the Motion for Protective Order.

On February 21, 2025, an ALJ ruling ordered Liberty to file amended workpapers.

On March 5, 2025, Liberty filed a Motion for Interim Rate Relief and Request for Expedited Treatment (Interim Rate Motion).

On March 6, 2025, Tahoe SPARK filed a second Motion for Party Status.

On March 17, 2025, A-3 CC filed a Response and TURN filed an Opposition to Liberty's Interim Rate Motion.

On March 21, 2025, TERG filed a Response to Liberty's Interim Rate Motion.

On March 25, 2025, an ALJ ruling granted Tahoe SPARK's Motion for Party Status.

On April 1, 2025, Liberty filed a Reply in Support of Its Interim Rate Motion.

On May 29, 2025, Commissioner Matthew Baker's Scoping Memorandum and Ruling (Scoping Ruling) issued. The Scoping Ruling scheduled evidentiary hearings and designated ALJ Patrick Petersen as the Presiding Officer.

On June 19, 2025, Tahoe SPARK filed a Motion to Be Added to the Protective Order.

On June 25, 2025, an ALJ ruling granted Tahoe SPARK's Motion to Be Added to the Protective Order.

On July 8, 2025, an ALJ ruling noticed Public Participation Hearings (PPHs).

On July 29, 2025, a Joint Status Conference Statement was filed by Liberty, Cal Advocates, A-3 CC, TERG, TURN, SBUA and Tahoe SPARK (collectively the Parties).

On August 7, 2025, an ALJ ruling cancelled the two in person PPHs.

On August 22, 2025, Tahoe SPARK filed a Motion to Freeze Liberty's Rate Increase (Motion to Freeze Rates).

On August 29, 2025, the Parties filed a Supplemental Joint Status Conference Statement.

On September 2, 2025, Liberty filed a Response to the Motion to Freeze Rates.

On September 5, 2025, a Notice of Evidentiary Hearings issued.

On September 8, 2025, Liberty filed a Supplemental Report Regarding Evidentiary Hearings.

On September 8, 2025, an ALJ ruling issued regarding the Evidentiary Hearings.

On September 15, 18 and 19, 2025, virtual Evidentiary Hearings were held.

On September 19, 2025, an ALJ ruling modified the procedural schedule and due dates to file opening and reply briefs.

On October 1, 2025, Liberty, Cal Advocates, TURN, TERG, A-3 CC, and SBUA (collectively Settling Parties) filed a Joint Motion for Approval and Adoption of the Multiparty Settlement Agreement.

On October 1, 2025, the Settling Parties filed an Amended Joint Motion (Amended Settlement Motion) for Approval and Adoption of the Multiparty Settlement Agreement on Revenue Requirement Issues.

On October 9, 2025, the Settling Parties filed a Joint Motion for Admission of Prepared Testimony and Exhibits into the Evidentiary Record (Motion to Admit Evidence).

On October 10, 2025, Opening Briefs were filed by Liberty, Cal Advocates, A-3 CC, TURN, Tahoe SPARK, TERG and SBUA.

On October 24, 2025, Reply Briefs were filed by Liberty, Cal Advocates, A-3 CC, TURN, Tahoe SPARK, TERG and SBUA.

On October 31, 2025, the Settling Parties filed an Amendment to Appendix A to the Settlement Agreement to correct typographical errors. Appendix A describes and compares the Settling Parties' positions on the settled issues. The Settlement Agreement, including the amendment to Appendix A to the Settlement Agreement, is Attachment A to this Decision.

On November 3, 2025, an ALJ ruling Adopting Confidential Modeling Procedures was issued.

On January 30, 2026, an ALJ ruling issued granting the Motion to Admit Evidence.

### **1.1. Submission Date**

This matter was submitted on January 30, 2026 upon the granting of the Motion to Admit Evidence.

### **2. Issues Before the Commission**

This Decision resolves the entire proceeding and all of the Scoped Issues listed below. However, the Decision is bifurcated into two parts. The first part determines whether the Commission should adopt the Settlement Agreement regarding Liberty's revenue requirements for this proceeding. Specifically, the first section corresponds to and resolves Scoped Issues 1, 6, 7, 9, 13 and 14 in their entirety and partially resolves 8. The second section resolves the remaining disputed Scoped Issues 2, 3, 4, 5, 8, 10, 11, 12, and 15.

The Scoped Issues in this proceeding are:

1. Whether Liberty's request to increase its authorized revenues for electric service, effective January 1, 2025, is just and reasonable;
2. Whether Liberty's proposals to allocate revenues and design rates are reasonable;
3. Whether Liberty's proposed rates are just and reasonable;
4. Whether Liberty should propose a residential electrification rate;
5. Whether the methodology employed for Liberty's marginal cost study and the results of its marginal cost study are reasonable;
6. Whether Liberty's forecast of Operations and Maintenance, and Administrative and General expenses for Test Year (TY) 2025 is supported and reasonable;
7. Whether Liberty's capital forecasts for 2025, 2026, 2027, and 2028 in the major categories of (i) Safety and Reliability –

- Distribution, (ii) Safety and Reliability – Substation, (iii) Safety and Reliability – Wildfire Mitigation, (iv) Customer Driven, and (v) Others are supported and reasonable;
8. Whether Liberty's proposed Rate of Return (ROR) on rate base of 8.568%; a Return of Equity (ROE) of 11.0%; and a capital structure of 47.5% debt and 52.5% equity are reasonable;
  9. Whether Liberty's proposals of \$247.920 million in rate base for TY 2025, and an increase in rate base of \$39.773 million or 19.1% over currently authorized revenues, effective January 1, 2025, are reasonable;
  10. Whether Liberty adequately implemented its risk--based decision-making process and framework;
  11. Whether Liberty's proposal to eliminate the nonpermanent residential class is reasonable;
  12. Whether Liberty's proposals to increase funding for wildfire insurance and mitigation could be recovered through alternative non-volumetric mechanisms, such as a demand charge or demand differentiated service fee;
  13. Whether Liberty's request to continue use of the Post Test-Year Adjustment Mechanism (PTAM) in 2026 and 2027 to include authorized capital project and revenue requirement escalation in rates in 2026 and 2027 is reasonable;
  14. Whether Liberty's proposed Storm Balancing Account to track the difference between authorized and recorded storm costs is reasonable; and
  15. Whether the impact of Liberty's proposed rate increase on affordability and disconnection for non-payment is reasonable.

### **3. Amended Settlement Motion and Settlement Agreement**

#### **3.1. Background**

The Settling Parties filed the Amended Settlement Motion that requests the Commission adopt the Settlement Agreement. The Settling Parties' Amended Settlement Motion resolves some, but not all, of Liberty's revenue requirement issues in this proceeding.<sup>1</sup> Tahoe SPARK was the only party that did not join the Settling Parties. Tahoe SPARK served an untimely response to the Amended Settlement Motion that was not accepted by the Commission's Docket Office and is not part of the record.<sup>2</sup> Therefore, the Amended Settlement Motion and the Settlement Agreement are uncontested.

In the Amended Settlement Motion, the Settling Parties agreed on a Test Year (TY) 2025 revenue requirement for Liberty of \$232,956,000 that increases authorized revenues by 11.92%.<sup>3</sup> The Settling Parties also agreed on other major terms including: (1) capital expenditures of \$51,035,000 for 2024 and \$70,109,000 in 2025, for a total of \$121,144,000, (2) Liberty's continued use of the Post Test Year Adjustment Mechanism (PTAM) to recover a total of \$104,511,000 in combined 2026 and 2027 capital expenditures, (3) a debt to equity structure of

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<sup>1</sup> Amended Settlement Motion at 1.

<sup>2</sup> On November 17, 2025, Liberty filed a Response objecting to Tahoe SPARK's response to the Settlement Motion, but Tahoe SPARK's response was untimely and was not made part of the record in this proceeding.

<sup>3</sup> Amended Settlement Motion at 4-5. Section 1.7 of the Settlement Agreement provides that the revenue requirements stated in the Settlement Agreement are based upon Liberty's previously authorized return on equity (ROE), and the Settling Parties agree that the final revenue requirements will be adjusted to reflect the ROE adopted by the Commission in this Decision.

47.5%/52.5%, and (4) up to \$24,000,000 in individual costs for Meyers Substation and Stateline Substation projects.<sup>4</sup>

### **3.2. Commission's Standard of Review**

To determine if the Settlement Agreement should be approved in whole or in part, or rejected outright, this Decision analyzes the settlement in accordance with Article 12 of the Commission's Rules of Practice and Procedure (Rules), which applies to contested and uncontested settlements. The Settlement Agreement is uncontested. The Commission has long favored the settlement of disputes. Under Rule 12.1(d), the Commission will not approve a settlement unless it is reasonable in light of the whole record, consistent with law, and in the public interest.

California courts have long recognized that the evaluation of a settlement is not an exercise in deciding the underlying merits of the case but an assessment of whether the agreement as a whole is fair and reasonable.<sup>5</sup> The trial court, or in this context the Commission, "does not try out or attempt to decide the merits of the controversy" but instead determines whether the settlement meets established fairness criteria.<sup>6</sup> As explained in *7-Eleven Owners for Fair Franchising v. Southland Corp.* (2000) 85 Cal.App.4th 1135, 1146, courts exercise broad discretion in evaluating settlements and consider a range of factors, including the strength of the parties' positions, the risks and expense of further litigation, the extent of discovery, and the experience and views of counsel. Similarly, in *Dunk*

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<sup>4</sup> *Id.* at 5.

<sup>5</sup> *City of Detroit v. Grinnell Corp.* (2d Cir. 1974) 495 F.2d 448, 456.

<sup>6</sup> *Ibid.*

*v. Ford Motor Co.* (1996) 48 Cal.App.4th 1794, the court recognized a presumption of fairness when: (1) the settlement is reached through arm's-length bargaining; (2) investigation and discovery are sufficient to allow counsel and the tribunal to act intelligently; (3) counsel are experienced in similar matters; and (4) there is little or no opposition to the settlement.

Federal precedent is to the same effect. As the Ninth Circuit observed in *Hanlon v. Chrysler Corp.* (9th Cir. 1998) 150 F.3d 1011, 1027, "Settlement is the offspring of compromise; the question we address is not whether the final product could be prettier, smarter or snazzier, but whether it is fair, adequate and free from collusion." This pragmatic approach aligns with the Commission's policy favoring settlements as efficient, equitable, and resource-conserving resolutions of complex regulatory disputes. The focus is not on whether the agreement achieves the optimal result for any one party, but whether the negotiated outcome as a whole advances fairness, reasonableness, and the public interest.

Applying these principles, the Commission concludes that the Settlement Agreement satisfies Rule 12.1(d), except for Section 4.16 that sets a residential fixed charge of \$31.70. The record demonstrates that the settlement was the product of arm's-length negotiations between knowledgeable and well-represented parties, each with extensive experience in Commission proceedings.<sup>7</sup>

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<sup>7</sup> See Attachment A to this Decision (Settlement Agreement Appendix A Consolidated Comparison of Party Positions' on All Settled Issues).

The Settling Parties collectively represent a broad and balanced range of interests, including those of various ratepayer classes.

The Commission finds the Settlement Agreement, with the exception of Section 4.16 regarding a fixed residential charge, to be reasonable in light of the whole record. The settlement was reached after discovery, evidentiary hearings, and submission of extensive written testimony. It resolves numerous issues supported by the evidentiary record and narrows the scope of remaining disputes. The Settlement Agreement reflects compromises grounded in the data and testimony presented, resulting in rate and policy outcomes that are balanced and supported by the record as a whole.

The Settlement Agreement, with the exception of Section 4.16 regarding a fixed residential charge, is also consistent with law. The Settling Parties represent that no term of the agreement contravenes any statute or prior Commission decision, and the Commission's independent review finds no conflict with governing law.<sup>8</sup> The settlement complies with Public Utilities Code (Pub. Util. Code) Sections 451 and 454, which require that all rates be just and reasonable and that no rate change occur without Commission authorization. The settlement also aligns with longstanding Commission practice approving settlements that advance administrative efficiency and conserve public and party resources.

Finally, the Settlement Agreement, with the exception of Section 4.16 regarding a fixed residential charge, is in the public interest. It ultimately provides rate and policy outcomes that will reduce litigation costs, conserve

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<sup>8</sup> Amended Settlement Motion at 3.

regulatory resources, and enhance regulatory certainty for both the utility and customers. The settlement results in a reduction of Liberty's requested revenue requirement while still ensuring the utility can continue to provide safe and reliable electric service at reasonable rates. The participation of Cal Advocates—the Commission's independent consumer advocate—further supports the conclusion that the settlement protects the interests of ratepayers, including residential and low-income customers.

Consistent with judicial and administrative precedent, the Commission's review of the settlement does not require parceling each fact or issue resolved therein.<sup>9</sup> The Commission's role is to ensure that the agreement as a whole meets the criteria of Rule 12.1(d). Having conducted a comprehensive, high-level assessment of the settlement and the corresponding evidentiary record, the Commission concludes that the Settlement Agreement, taken in its entirety and excepting the fixed charge amount listed in Section 4.16, is reasonable in light of the whole record, consistent with law, and in the public interest.

### **3.3. Modification of Settlement Agreement by Rejection of Fixed Residential Charge**

The Commission analyzes the Settlement Agreement in accordance with Article 12 of the Commission's Rules. Specifically, Rule 12.4 enables the Commission to reject any part of the settlement that is not in the public interest provided the parties have an opportunity to respond to the Commission's

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<sup>9</sup> See *Title Ins. Co. v. State Bd. of Equalization* (1992) 4 Cal.4th 715, 733 ["A court will respect a stipulation limiting the issues in a case."].

rejection of a settlement provision. Rule 12.2 allows parties to file comments to the Amended Settlement Motion. However, no timely comments were filed.<sup>10</sup>

Prior to this proceeding, the fixed charge was approved by the Commission in Decision (D.) 24-05-028 for all California Investor-Owned Utilities (IOUs). In Ordering Paragraph 10 of D.24-05-028, the Small Multi-Jurisdictional Utilities, including Liberty, were ordered to submit a Tier 3 Advice Letter to, amongst other things, provide for Commission approval "a list of all base revenue cost categories that the utility proposes to recover through its income-graduated fixed charges and the revenue requirement associated with each cost category," and the actual "proposed fixed charge levels."

First, the Settlement Agreement language is unclear whether the residential fixed charge of \$31.70 is intended to be applied on a monthly, annual, or another timeframe. Second, the drafting and approval process is currently underway for Liberty's Advice Letter 248-E and its supplements as required under D.24-05-028. It would be an error for the Commission to usurp the resolution process and accept the Settlement Agreement's fixed residential charge in this proceeding. Therefore, it is consistent with law for the Commission to allow the fixed charge to be resolved in accordance with D.24-05-028.

Pursuant to Rule 12.4(c), the Commission modifies the Settlement Agreement by rejecting Section 4.16 of the Settlement Agreement that proposes a

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<sup>10</sup> Tahoe SPARK served an untimely comment to the Amended Settlement Motion that was rejected by the Commission's Docket Office and is not part of the record.

residential fixed charge of \$31.70 because it is not reasonable in light of the whole record, is not consistent with law, and is not in the public interest. It is not reasonable, it is not consistent with the Commission's decision in D.24-05-028, and it is not in the public interest for the Settling Parties, without any explanation, to purport to set a residential fixed charge without following the resolution process approved by the Commission in that 2024 decision, a process that allows for a thorough consideration of the issues regarding a residential fixed charge. Reason, the law, and the public interest are best served by allowing the fixed charge to be addressed through the resolution process established by the Commission.

The Settling Parties reserved their rights to rescind the Settlement Agreement in the event of alteration or modification by the Commission.<sup>11</sup> The Settling Parties are directed to state in their Comments to the Proposed Decision that they either accept the Commission's modification or request other relief.

The Commission's approval of the Settlement Agreement with modification resolves Liberty's revenue requirements and Scoped Issues 1, 6, 7, 9, 13, and 14 entirely. The Settlement Agreement also sets Liberty's debt to equity ratio at 47.5% debt to 52.5% equity. This results in a partial resolution of Scoped Issue 8 that contains additional disputed sections.

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<sup>11</sup> Settlement Agreement at 9-11.

#### **4. Determination of Disputed Scoped Issues**

##### **4.1. Overview**

The Settlement Agreement resolved Liberty's revenue requirements and several Scoped Issues. This section determines the remaining disputed Scoped Issues 2, 3, 4, 5, 10, 11, 12, and 15 in their entirety and the disputed part of Scoped Issue 8 not covered by the Settlement Agreement.

##### **4.2. Standard of Review**

Pursuant to Pub. Util. Code Section 451, the Commission is obligated to ensure that the electric rates Liberty charges its customers are just and reasonable. In addition, Pub. Util. Code Section 453(c) prohibits Liberty from maintaining unreasonable differences as to rates between localities and classes of service.

##### **4.3. Insufficient Factual Record to Determine Scoped Issues 4 and 12**

The Commission requires a sufficient factual record in its proceedings as the foundation to determine issues. The factual record in this proceeding does not contain sufficient facts to inform the Commission to reach a reasonable determination for Scoped Issues 4 and 12.

Scoped Issue 4 is whether Liberty should propose a residential electrification rate.<sup>12</sup> Liberty did not propose a residential electrification rate in this proceeding and neither did any of the Parties. The factual record in this proceeding is insufficient and lacks foundation for the Commission to determine this issue. Therefore, the Commission declines to determine Scoped Issue 4.

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<sup>12</sup> Scoping Ruling at 2.

Scoped Issue 12 is whether Liberty's proposals to increase funding for wildfire insurance and mitigation could be recovered through a non-volumetric mechanism such as a demand fee.<sup>13</sup> In its Application, Liberty did not propose a demand charge or other demand differentiated service fee or other non-volumetric rate mechanisms to recover wildfire insurance and mitigation costs. Additionally, no other party to the proceeding proposed a demand charge or demand-differentiated fee in testimony. Again, the factual record in this proceeding is nevertheless insufficient and lacks foundation for the Commission to determine this issue at this time. Absent a sufficient factual record, the Commission is unable to resolve this issue based on speculation and declines to determine Scoped Issue 12.<sup>14</sup>

#### **4.4. Scoped Issues 2, 3 and 15**

Scoped Issues 2, 3, and 15 are intertwined. Scoped Issue 2 is whether Liberty's proposals to allocate revenues and design rates are reasonable. Scoped Issue 3 is whether Liberty's proposed rates are just and reasonable. Scoped Issue 15 considers whether the impact of Liberty's proposed rate increase on affordability and disconnection for non-payment is reasonable.

##### **4.4.1. Revenue Allocation**

Scoping Ruling Issue 2 directed parties to determine or otherwise consider whether Liberty's proposals to allocate revenues and design rates are reasonable. Liberty proposed to allocate base rate revenues among customer classes using

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<sup>13</sup> Scoping Ruling at 2.

<sup>14</sup> The Commission may consider the reasonableness, design options and feasibility of implementation of a demand fee in a future Rulemaking.

the results of its Marginal Cost of Service (MCOS) study as the analytical starting point. The MCOS results were used to identify each class's marginal responsibility for generation, distribution demand, and customer-related costs, and these marginal cost responsibilities were translated into cost-based class revenue shares. Liberty then compared each class's current revenue contribution to its marginal cost responsibility to determine the direction and magnitude of revenue allocation needed to move rates toward cost causation.

To promote rate continuity and address bill impact concerns, Liberty did not propose an immediate, full movement to marginal-cost-based revenue allocation. Instead, it proposed a partial movement toward cost-based revenue allocation.<sup>15</sup> Under this approach, 10 percent of each customer class's revenue requirement increase is allocated based on the results of the MCOS study, while the remaining 90 percent is allocated on a uniform, system-average basis across all customer classes.<sup>16</sup> Liberty argued that this would moderate shifts that would otherwise produce large inter-class bill impacts.<sup>17</sup> This approach was presented as a balance between improving fairness and cost causation over time while maintaining reasonable rate stability for customers.

The Settlement Agreement did not resolve issues relating to revenue allocation, as parties sought to address this issue in evidentiary hearings and

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<sup>15</sup> Exh. TSL-4 at 1-2.

<sup>16</sup> Exh. TSL-4 at 1-2.

<sup>17</sup> Liberty Opening Brief at 27 – 28.

briefs. Accordingly, this Decision provides the Commission's consideration and determination on this revenue allocation issue.

#### **4.4.2. Rate Design**

In its Application, Liberty provided a range of rate design proposals for different customer classes, described below.

##### **4.4.2.1. Residential Customers**

Liberty proposed to consolidate the permanent and non-permanent residential rate schedules into a single residential class, based on MCOS study results showing no material cost differences between the two groups.<sup>18</sup> In addition, Liberty proposed that residential rates should also include an increased fixed customer charge as required by Assembly Bill (AB) 205. The remaining revenue requirement would be recovered through volumetric TOU energy rates, with TOU periods retained to reflect marginal generation and distribution cost differences by season and time of day.<sup>19</sup>

##### **4.4.2.2. Small Commercial and Industrial (Small C&I)**

For Small C&I customers, Liberty proposed to continue recovering revenues primarily through a combination of customer charges and volumetric energy rates, informed by MCOS study results. Customer charges were increased to better align with marginal customer costs, while energy charges were adjusted upward on a generally uniform basis to recover remaining revenues. TOU

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<sup>18</sup> Exh. LIB-09 at 5-7.

<sup>19</sup> Exh. TSL-5 at 1 – 15.

volumetric rate differentiation was maintained where applicable to reflect marginal cost patterns across different peak periods.<sup>20</sup>

#### **4.4.2.3. Medium and Large Commercial and Industrial (Medium and Large C&I)**

For Medium and Large C&I customers, Liberty proposed rates that rely more heavily on demand charges and TOU-based energy charges, reflecting these classes' higher contribution to marginal distribution demand and generation capacity costs. Demand charges were designed to better align with marginal distribution demand costs identified in the MCOS study, while energy charges recover marginal generation energy costs by TOU period. Customer charges were also increased to reflect higher class-specific customer-related costs.<sup>21</sup>

#### **4.4.2.4. Rate Design Methodology**

Liberty proposed rate adjustments that are consistent with MCOS-derived cost responsibilities and generally maintain existing rate structures while updating customer, demand, and energy charges as needed to recover allocated revenues and reflect marginal cost relationships.<sup>22</sup>

The Settlement Agreement did not explicitly address Issues 2 and 3 of the Scoping Ruling by determining whether the rate design proposals were reasonable. Moreover, the Settlement Agreement did not resolve all issues relating to rate design, as parties were divided over Liberty's proposal to

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<sup>20</sup> Exh. TSL-5 at 1 – 15.

<sup>21</sup> Exh. TSL-5 at 1 – 15.

<sup>22</sup> Exh. TSL-5 at 1 – 15.

consolidate the permanent and non-permanent customer classes. As such, the Parties sought to address this specific issue in evidentiary hearings and briefs.

#### **4.4.3. Affordability and Disconnection for Non-Payment Impacts**

Scoped Issue 15 considers whether the impact of Liberty's proposed rate increase on affordability and disconnection for non-payment is reasonable. In prepared testimony, several parties took positions on affordability and non-payment impacts. TURN argued that Liberty's proposed rate increase would materially worsen affordability for already financially stressed households, increasing arrearages and the risk of disconnection for non-payment, and therefore urged the Commission to reduce Liberty's requested revenue requirement.

Tahoe SPARK emphasized community-level impacts, arguing that higher rates would disproportionately burden permanent residents, threatening housing stability and increasing the likelihood of bill non-payment, especially in a tourism-driven service territory.

Cal Advocates focused on cost reasonableness and moderation of rate impacts, supporting adjustments to Liberty's forecasts to limit bill increases and protect customers from excessive affordability pressures.

Liberty also acknowledged general affordability concerns and proposed structural mitigations (such as rate design changes and low-income protections) but maintained that its requested increase is necessary to recover prudent costs and did not present a detailed analysis of disconnections or non-payment outcomes associated with its proposed rate design.

Although the Parties provided diverse perspectives regarding affordability and disconnection impacts, it is significant that this Decision's adopted revenue requirements are based on an uncontested Settlement Agreement of the Settling Parties. Based upon our review of the evidence in this proceeding, we find this Decision's impacts on affordability and disconnection for non-payment are reasonable, balancing objectives including rate stability, bill impact, and cost causation.

#### **4.4.4 Adopted Revenue Allocation and Rate Design**

Liberty proposed to allocate customer class revenues using a 10/90 split, under which 10 percent of the revenue requirement would be allocated based on Equal Percentage of Marginal Cost (EPMC), and the remaining 90 percent would be allocated using a System Average Percentage Change (SAPC) methodology.<sup>23</sup> Liberty characterized this approach as a prudent, incremental step toward cost-based pricing that prioritizes bill continuity and affordability, particularly given the magnitude of the overall rate increase and ongoing economic pressures on customers.<sup>24</sup>

EPMC is a longstanding revenue allocation method that spreads a utility's required revenues across customer classes in proportion to each class's marginal cost of service. EPMC is grounded in the principle of cost causation: customer classes that impose higher incremental costs on the system (for example, by driving peak demand) cover a higher share of the revenue requirement, while

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<sup>23</sup> Exh. TSL-4 at 1-2.

<sup>24</sup> Liberty Opening Brief at 27–28.

lower-cost classes pay a lower share. Put simply the idea is that customers should pay in proportion to the costs they cause the utility to incur. Conversely, System Average Percentage Change (SAPC) is a revenue allocation method that applies the same percentage rate increase (or decrease) to all customer classes, regardless of their marginal cost responsibility. Under SAPC, every class's revenues grow at the system-wide average rate, which helps maintain rate stability and bill continuity, but does not move rates toward cost-based outcomes.

A-3 CC opposed Liberty's proposal and advocated instead for a 30/70 split, arguing that marginal cost-based pricing has long been the Commission's preferred benchmark and that Liberty's 10% EPMC movement is overly conservative.<sup>25</sup> A-3 CC contended that the Settlement Agreement reduced Liberty's overall revenue increase, creating opportunities to move further toward cost causation without causing undue bill shock.<sup>26</sup> A-3 CC emphasized that under Liberty's 10/90 split, medium and large commercial customers continue to bear a disproportionate share of costs relative to their marginal responsibility, thus subsidizing other customer classes.<sup>27</sup>

SBUA and other parties raised concerns that increasing the EPMC share to 30% would exacerbate affordability impacts, particularly for residential and small commercial customers already facing substantial bill increases.<sup>28</sup> SBUA

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<sup>25</sup> A-3 CC Opening Brief at 7–18.

<sup>26</sup> *Ibid.*

<sup>27</sup> *Ibid.*

<sup>28</sup> SBUA Opening Brief at 4 – 6.

argued that A-3 CC's proposed 30/70 split is itself arbitrary and unsupported by a clear affordability threshold.<sup>29</sup> SBUA warned that shifting more costs onto residential customers could affect households negatively, undermining the local workforce that small businesses depend upon.<sup>30</sup>

The Commission acknowledges the competing equity and affordability considerations but concludes that continued reliance on a 10/90 split delays meaningful progress toward cost-based revenue allocation. Revenue allocation is inherently a zero-sum exercise and that sustained inter-class subsidies, particularly those shouldered by medium and large commercial customers, are inconsistent with long-standing Commission policy favoring marginal-cost principles. At the same time, the Commission recognizes the need to temper impacts on residential customers, noting that residential classes have a broader base over which to spread incremental costs.

The Commission determines that a 30/70 split represents a reasonable and balanced outcome in this proceeding. The 30/70 split is a step toward rebalancing cross subsidies between customer classes. The Commission finds that this approach makes a meaningful step toward cost-based revenue allocation consistent with Commission precedent, while avoiding severe rate shocks and preserving affordability considerations. The Commission further concludes that adopting Liberty's proposed 10/90 split would unduly delay progress toward equitable cost causation. Accordingly, the Commission adopts the 30/70 split and

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<sup>29</sup> *Ibid.*

<sup>30</sup> *Ibid.*

reiterates that future GRCs should continue evaluating opportunities to move closer to full marginal cost-based revenue allocation.

Upon review of the evidence in this proceeding and based upon the analysis above, we find that this Decision's resolution of the revenue allocation and rate design issues presented is reasonable.

#### **4.5. Scoped Issues 5 and 11**

Scoped Issue 5 is whether the methodology employed for Liberty's marginal cost study and the results of its marginal cost of service (MCOS) are reasonable.<sup>31</sup> The reasonableness of the marginal cost study forms the evidentiary basis to evaluate Scoped Issue 11. Scoped Issue 11 is whether Liberty's proposal to eliminate the nonpermanent residential class is reasonable.

##### **4.5.1. Marginal Cost of Service Study**

Liberty proposed a MCOS study designed to measure the incremental costs of serving additional customers, load, and energy, and to use those results as the primary analytical foundation for revenue allocation and rate design. The study estimates four major marginal cost components: generation capacity, generation energy, distribution demand, and customer-related costs, and allocates these costs by TOU period and customer class, as follows:

- **Generation capacity marginal costs** were based on the deferral value of a utility-scale battery energy storage resource, using the Real Economic Carrying Charge (RECC or "Rental" methodology) to represent the annualized cost of deferring generation capacity investment. Generation energy marginal costs were derived from Integrated

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<sup>31</sup> Scoping Ruling at 2.

Resource Plan-based energy price forecasts by TOU period.<sup>32</sup>

- **Distribution marginal demand costs** were estimated using the cost of incremental distribution and substation investments, with a refined methodology that relies on recent projects rather than long-term historical trends. These distribution costs were then split between TOU volumetric and non-volumetric rate components.<sup>33</sup>
- **Marginal customer costs** reflect the cost of access to the distribution grid, and were divided into common customer costs (e.g., billing and customer service) and specific customer costs (e.g., meters, service drops, transformers), with the latter based solely on new customer hookups to better reflect incremental cost causation.<sup>34</sup>

Liberty emphasized that the methodology is generally consistent with its prior GRC settlement but includes targeted refinements to improve alignment with current system conditions and cost causation principles.<sup>35</sup>

TERG highlighted data limitations, such as estimated class-level hourly usage, lack of account-level TOU histories, and lingering pre-2022 class coding issues, to argue that these shortcomings undermine the reliability of using the MCOS to justify maintaining separate classes.<sup>36</sup> TERG's position is unconvincing and this Proposed Decision declines to deviate from Liberty's robust MCOS.

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<sup>32</sup> Exh. LIB-09 at 11 to 13.

<sup>33</sup> Exh. LIB-09 at 10 to 11.

<sup>34</sup> Exh. LIB-09 at 3.

<sup>35</sup> *Ibid.*

<sup>36</sup> Exh. Tahoe ERG-01 at 17 – 20.

While the Settlement Agreement proposed by Settling Parties did not explicitly address Issue 5 of the Scoping Ruling by determining whether the marginal cost study and its results were reasonable, parties did reach consensus on the overall revenue requirement, which draws heavily on the outputs and findings of the MCOS study. The Settlement Agreement also noted that it was based on the position on revenue requirement demonstrated in Direct Testimony and Workpapers of Liberty, Chapter 9 of which includes the MCOS study.<sup>37</sup> In light of the adopted MCOS study in the record and the reliance on its outputs by parties to the Settlement Agreement, the Commission finds the available data and the methodology employed by Liberty in its MCOS study and its results to be reasonable.

Additionally, the Commission directs Liberty in its next GRC to conduct a more comprehensive and data-driven MCOS study that leverages Advanced Metering Infrastructure (AMI) interval data in consultation with Energy Division. The Commission recognizes that current MCOS results are constrained by estimated load shapes, limited account-level TOU information, and legacy customer classification issues. As AMI implementation expands, it is reasonable to expect Liberty to develop sufficiently detailed and empirically grounded analyses of billing determinants, including customer load profiles, peak demand contributions, and hourly and seasonal usage patterns at a level of granularity not currently possible with analog meters.

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<sup>37</sup> See Settlement Agreement at 3.

The Commission therefore expects Liberty to use this enhanced data capability to produce a more detailed, transparent, auditable, and analytically robust MCOS study that better informs customer class structure, revenue allocation, and rate design features and options. .

#### **4.5.2. Nonpermanent Residential Class**

Liberty proposed to consolidate the residential permanent and non-permanent rate classes into a single residential class, arguing that its MCOS study shows insufficient cost differences to justify maintaining separate tariffs.<sup>38</sup> Liberty emphasized that differences in marginal cost per kilowatt-hour between the two groups were relatively small and contended that consolidation would improve administrative clarity, reduce disputes over customer qualification, and align with the Commission's direction to recover more fixed costs through customer charges rather than volumetric rates.<sup>39</sup> Liberty also linked consolidation to the introduction of higher fixed charges, asserting that once fixed, non-usage driven costs are recovered uniformly, the rationale for separate residential subclasses diminishes.<sup>40</sup>

Opposing parties, notably TURN, Tahoe SPARK, and SBUA, argued that consolidation would improperly shift costs onto permanent residents and undermine cost causation in a system characterized by tourism-driven seasonal peaks. TURN pointed to Liberty's own MCOS study results showing an approximately 15.7 percent difference in cost to serve permanent versus non-

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<sup>38</sup> Exh. LIB-09 at 5-7.

<sup>39</sup> Liberty Opening Brief at 29 – 30.

<sup>40</sup> Liberty Opening Brief at 29-30.

permanent customers, which it argued is material rather than de minimis.<sup>41</sup> Additionally, Tahoe SPARK asserted that non-permanent customers disproportionately drive winter peak demand, wildfire risk exposure, and capital investment needs, and that collapsing the classes would dilute signals intended to reflect those impacts and worsen affordability for year-round residents.<sup>42</sup>

TERG supported consolidation, asserting that the MCOS-derived cost differences are modest when viewed relative to the overall residential average and that the study's fixed-cost allocations between the two residential subclasses are inherently arbitrary and difficult to audit.<sup>43</sup> TERG highlighted data limitations, such as estimated class-level hourly usage, lack of account-level TOU histories, and lingering pre-2022 class coding issues, to argue that these shortcomings undermine the reliability of using the MCOS study to justify maintaining separate classes.<sup>44</sup> However, TERG did not propose an alternative analytical framework to replace Liberty's MCOS study approach.

While Parties raise legitimate methodological questions in response to Liberty's MCOS study analysis, including concerns regarding data robustness and allocation assumptions, we are not persuaded it is prudent to make a permanent structural change in rates by consolidating these residential classes based on incomplete and contested evidence. The 15.7 percent differential in cost to serve permanent versus non-permanent customers is indeed a material

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<sup>41</sup> TURN Opening Brief at 2.

<sup>42</sup>Tahoe SPARK Opening Brief at 4–5.

<sup>43</sup> TERG Opening Brief at 7–27.

<sup>44</sup> *Ibid.*

difference that merits maintaining this separation for the time being. Further, TERG's observation of a lack of robustness of the underlying data for the MCOS and the absence of an alternative methodology by parties in general supports maintaining the separation in permanent and non-permanent residential classes until a more granular, transparent, and defensible analysis of these determinants can be conducted. It is reasonable to conclude that a more conclusive analysis will be possible once smart meters are more widely proliferated amongst residential customers in Liberty's service territory and widespread interval usage data can support a more thorough MCOS study.

We therefore determine that the residential permanent and non-permanent rate classes should remain separate in this rate case period. The Commission finds that neither Liberty nor TERG has demonstrated that consolidation would be just, reasonable, and consistent with cost causation principles, particularly in light of acknowledged MCOS study limitations and unresolved data concerns. The Commission directs Liberty to conduct a more thorough and granular analysis of residential customer demographics, usage patterns, and cost drivers in its next GRC application.

#### **4.6. Scoped Issue 8: Return on Equity and Rate of Return**

Scoped Issue 8 is whether Liberty's proposed base rate of return (ROR) on rate base of 8.568%, a ROE of 11.0%, and a capital structure of 47.5% debt and 52.5% equity are reasonable. The cost of debt of 5.87% was not disputed. As noted above, the Settling Parties agreed on the 47.5% debt and 52.5% equity

capital structure and therefore this analysis is limited to the disputed issues of the ROR and ROE.

#### **4.6.1. Standard of Review**

The Commission has stated that “[o]ur basic objective in a cost of capital proceeding is to set the equity return at the lowest level that meets reasonableness.<sup>45</sup>

In D.18-03-035, the Commission emphasized that the adopted ROE must allow a utility to maintain credit quality and attract capital, but that ratepayer affordability and market conditions require minimizing returns to the extent consistent with financial integrity. Similarly, D.19-12-056 reinforced that fairness to customers is paramount and that a utility is not entitled to the highest possible return, only one sufficient to attract capital at reasonable cost.<sup>46</sup>

The Application included two chapters of testimony on Liberty’s cost of capital structure and requests an 11% ROE for Test Year 2025 and an overall ROR of 8.57% with a cost of debt of 5.87%.<sup>47</sup> Liberty and Cal Advocates were the only Parties to offer witness testimony regarding the ROE and ROR.<sup>48</sup> The other Parties presented arguments in their respective briefs, but did not provide a sponsoring witness nor testimony. Here, Liberty represents its investors’ interests while Cal Advocates represents Liberty ratepayers’ interests. Liberty’s

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<sup>45</sup> D.18-03-035 at 6.

<sup>46</sup> See D.19-12-06 at 15.

<sup>47</sup> Exh. LIB-07 (Testimony of Thomas Bourassa) at 3-4 and Exh. LIB-11 (Testimony of Manasa Rao).

<sup>48</sup> Exh. CalAdv-05 (Testimony of J. Randall Woolridge).

and Cal Advocates' active engagement and witness testimony provide a robust record to represent and balance the interests of Liberty's ratepayers and investors.

#### **4.6.2. Cost of Debt**

In this proceeding, Cal Advocates did not dispute Liberty's proposed cost of debt of 5.87%. This accord, and lack of dispute amongst the other Parties, supports the Commission's determination that Liberty's proposed cost of debt of 5.87% is reasonable.

#### **4.6.3. Return on Equity (ROE)**

The Commission authorized Liberty to have a ROE of 10% in its prior general rate proceeding. Liberty's Application requests an increase to 11% ROE for TY 2025. Liberty witness Bourassa's testimony included models that show a range of 9.7% to 11.5% for ROE with 40 additional basis points for premium risk.<sup>49</sup> Cal Advocates witness Woolridge presented models and testified that Liberty's ROE should be 9.25%.<sup>50</sup> Woolridge also testified that in 2025 the national average ROE is 9.7% for regulated entities.<sup>51</sup>

The Commission finds Liberty's arguments unpersuasive to justify increasing its ROE from 10% to 11%. Woolridge's testimony includes an analysis of the methodologies Bourassa used to support Liberty's ROE of 11%. We find that Bourassa's methodologies and assumptions inflated Liberty's ROE claim.

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<sup>49</sup> See Exh. PAO-01, Table 2, Panels A and B at 4.

<sup>50</sup> Exh. Cal Adv-05 (Testimony of Woolridge) at 69.

<sup>51</sup> Exh. CalAdv-05 (Testimony of Woolridge) at 13.

Liberty witness Bourassa added a 40 basis-point-premium to reach an ROE of 11% based on perceived risk because Liberty is a mid-sized utility with wildfire exposure risks. However, this was not supported by empirical evidence. Liberty's reliance on its size to increase its claimed ROE is misplaced. In addition, as recognized in D.20-08-030, Liberty is a subsidiary of a much larger corporation, it has renewed its wildfire insurance coverage, and it maintains an approved wildfire mitigation plan. Liberty also relies on the fact it does not pay into, nor is covered by the AB1054 Wildfire Fund that applies to the state's large IOU electric utilities.<sup>52</sup> However, this overlooks the roles of insurance and Liberty's wildfire mitigation plan to mitigate risks and protect investors. These factors undercut Liberty's claim for increased ROE to mitigate for perceived risks. It is unreasonable for the Commission to increase Liberty's ROE on these grounds.

The Commission finds that Cal Advocates witness Woolridge provided more compelling testimony and Liberty's modeling was less reliable. Liberty's Capital Asset and Pricing Model (CAPM) used atypical inputs that inflated Liberty's ROE request.<sup>53</sup> Liberty's Discounted Cash Flow (DCF) was flawed and overstated long term utility growth.<sup>54</sup> Also, Bourassa utilized an arithmetic mean to calculate historical risk premiums that results in inflated risks and higher

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<sup>52</sup> The Wildfire Fund provides resources to the larger investor-owned utilities such as Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas & Electric Company for wildfire claims.

<sup>53</sup> See D.20-08-030 at 42-43.

<sup>54</sup> Exh. CalAdv-05 (Testimony of Woolridge) at 54.

equity estimates. Woolridge also disputes Bourassa's interpretation of the proxy group average to support lowering, not raising, Liberty's cost of equity.<sup>55</sup>

Liberty's proposed ROE of 11% is not warranted.

The Commission concludes that an ROE of 9.75% is reasonable and supported by the record. This ROE is consistent with national averages, adequately accounts for Liberty's wildfire risk, and fairly balances the interests of ratepayers and investors.<sup>56</sup>

#### **4.6.4. Rate of Return (ROR)**

While the calculations and modeling of the ROE are subject to confidential treatment in this proceeding,<sup>57</sup> the overall ROR of 7.91% is calculated by weighting the proposed ROE and the cost of debt according to their respective shares in Liberty's proposed capital structure. The ROE compensates shareholders for the capital invested and the associated risk, while the cost of debt represents the weighted average interest expense on Liberty's borrowings. These weighted components are combined to determine the proposed overall rate of return, which is applied to rate base to calculate the dollar amount of return included in Liberty's revenue requirement.

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<sup>55</sup> Reporters' Transcript, Vol. 3 at 120:20-22 (Liberty, Bourassa); *See also*, Exhibit LIB-23, *Rebuttal Testimony - Cost of Capital and Rate of Return*, dated July 24, 2025 (Bourassa Rebuttal Testimony); Exhibit TJB-3; Reporters' Transcript, Vol. 3 at 109:20-111:8 (Liberty, Bourassa); Exh. LIB-07; Exh. TJB-3 at 7.

<sup>56</sup> Liberty's continued escalating costs for wildfire insurance premiums may warrant the Commission to consider a rulemaking to address small and medium size utilities' long term wildfire insurance risks.

<sup>57</sup> *See* ALJ Ruling Granting Joint Motion for Protective Order dated February 20, 2025 and ALJ Ruling Adopting Confidential Modeling Procedures dated November 3, 2025.

#### **4.7. Scoped Issue 10**

Scoped Issue 10 is whether Liberty adequately implemented its risk-based decision-making process and framework. Liberty and other small and multi-jurisdictional utilities entered into a 2018 Settlement Agreement regarding requirements for their risk-based decision making in their future general rate case proceedings.<sup>58</sup> Liberty's testimony regarding its risk-based decision making is attached as Chapter 5 to the Application. No Party served intervenor testimony to rebut Liberty's testimony.

An ALJ ruling ordered Liberty to file a response with a more detailed description of its risk-based decision-making framework in this proceeding.<sup>59</sup> Liberty's response to that ALJ Ruling described how Liberty's risk-based decision-making comports with the requirements of D.19-04-020. No evidence was presented in this proceeding to dispute the adequacy of Liberty's risk-based decision-making. The Commission concludes that Liberty adequately implemented its risk-based decision-making process and framework.

#### **5. Summary of Public Comment**

Rule 1.18 allows any member of the public to submit written comment in any Commission proceeding using the "Public Comment" tab of the online Docket Card for that proceeding on the Commission's website. Rule 1.18(b) requires that relevant written comment submitted in a proceeding be summarized in the final decision issued in that proceeding. In this proceeding, 328 Public Comments were received as of the issuance of the Proposed Decision

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<sup>58</sup> Liberty Response to ALJ Ruling July 15, 2025 at 1; *see* D.19-04-020.

<sup>59</sup> *See* ALJ Ruling dated June 24, 2025.

that uniformly criticized Liberty's costs and rate increases. The Public Comments described increasingly difficult household and business hardships and affordability issues caused by Liberty's rapidly rising rates that outpace inflation. The Public Comments also criticized Liberty's operations and requested that the Commission limit Liberty's rate increases.

## **6. Conclusion**

This Decision resolves the entire proceeding. This Decision approves the Settlement Agreement except for rejecting the residential fixed charge and addresses the remaining disputed issues. This Decision authorizes Liberty a TY 2025 revenue requirement of \$231,938,000. This Decision also authorizes Liberty to have a ROE of 9.75%, a cost of debt of 5.87%, a capital structure of 47.5% debt and 52.5% equity, and a ROR of 7.91%. The Summary of Results of Operations for 2025 are Attachment B to the Proposed Decision. As set forth in Ordering Paragraph 10 below, within 60 days of the issuance of this Decision, Liberty shall submit to the Commission's Energy Division a Tier 2 Advice Letter to implement the provisions of this Decision.

## **7. Procedural Matters**

This Decision affirms all rulings made by the ALJ and assigned Commissioner in this proceeding. All motions not ruled on are deemed denied.

## **8. Comments on Proposed Decision**

The proposed decision of ALJ Patrick Petersen in this matter was mailed to the Parties in accordance with Pub. Util. Code Section 311 and comments were allowed under Rule 14.3. Comments were filed on March 5, 2026, and reply comments were filed on March 10, 2026 and on March 11, 2026. On March 13,

2026, the Settling Parties filed a Joint Status Update to accept the modification to the Settlement Agreement if the Commission provided 60 days for Liberty to submit a Tier 2 Advice Letter to the Commission's Energy Division to implement the terms of the Proposed Decision. We have carefully reviewed and considered the parties' comments and made appropriate changes to the proposed decision where warranted. We find that all further comments not specifically addressed by revisions to the Proposed Decision do not raise any factual, legal, or technical errors that would warrant modifications to the Proposed Decision.

#### **9. Assignment of Proceeding**

Matthew Baker is the assigned Commissioner and Patrick Petersen is the assigned ALJ in this proceeding.

#### **Findings of Fact**

1. On October 1, 2025, Liberty, Cal Advocates, TURN, A-3 CC, TERG and SBUA filed the Amended Settlement Motion for approval and adoption of the Settlement Agreement attached to this Decision as Attachment A, Appendix A.
2. The Settlement Agreement is the result of negotiated compromise of the positions of Liberty, Cal Advocates, TURN, A-3 CC, TERG and SBUA.
3. Tahoe SPARK was the only party that did not execute the Settlement Agreement.
4. The Settlement Agreement avoids undue and costly litigation regarding the revenue requirements.
5. The Settlement Agreement is uncontested.

6. Section 4.16 of the Settlement Agreement does not specify the timeframe for application of the fixed charge. Liberty's residential fixed charge will be determined by a Commission resolution that addresses Advice Letter 248-E.

7. This proceeding's factual record is insufficiently developed for the Commission to consider and determine Scoped Issues 4 and 12.

8. Liberty's service territory is forested and subject to significant wildfire risks.

9. Liberty's wildfire insurance premiums and related costs have increased significantly in recent years.

10. Liberty's testimony sufficiently established that it implemented its risk-based decision-making process and framework.

11. Liberty's Marginal Cost Of Service study was sufficient for the Commission to distinguish between permanent and non-permanent residential classifications.

12. Liberty's cost of debt of 5.87% was supported by Cal Advocates and uncontested by the other Parties.

13. A ROE of 9.75% reflects an appropriate balance that takes into consideration Liberty's interest in maintaining credit quality and attracting capital, ratepayer affordability, and fairness.

14. This Decision's impacts on affordability and disconnection for non-payment are reasonable, balancing objectives including rate stability, bill impact, and cost causation.

15. The Settling Parties' Joint Status Update accepted the Commission's modification to the Settlement Agreement provided the Commission orders

Liberty to submit a Tier 2 Advice Letter to the Commission's Energy Division to implement the terms of the Decision within 60 days.

### **Conclusions of Law**

1. The Settlement Agreement, except for Section 4.16 regarding a residential fixed charge, is reasonable in light of the whole record of this proceeding.
2. The Settlement Agreement, except for Section 4.16 regarding a residential fixed charge, is consistent with law.
3. The Settlement Agreement, except for Section 4.16 regarding a residential fixed charge, is in the public interest.
4. The Commission rejects Section 4.16 of the Settlement Agreement under Rule 12.4 because it is not reasonable in light of the whole record, is not consistent with law, and is not in the public interest.
5. The Amended Settlement Motion should be granted and the Settlement Agreement should be adopted, except for Section 4.16 of the Settlement Agreement regarding a residential fixed charge that should be rejected because it is not reasonable in light of the whole record, is not consistent with law, and is not in the public interest.
6. The Proposed Decision's rejection of Section 4.16 of the Settlement Agreement regarding a residential fixed charge constitutes a modification of the Settlement Agreement.
7. Under Rule 12.4(c), the Settling Parties should be allowed a reasonable time to elect to accept the Proposed Decision's adoption of the Settlement Agreement except for the rejection of Section 4.16 regarding a residential fixed charge or to request other relief.

8. It is reasonable to require the Settling Parties to state in their Comments to the Proposed Decision whether they elect to accept the Proposed Decision's adoption of the Settlement Agreement except for the rejection of Section 4.16 regarding a residential fixed charge or to request other relief.

9. The Commission should not determine and resolve Scoped Issues 4 and 12 in this Decision because of the insufficiencies in the evidentiary record in this proceeding.

10. A 30% Equal Percent of Marginal Change / 70% System Average Percentage Change revenue allocation is reasonable.

11. Liberty's proposed cost of debt of 5.87% is reasonable.

12. A ROE of 9.75% for Liberty is reasonable because it balances the interests of Liberty's investors and ratepayers.

13. A ROR of 7.91% for Liberty is reasonable because it balances the interests of Liberty's investors and ratepayers.

14. Liberty's revenue requirement of \$231,938,000 is reasonable because it balances the interest of Liberty's investors and ratepayers.

15. It is reasonable for the Commission to maintain the non-permanent residential class and reject Liberty's proposal to eliminate it.

16. This proceeding should be closed.

## **O R D E R**

**IT IS ORDERED** that:

1. The October 1, 2025, Amended Joint Motion of Liberty Utilities (CalPeco Electric) LLC, the Public Advocates Office at the California Public Utilities Commission, the A-3 Customer Coalition, Tahoe Energy Ratepayers Group,

Small Business Utility Advocates, and The Utility Reform Network for Approval and Adoption of the Multi-Party Settlement Agreement on Revenue Requirement Issues is granted, and the October 1, 2025 Settlement Agreement attached as Attachment A to this Decision is adopted, except that Section 4.16 of the Settlement Agreement is rejected.

2. Settling Parties shall state in their Comments to the Proposed Decision whether they elect to accept the Proposed Decision's adoption of the Settlement Agreement except for the rejection of Section 4.16 regarding a residential fixed charge or to request other relief.

3. Liberty Utilities (CalPeco Electric) LLC is authorized to collect, through rates and through authorized ratemaking accounting mechanisms, a test-year 2025 revenue requirement of \$231,938,000.

4. Liberty Utilities (CalPeco Electric) LLC is authorized a return on equity of 9.75%.

5. Liberty Utilities (CalPeco Electric) LLC is authorized a rate of return of 7.91%.

6. Liberty Utilities (CalPeco Electric) LLC is authorized a cost of debt of 5.87%.

7. Liberty Utilities (CalPeco Electric) LLC's permanent and non-permanent rate classes shall remain separate.

8. A revenue allocation of 30% based on Equal Percentage of Marginal Cost and 70% based on System Average Percentage Change is adopted.

9. Liberty Utilities (CalPeco Electric) LLC in its next General Rate Case shall conduct a more comprehensive and data-driven Marginal Cost of Service study that leverages Advanced Metering Infrastructure interval data.

10. Within 60 days of the issuance of this Decision, Liberty shall submit to the Commission's Energy Division a Tier 2 Advice Letter implementing the provisions of this Decision.

11. The balance recorded in Liberty's General Rate Case Revenue Requirement Memorandum Account from January 1, 2025 until the date the new tariffs are implemented, pursuant to this Ordering Paragraph, shall be amortized in rates from the date the new tariffs are implemented over a 36-month period.

12. Application 24-09-010 is closed.

This order is effective today.

Dated March 19, 2026, at Sacramento, California.

JOHN REYNOLDS  
President  
KAREN DOUGLAS  
MATTHEW BAKER  
CHRISTINE HARADA  
Commissioners

I reserve the right to file a dissent.

/s/ DARCI E L. HOUCK  
Commissioner

Decision 26-03-017  
Application 24-09-010

### Dissent of Commissioner Darcie L. Houck

#### **Application of Liberty Utilities (CalPeco Electric) LLC (U 933-E) for Authority to Among Other Things, Increase Its Authorized Revenues for Electric Service, Establish Marginal Costs, Allocate Revenues, And Design Rates, as of January 1, 2025.**

Decision 26-03-017 adopted a multi-party settlement on nearly all issues in dispute in Application 24-09-010. I am broadly supportive of this settlement. I am also supportive of the resolution of most of the other items at issue here. However, I find that this decision adopts a return on equity (ROE) that fails to balance ratepayer and shareholder interests as required by *Federal Power Commission et al. v. Hope Natural Gas Co.* (“Hope”)<sup>1</sup>, *Bluefield Waterworks & Improvement Co. v. Public Service Commission of West Virginia et al* (“Bluefield”)<sup>2</sup> and *FPC v. Natural Gas Pipeline Co.* (“Natural Gas Pipeline Co.”).<sup>3</sup> For this reasons, I cannot support the decision with the majority of my colleagues, and I respectfully register my dissent.

In *Hope*, the Court held that “...the fixing of “just and reasonable” rates, involves a balancing of the investor and the consumer interests.”<sup>4</sup> Moreover, the Court held in the same decision that “[rates] which enable the company to operate successfully, to maintain its financial integrity, to attract capital, and to compensate its investors for the risks assumed certainly cannot be condemned as invalid, even though they might produce only a meager return.”<sup>5</sup> In *Natural Gas Pipeline Co.* the Court wrote that “[the] consumer interest cannot be disregarded

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<sup>1</sup> *Federal Power Commission et al. v. Hope Natural Gas Co.* (“Hope,” 320 U.S. 591, 64 S.Ct. 281 (1944)).

<sup>2</sup> *Bluefield Waterworks & Improvement Co. v. Public Service Commission of West Virginia et al.* (“Bluefield,” 262 U.S. 679, 43 S.Ct. 675 (1923)).

<sup>3</sup> *Federal Power Commission v. Natural Gas Pipeline Co.* (“Natural Gas Pipeline Co.” 315 U.S. 575 (1942)).

<sup>4</sup> *Hope* , 320 U.S.at 603 (1944).

<sup>5</sup> *Hope* , 320 U.S.at 605 (1944).

in determining what is a "just and reasonable" rate. ... stockholders are not the only persons whose rights or interests are to be considered. The rights of the public are not to be ignored."<sup>6</sup>

In the instant case, the Applicant requested a rate of return of 11%. Cal Advocates submitted testimony testifying that the Applicant's ROE should be 9.25%. The Decision rightly finds that the Applicant's modeling was "less reliable" and used "atypical inputs that inflated [its] ROE request."<sup>7</sup> This Decision finds no similar flaws with Cal Advocates' modeling yet adopts an ROE 50 basis points higher than that submitted by Cal Advocates without explanation. By granting an unexplained premium over the only credible ROE submission in this proceeding, I fear that this Decision reinforces longstanding utility incentive to request unreasonably inflated ROEs on the well-founded understanding that this Commission will grant an ROE in between its request and any intervenors' suggestion regardless of credibility. Thus, I feel this Decision improperly valued the rights of the shareholder over the consumer interest and so I must dissent.

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<sup>6</sup> *Natural Gas Pipeline Co.*, 315 U.S. at 607-608.

<sup>7</sup> D.26-03-017 at 31.

**ATTACHMENT A**  
**(Settlement Agreement with Amended Appendix A and**  
**Appendix B Summary of Results of Operations 2025)**

**(END OF ATTACHMENT A)**

**ATTACHMENT B**  
**(Summary of Results of Operations 2025)**

**(END OF ATTACHMENT B)**