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Commissioner : L. Randolph
ALJ : K. McDonald
Witness : N. Stannik



OFFICE OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION

**Report on the Results of Operations
for
Liberty Utilities
(formerly CalPeco Electric)
Test Year 2016
General Rate Case**

Administrative & General Expenses
and
Operation & Maintenance Expenses

Public Version - Redacted

San Francisco, California
November 9, 2015

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1 **Liberty Utilities**
2 **Administrative & General Expenses**
3 **and**
4 **Operations & Maintenance Expenses**

5 **I. INTRODUCTION**

6 This exhibit presents the analyses and recommendations of the Office of
7 Ratepayer Advocates (ORA) regarding the Administrative & General (A&G) Expense
8 and Operations & Maintenance (O&M) Expense proposals of Liberty Utilities (Liberty
9 or LU) for Test Year (TY) 2016.

10 **II. SUMMARY OF RECOMMENDATIONS**

11 Liberty is forecasting a total for \$8.408 million for A&G expenses. ORA
12 recommends \$7.663 million, which is \$0.745 million less than Liberty's TY 2016
13 forecast. The following summarizes ORA's recommendations:
14

- 15 • ORA's forecast is \$3.052 million for "Administrative & General
16 Salaries" (Account 920), which is \$0.297 million lower than Liberty's
17 forecast of \$3.349 million.
- 18 • ORA's forecast is \$1.340 million for "Outside Services Employed"
19 (Account 923), which is \$0.065 million lower than Liberty's forecast
20 of \$1.405 million.
- 21 • ORA's forecast is \$1.769 million for "Employee Pensions &
22 Benefits" (Account 926), which is \$0.118 million lower than Liberty's
23 forecast of \$1.887 million.
- 24 • ORA's forecast is \$0.526 million for "Regulatory Commission
25 Expenses" (Account 928), which is \$0.241 million lower than
26 Liberty's forecast of \$0.767 million.

1 Table 3-2 compares ORA's TY 2016 forecast of Operations and
 2 Maintenance Expenses with those of Liberty:

3 **Table 3-2**
 4 **Select Liberty Operations & Maintenance Expenses for TY 2016**
 5 **(In Thousands of Dollars)**

Description (a)	ORA Recommended (b)	Liberty Proposed ² (c)	Amount LU>ORA (d=c-b)	Percentage LU>ORA (e=d/b)
Acct 580: Op supervision & eng (dist)	\$386	\$458	\$72	18.65%
Acct 581: Load dispatching	\$605	\$605	\$0	0.00%
Acct 586: Meter expenses	\$152	\$152	\$0	0.00%
Acct 588: Misc distribution expenses ³	\$1,263	\$2,631	\$1,368	108.31%
Acct 592: Maint of station equip	\$146	\$146	\$0	0.00%
Total ⁴	\$7,004	\$8,444	\$1,440	20.56%

6

7 **III. LIBERTY ADMINISTRATIVE AND GENERAL EXPENSES**

8 **A. Overview of Liberty's Administrative & General Expenses**
 9 **Request**

10 Liberty developed its TY 2016 forecasts by FERC Account using 2014 Base
 11 Year recorded expenses and adjusting for forecasted incremental changes. The
 12 adjusted 2014 Base Year expenses were then increased by an inflation factor of
 13 1.031 (3.1 percent) based on the 2015 and 2016 Consumer Price Index obtained
 14 from Bloomberg.⁵

(continued from previous page)

¹ Ex. Liberty-01, p.11, WP 1.2.2.

² Ex. Liberty-01, p.11, WP 1.2.2.

³ As noted in section IV-B-2-3-a below, ORA has recommended all bonus adjustments be applied to FERC account 588 for simplicity, even though employee bonuses are allocated throughout various FERC accounts in Liberty's proposal. Please see section IV-B-2-3-a below for further details.

⁴ Due to the large number of FERC accounts covering Operations & Maintenance Expenses (64), only accounts substantively discussed or for which ORA has recommended adjustments are shown. The totals shown in Table 3-2, however, include all O&M FERC accounts. The total for those not shown is \$4.452 million for both ORA and Liberty.

⁵ Ex.Liberty-01, Ch.2, P.139.

1 The following table shows Liberty's 2011-2014 Total Company recorded
 2 expenses.

3 **Table 3-3**
 4 **Liberty Administrative and General Expenses**
 5 **Recorded 2011-2014**
 6 **(In Thousands of Dollars)**

Description	2011	2012	2013	2014
Acct 920: Admin & General Salaries	\$1,623	\$1,577	\$1,590	\$2,043
Acct 921: Office Supplies & Expenses	\$676	\$831	\$796	\$913
Acct 922: Admin Expenses Transferred	\$(485)	\$(1,119)	\$(838)	\$(874)
Acct 923: Outside Services Employed	\$1,440	\$4,002	\$2,788	\$2,783
Acct 924: Property Insurance	\$384	\$381	\$408	\$217
Acct 925: Injuries and damages	\$480	\$534	\$453	\$520
Acct 926: Emp Pensions & Benefits	\$185	\$752	\$1,532	\$1,636
Acct 927: Franchise Requirements	\$1	\$1	-	-
Acct 928: Regulatory Commission Exp	\$183	\$(129)	\$227	\$453
Acct 929: Duplicate Charges	-	-	-	-
Acct 930: Misc General Expenses	\$1,384	\$(2)	\$26	\$51
Acct 931: Rents	\$5	-	\$1	\$15
Acct 935: Maint of General Plant	\$57	\$144	\$136	\$78
Total	\$5,933	\$6,975	\$7,118	\$7,835

7 Source: 2011-2014 data from "Attachment 2 to Response to ORA-004-JRW - Operating
 8 Maintenance and AG Expenses 2011-2014." TY 2016 data from Ex. Liberty-01, p.11, WP 1.2.2.

9 **B. ORA's Analysis**

10 **1. FERC Account 920 – Administrative and General**
 11 **Salaries**
 12

Description	ORA Recommended	Liberty Proposed	Amount LU>ORA	Percentage LU>ORA
Acct 920: Admin & General Salaries	\$3,052	\$3,349	\$297	9.73%

13
 14 **a. New Hires**

15 Liberty is requesting an increase of \$297,052 for four new full-time
 16 equivalents ("FTE"s). The four new positions and associated TY 2016 costs are as
 17 follows. Note that the costs associated with bonuses for these employees are not
 18 included in the figures cited above and below, as bonuses are discussed and

1 adjusted separately in section IV-B-7-c below:⁶

2

3	MV90 / Load Research	\$74,263
4	HR Coordinator	\$74,263
5	Admin Assistant – North Lake Tahoe	\$74,263
6	Admin Assistant – South Lake Tahoe	\$74,263

7

8 ORA asked Liberty to justify its need for four new FTEs. ORA asked:⁷

9 “Please provide all workload analyses, studies, or calculations that Liberty
10 conducted or used that demonstrate Liberty’s need for each position. If
11 Liberty did not conduct any analyses or studies, please explain why not.”

12

13 Liberty responded:

14 “MV90 / Load Research

15

16 Liberty Utilities decided to create this position to be better able and
17 more timely able to respond to its customers for detailed information
18 regarding monthly billing and demand.

19

20 HR Coordinator

21

22 Based on its experience with the scope of the responsibilities to
23 administer issues that arise under Liberty Utilities’ collective bargaining
24 agreement with Local IBEW 1245, Liberty Utilities decided to create
25 the position of HR Coordinator. The function of the HR Coordinator is
26 to assist the HR Manager in the administration of the union agreement.

27

28 Admin Assistant – South Lake Tahoe

29

30 Based on its experience and operating needs, Liberty Utilities decided
31 to hire an Administrative Assistant to be resident in the South Lake
32 Tahoe office. The South Lake Tahoe Administrative Assistant primary
33 duties would be to assist the Operations, Customer Care, and
34 Administrative functions that operate out of the South Lake Tahoe
35 office.

36

37 Admin Assistant – North Lake Tahoe

38

39 This position would assist the Operations and Administrative areas
40 located in Liberty Utilities’ North Lake Tahoe office. Based on its

⁶ Liberty response to ORA data request ORA-009-EJ1, Q.5a.

⁷ Liberty response to ORA data request ORA-009-EJ1, Q.5b.

1 experience and operating needs, Liberty Utilities decided to hire an
2 Administrative Assistant to be resident in its North Lake Tahoe office.
3 The North Lake Tahoe Administrative Assistant primary duties would
4 be to assist the Operations and Administrative functions which operate
5 out of the North Lake Tahoe office.”
6

7 ORA further asked:⁸

8 “Liberty provided short written justifications for the new positions requested in
9 this application. Does Liberty have any quantitative data demonstrating the
10 need for the new positions? If so, please provide.”
11

12 Liberty responded:

13 “For the MV90/Load Research, Human Resources Coordinator,
14 Administrative Assistants and Planner positions no quantitative data exists.
15 These functions are currently being performed by other salaried employees
16 and the time these salaried employees work on these functions is not
17 tracked.”
18

19 Liberty’s responses are insufficient to justify the requested increase in
20 expenditures. Liberty provides no quantitative evidence or analyses to support its
21 request for four new FTEs. It is inappropriate to burden ratepayers with funding for
22 four completely new positions that lack fundamental analyses. Most notably, there is
23 insufficient explanation or evidence to show the reasons current levels of staffing are
24 no longer sufficient to support ongoing and routine operations. In fact, Liberty’s
25 request of \$3.349 million for FERC account 920 in this application is already more
26 than \$1 million over 2014 recorded costs. ORA recommends that the Commission
27 not adopt funding of \$297,052 for the four requested new hires.

28 **2. FERC Account 926 – Employee Pensions and**
29 **Benefits**
30

Description	ORA Recommended	Liberty Proposed	Amount LU>ORA	Percentage LU>ORA
Acct 926: Emp Pensions & Benefits	\$1,769	\$1,887	\$118	6.67%

31
32 **a. New Hires**

⁸ Liberty response to ORA data request ORA-034-NS4, Q.6a.

1 Liberty is requesting \$118,235 for employee pension and benefit expenses
2 associated with the four requested new hires discussed, as well as the position
3 discussed in Section IV-B-6-a below. The associated expenses are detailed in
4 Table 1 of confidential Appendix 3-A.

5 ORA recommended that the Commission not adopt funding for the five new
6 hires discussed above and below; therefore, ORA also recommends removing the
7 associated employee pension and benefit expenses of \$118,235 from Liberty's TY
8 2016 forecast.

9 3. FERC Account 923 – Outside Services Employed

Description	ORA Recommended	Liberty Proposed	Amount LU>ORA	Percentage LU>ORA
Acct 923: Outside Services Employed	\$1,340	\$1,405	\$65	4.85%

11 a. Lobbying Services

12 Liberty is requesting \$64,500 to “increase outside services for [a] lobbyist.” In
13 response to ORA’s request for more information, Liberty stated:⁹

14 “Liberty Utilities has yet to employ a consultant to represent the Company at
15 the California Legislature, California Governor’s office and / or the different
16 California state agencies. As more legislation and regulations are adopted
17 that have an impact on Liberty Utilities’ operations and customers, the
18 Company wants to be proactive in monitoring and addressing these new
19 proposed requirements and educating legislators and agency officials about
20 Liberty Utilities’ unique characteristics.”

21 Further confidential details regarding Liberty’s proposed Lobbying Services
22 Contract are provided in confidential Appendix 3-A.

23 It is clear that the primary function of Liberty’s requested lobbying services is
24 to represent the interests of Liberty and its shareholders more so than that of its
25 ratepayers. The information provided by both Liberty and the Hartmann Strategies
26 Group does not once explain how or indicate that these services will benefit
27 ratepayers.
28
29

⁹ Liberty response to ORA data request ORA-020-EJ1,Q.3a.

1 In regards to lobbying activities, the Commission stated in D.96-01-011 at
2 page 129:

3 “Account 426.4 describes lobbying expenses as activities conducted for the
4 purpose of influencing public officials’ decisions. It does not limit lobbying
5 expenses to those activities occurring directly with the public officials...We do
6 not believe that influencing the decisions of public officials through staff
7 members of regulatory agencies should be funded by ratepayers any more
8 than direct contact with these public officials.”
9

10 FERC Account 426.4 defines lobbying activities as follows:

11 “This account shall include expenditures for the purpose of influencing public
12 opinion with respect to the election or appointment of public officials,
13 referenda, legislation, or ordinances (either with respect to the possible
14 adoption of new referenda, legislation or ordinances or repeal or modification
15 of existing referenda, legislation or ordinances) or approval, modification, or
16 revocation of franchises; or for the purpose of influencing the decisions of
17 public officials, but shall not include such expenditures which are directly
18 related to appearances before regulatory or other governmental bodies in
19 connection with the reporting utility’s existing or proposed operations. (D.96-
20 01-011, page129).”
21

22 Ratepayers are not responsible for funding Liberty’s policy and legislation
23 goals. The costs associated with lobbying services should be funded by Liberty’s
24 shareholders. ORA recommends that the Commission not adopt Liberty’s request of
25 \$64,500 for lobbying services.

26 **4. FERC Account 928 – Regulatory Commission**
27 **Expenses**
28

Description	ORA Recommended	Liberty Proposed	Amount LU>ORA	Percentage LU>ORA
Acct 928: Regulatory Comm Exp	\$526	\$767	\$241	45.82%

29
30 **a. 2013 General Rate Case Expenses**

1 Liberty is requesting an increase of \$522,738, or \$174,239 annually, to
2 recover expenses incurred as part of the 2013 GRC. ORA asked Liberty to provide
3 more information about its request. ORA asked:¹⁰

4 "Liberty includes \$592,382 for 'Balance at 12/31/14' in its TY forecast for
5 General Rate Case costs. Please explain the basis for including this balance
6 in Liberty's TY forecast."
7

8 Liberty's response:
9

10 "The \$592,382 consists of the incremental costs associated with Liberty
11 Utilities' 2013 and 2016 general rate cases. When Liberty Utilities prepared
12 their 2013 general rate case, it was estimated that the incremental costs for
13 that application would total \$680,967 which the California Commission
14 approved for recovery. Due to the fact that the 2013 general rate case was
15 Liberty Utilities first, the estimate was materially lower than what was actually
16 incurred (\$1,203,705). Liberty Utilities is requesting recovery of the residual
17 amount (\$522,738) in this application. Also included in the \$592,382 are
18 incremental costs (\$69,644) that were incurred in the last quarter of 2014 for
19 the 2016 general rate case."
20

21 ORA recommends that the Commission deny Liberty's request to recover
22 2013 GRC costs of \$522,644, or an annual amount of \$174,239 for three years.
23 Liberty's request to recover expenses incurred and authorized for recovery during a
24 previous rate case cycle constitutes retroactive ratemaking. It is a cost that has
25 previously been requested and authorized in the prior GRC. Therefore, recovery of
26 the 2013 GRC has already been authorized by the Commission and recovered in
27 rates. The costs incurred in many accounts, on an actual basis, may differ from the
28 amount authorized by the Commission. This occurs in all GRC cases. The fact is
29 that Liberty was authorized and recovered the forecast of its prior 2013 GRC costs in
30 its TY 2013 GRC proceeding. Liberty is not entitled to recovery of these costs in its
31 TY 2016 GRC. This is retroactive ratemaking and the request for recovery by
32 Liberty should be denied by the Commission. This form of ratemaking undermines
33 the General Rate Case process. The adoption of this request to recover any
34 expense or loss incurred during a prior GRC period is contrary to policy and law by

¹⁰ Liberty response to ORA data request ORA-020-EJ1,Q.4a.

1 the Commission. Just as ratepayers would not have been refunded had Liberty
2 underspent its authorized amount of funding, neither should the utility be able to
3 recover expenses that exceeded the authorized levels.

4 **b. Estimated Legal Costs for 2016 General Rate**
5 **Case**

6 Liberty requests \$953,000, or \$317,667 annually, to recover legal expenses
7 incurred as part of its current 2016 GRC. Since Liberty incurred \$ [REDACTED] in costs in
8 its last GRC,¹¹ this represents a [REDACTED] % increase.

9 In data request ORA-043-EJ1, ORA asked Liberty to quantify its claim that
10 “Due to numerous inter-related applications (solar projects and new purchased
11 power agreement) and their impact on the 2016 general rate case, the projected
12 amount of external legal involvement will increase. Due to the increase in legal
13 involvement and the increase in hourly rates, the incremental legal costs were
14 increased by fifty percent of the cost incurred for the 2013 general rate case.”¹²

15 Although Liberty was able to provide documentation showing a [REDACTED] %
16 increase in hourly rates for outside counsel,¹³ it also stated that “No specific
17 documentation exists”¹⁴ when asked to “Please provide all documentation and
18 analyses that show an increase in legal involvement for the 2016 GRC.” When
19 asked to demonstrate how “Liberty specifically derived an increase of fifty percent
20 over 2013 legal expenses (as opposed to no increase or a percentage increase of
21 another amount)”, Liberty simply stated that it “used its best judgement to quantify
22 the estimated increase based on the various factors described [in the same data

¹¹ Confidential Liberty response to ORA data request ORA-043-EJ1,Q.1a.

¹² Liberty response to ORA data request ORA-043-EJ1, Q1.

¹³ Confidential Attachment “CONFIDENTIAL Attachment 1 to Response to ORA-43-EJ1.pdf” to ORA-043-EJ1.

¹⁴ Liberty response to ORA data request ORA-043-EJ1, Q1.b.

1 request],¹⁵ which included “additional discovery requests” and an “increased
2 number of intervenors.”¹⁶

3 Liberty has not demonstrated that additional legal resources are necessary in
4 filing its 2016 GRC. ORA proposes a substantial [REDACTED] % increase in legal costs (to
5 \$ [REDACTED] for TY 2016 to reflect the increase in per-hour rates of Liberty’s external
6 counsel. This is \$199,934 lower than Liberty is requesting or an annual amount of
7 \$66,645 for three years.

8 **c. ORA Recommended Adjustment to FERC**
9 **Account 928 – Regulatory Commission**
10 **Expense**

11 ORA recommends a total reduction to FERC 928 – Regulatory Commission
12 Expense of \$0.241 million per year, \$0.174 million for the 2013 rate case expenses
13 and \$0.067 for legal costs, as discussed above.

14
15 **5. FERC Account 930 – Misc General Expenses**
16

Description	ORA Recommended	Liberty Proposed	Amount LU>ORA	Percentage LU>ORA
Acct 930: Misc General Expenses	\$93	\$117	\$24	25.81%

17
18 **a. Internal Audit Costs**

19 ORA recommends removal of \$23,941 from base year A&G expense to
20 adjust for internal audit costs. This is due to Liberty’s refusal to allow ORA access to
21 the supporting documents to verify internal audit costs. See Exhibit ORA-10 (ORA
22 Audit Report) for more information and additional support.

¹⁵ Liberty response to ORA data request ORA-043-EJ1, Q1.d.

¹⁶ Liberty response to ORA data request ORA-043-EJ1, Q1.b.

1 **IV. LIBERTY’S OPERATIONS AND MAINTENANCE EXPENSES**

2 **A. Overview of Liberty’s Operations & Maintenance Expenses**
3 **Request**

4 Liberty developed its TY 2016 forecasts by FERC Account using 2014 Base
5 Year recorded expenses and adjusting for forecasted incremental changes. The
6 adjusted 2014 Base Year expenses were then increased by an inflation factor of
7 1.031 (3.1 percent) based on the 2015 and 2016 Consumer Price Index obtained
8 from Bloomberg.¹⁷

9 The following table shows Liberty’s 2011-2014 Total Company recorded
10 expenses. Due to the large number of FERC accounts (64) covering Operations &
11 Maintenance Expenses, only accounts substantively discussed below or for which
12 ORA has recommended adjustments are shown:

13
14
15
16
17
18
19
20
21

Table 3-4
Select Liberty Operations and Maintenance Expenses
Recorded 2011-2014
(In Thousands of Dollars)

Description	2011	2012	2013	2014
Acct 580: Op supervision & eng (dist)	\$446	\$207	\$14	\$22
Acct 581: Load dispatching	\$830	\$784	\$826	\$837
Acct 586: Meter expenses	\$54	\$245	\$376	\$385
Acct 588: Misc distribution expenses	\$2,016	\$2,168	\$1,829	\$2,361
Acct 592: Maint of station equip	\$128	\$136	\$169	\$153
Total	\$3,475	\$3,541	\$3,214	\$3,757

22 Source: 2011-2014 data from “Attachment 2 to Response to ORA-004-JRW - Operating
23 Maintenance and AG Expenses 2011-2014.” TY 2016 data from Ex. Liberty-01, p.11, WP 1.2.2.

¹⁷ Ex. Liberty-01, Ch.2, p.139.

1 **B. ORA’s Analysis**

2 **1. FERC Accounts 581, 586, 592 - Long-Term Service**
3 **Agreements**

4 **a. Long-term Service Agreements**

5 Liberty requests a net increase in expenses of \$9,570 due to the expiration of
6 various Long-Term Service Agreements (LTSAs) and an increase in expenses to
7 replace these services. This increase is comprised of a reduction of costs of
8 \$400,710 and an increase of \$410,280.¹⁸ These changes are included in FERC
9 accounts 581, 586, 592, and 923.

10 ORA does not recommend an adjustment to any of Liberty’s expenses
11 associated with the transition from the use of LTSAs to in-house personnel.

12 **2. FERC Account 580 – Operations Supervision and**
13 **Engineering**
14

Description	ORA Recommended	Liberty Proposed	Amount LU>ORA	Percentage LU>ORA
Acct 580: Op supervision & eng (dist)	\$386	\$458	\$72	18.65%

15
16

¹⁸ Ex. Liberty-01, WP 1.2.5, p.26.

1 **a. New Hires**

2 Liberty is requesting an increase of \$ [REDACTED] for one new full-time equivalent
3 (“FTE”) in FERC account 580. The new position and associated TY 2016 costs are
4 as follows. Note that the costs associated with bonuses for this employee are not
5 included in the figure cited above and below, as bonuses are discussed and
6 adjusted separately in section IV-B-7-c below:

7 Planner – South Lake Tahoe \$ [REDACTED]¹⁹

8
9 ORA asked:²⁰

10 “Liberty provided short written justifications for the new positions requested in
11 this application. Does Liberty have any quantitative data demonstrating the
12 need for the new positions? If so, please provide.”

13
14 Liberty’s Responded:

15 “For the MV90/Load Research, Human Resources Coordinator,
16 Administrative Assistants and Planner positions no quantitative data exists.
17 These functions are currently being performed by other salaried employees
18 and the time these salaried employees work on these functions is not
19 tracked.”

20
21 Liberty’s response is brief and insufficient. Liberty provides no quantitative
22 evidence or analyses to support its request for its new FTE. It is inappropriate to
23 burden ratepayers with funding for a completely new position that lacks any sort of
24 fundamental analyses and support. There is no explanation or evidence to show the
25 reasons that current levels of staffing are no longer sufficient to support ongoing and
26 routine operations. ORA recommends that the Commission not adopt funding of
27 \$ [REDACTED] for the requested new hire.

28 **3. Employee Salary and Bonus Adjustments**

29

Description	ORA Recommended	Liberty Proposed	Amount LU>ORA	Percentage LU>ORA
Acct 588: Misc distribution expenses ²¹	\$1,263	\$2,631	\$1,368	108.31%

¹⁹ Confidential Attachment 1 to Liberty response to ORA data request ORA-035-NS4, Q.1.

²⁰ Liberty response to ORA data request ORA-034-NS4, Q.6a.

1 **a. Employee Salaries**

2 Liberty requests a net increase of \$1,797,550 for an “incremental increase in
3 salaries and wages for new bargaining unit agreement, salary increases, and new
4 hires.”²² This increase is distributed in the following FERC accounts: 580, 582, 583,
5 584, 585, 586, 588, 590, 592, 593, 594, 595, 596, 597, 598, 901, 902, 903, 907,
6 908, and 920.

7 ORA does not object to Liberty’s new collective bargaining unit agreement or
8 its proposal to increase employee salaries by 3% annually. ORA would also note
9 that the 3% increase is above forecast labor inflation rates for 2015 and 2016.
10

11 **b. Employee Bonuses**

12 All Liberty employees are eligible for an annual bonus derived as a
13 percentage of their base salary. Bonuses range from [REDACTED] depending on
14 employee eligibility. Both bonus programs that Liberty operates include weightings of
15 company financial performance. Please see confidential Appendix 3-A for details of
16 Liberty’s bonus programs’ structures

17 Incentive criteria tied to financial goals are clearly shareholder-oriented.
18 While there is no direct benefit to ratepayers, there is a tangible benefit to
19 shareholders in the form of dividends and higher stock prices. As such, there is no
20 justification to support ratepayer funding for this component of the incentive plan.
21 Commissions in other jurisdictions have disallowed incentive plans, in total or in part,
22 that are based on financial goals; the state of Illinois has a law which prohibits any
23 ratepayer funding of incentive compensation that is based on net income or on an
24 affiliate’s earnings per share.²³ This approach is in line with Commission precedent.

(continued from previous page)

²¹ As noted in section IV-B-2-3-a below, ORA has recommended all bonus adjustments be applied to FERC account 588 for simplicity, even though employee bonuses are allocated throughout various FERC accounts in Liberty’s proposal. Please see section IV-B-2-3-a below for further details.

²² Ex. Liberty-01, p.26, WP 1.2.5.

²³ Illinois Public Utilities Act, Article XVI, Section 16-108.5(c)(4)(A). Available at: <http://www.ilga.gov/legislation/ilcs/ilcs4.asp?ActID=1277&ChapterID=23&SeqStart=35100000&SeqEnd=39400000>

1 In Decision D. 14-08-032 in PG&E’s 2014 GRC, the Commission concluded that
 2 elements of PG&E’s Short-Term Incentive Plan “essentially benefit shareholders, but
 3 without a clear demonstrable benefit to ratepayers” and concluded that “these STIP
 4 elements should not be paid for by ratepayers”.²⁴ ORA recommends that
 5 ratepayers should not be responsible for funding the ‘Financial’ weighting portion of
 6 Liberty’s bonus programs as shown in the tables above.

7 In addition, because ratepayers and shareholders may both benefit from
 8 employees being motivated to meet operational, customer, and individual goals, the
 9 remaining portion of bonus expense should be shared. This practice is also in line
 10 with Commission precedent. Decisions D. 14-08-032 (2014 PG&E GRC) and D. 00-
 11 02-046 (1999 PG&E GRC) endorsed sharing of certain incentive program costs,
 12 stating “We continue to believe that equal sharing of cost is fair, and that it provides
 13 appropriate incentives to the utility to perform in ways that benefit ratepayers and
 14 shareholders alike.”²⁵ ORA recommends ratepayers fund 50% of the remaining
 15 bonus expenses.

16 Using salary data provided by Liberty and Tables 3-5 and 3-6 above, ORA
 17 calculated²⁶ the above-described adjustments for financial and non-financial bonus
 18 components for the SBP and STIP as follows:

19 **Table 3-5**
 20 **Liberty Bonus Component Expenses for TY 2016**
 21 **(In Thousands of Dollars)**

Description (a)	ORA Recommended (b)	Liberty Proposed (c)	Amount LU>ORA (d=c-b)	Percentage LU>ORA (e=d/b)
Financial Bonus Component	\$0	\$724	\$724	N/A%
Non-financial Bonus Component	\$643	\$1287	\$643	100.00%
Total	\$643	\$2011	\$1367	212.60%

22
 23 The above adjustments account for the disallowance of the five positions
 24 described in Sections III-2-B-a and IV-B-6-a above. The above adjustments do not

²⁴ D. 14-08-032, page 521,

²⁵ D. 00-02-046, page 256.

²⁶ ORA Workpaper “WP3-1 CONFIDENTIAL Bonus Adjustment Calculation.xlsx”

1 include an adjustment for Liberty's proposed "GHG/CARE Administrator," the
2 funding for which is being sought in a separate proceeding.

3 The bonus adjustments described above are distributed over numerous
4 FERC accounts. For simplicity, ORA proposes the total adjustment be made to
5 FERC Account 588 (Miscellaneous Distribution Expenses).