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Exhibit Number : ORA-06
Commissioner : L. Randolph
ALJ : K. McDonald
Witness : G. Dunham



**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**

Depreciation

San Francisco, California
November 9, 2015

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1 **DEPRECIATION**

2 **I. INTRODUCTION**

3 This exhibit presents the analyses and recommendations of the Office of
4 Ratepayer Advocates (ORA) regarding the depreciation proposals of Liberty Utilities
5 (Liberty or LU) for Test Year (TY) 2016.

6 Depreciation, in utility regulation, is the loss in service value not restored by
7 maintenance, incurred in connection with the use of utility plant during the course of
8 current utility operations. Among justifications for depreciation includes, wear and
9 tear, deterioration, action of the elements, inadequacy, obsolescence, changes in
10 industry demand and the changes in requirements of public authorities.

11 Depreciation, as used in accounting, is a method of distributing fixed capital
12 costs, less net salvage value (and cost of removal), over time by allocating annual
13 amounts to expense. The most prevalent method of allocation is to distribute an
14 equal amount of cost to each year of service life. This method is known as the
15 Straight-line method of depreciation.

16 Liberty used the Straight-line method to calculate depreciation rates for TY
17 2016. ORA has no objection to this method of calculating Liberty’s proposed
18 depreciation rates. Liberty also uses amortization accounting for a number of
19 accounts that represent numerous units of property and a small portion of
20 depreciable electric plant in service.

21 Liberty’s depreciation estimates also include provisions for service life, net
22 salvage value, and cost of removal. These items, including methodology, concepts
23 and judgments were taken into consideration by ORA’s during analysis of Liberty’s
24 depreciation calculations.

25 Liberty’s depreciation calculations apply to Other Production Plant,
26 Distribution Plant, and General Plant items.

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1 **II. SUMMARY OF RECOMMENDATIONS**

2 The following summarizes ORA’s recommendations:

- 3 • Liberty proposes for Test Year 2016 to reduce its authorized
4 average Depreciation Rate from 2.33%¹ to 2.21%.² Liberty has
5 proposed a 0.12%³ reduction from Liberty’s previous authorized
6 depreciation rate of 2.33%. ORA has no objection to Liberty
7 Utility’s proposed depreciation rates.
- 8 • DRA has no objection to Liberty’s proposed depreciation rate
9 reductions including the following significant rate increases listed
10 below.
- 11 • Liberty Utility proposes Poles, Towers and Fixtures (FERC Account
12 364) be increased from 1.73% to 2.19%. ORA analyzed Liberty
13 Utility’s proposed increase for this account and does not object to
14 Liberty’s proposal.
- 15 • Liberty Utility proposes Underground Conductors and Devices
16 (FERC Account 367) be increased from 2.15% to 2.27%. ORA
17 analyzed Liberty Utility’s proposed increase for this account and
18 does not object to Liberty’s proposal.
- 19 • Liberty Utility proposes Line Transformers (FERC Account 368) be
20 increased from 1.65% to 1.77%. ORA analyzed Liberty Utility’s
21 proposed increase for this account and does not object to Liberty’s
22 proposal.
- 23 • Liberty Utility proposes Installations on Customer Premises, (FERC
24 Account 371) be increased from 1.01% to 2.07%. ORA analyzed
25 Liberty Utility’s proposed increase for this account and does not
26 object to Liberty’s proposal.
- 27 • Liberty Utility proposes Transportation Equipment, (FERC Account
28 392) be increased 4.40% to 7.14%. ORA analyzed Liberty Utility’s
29 proposed increase for this account and does not object to Liberty’s
30 proposal.

¹ General Rate Case, Phase One, Work Papers, Volume 1 of 1, Exhibit 1, Page 42 of 247, column (i) line 43.

² General Rate Case, Phase One, Work Papers, Volume 1 of 1, Exhibit 1, Page 42 of 247, column (n) line 43.

³ Authorized depreciation rate 2.33%, minus proposed depreciation rate 2.21%, equals 0.12%.

- Liberty Utility proposes Power-Operated Equipment (FERC Account 396) be increased from 6.67% to 7.14%. ORA analyzed Liberty Utility's proposed increase for this account and does not object to Liberty's proposal.
- ORA does not recommend any adjustments to Liberty's depreciation reserve calculation methodology.

Table 6-1 compares ORA's TY2016 forecast of depreciation expense with those of Liberty. Differences come from differences in capital expenditure forecasts.

**Table 6-1
Liberty Depreciation Expenses for TY 2016
(In Thousands of Dollars)**

	ORA	Liberty	Amount	Percentage
Description	Recommendation	Proposed	LU>ORA	LU>ORA
(a)	(b)	(c)	(d=-c-b)	(e=d/b)
Poles, Towers and Fixtures	\$ 163,744	\$ 163,744	\$ -	\$ -
Underground Conductors and Devices	\$ 50,825	\$ 50,825	\$ -	\$ -
Line Transformers	\$ 32,120	\$ 32,120	\$ -	\$ -
Transportation Equipment	\$ 32,120	\$ 32,120	\$ -	\$ -
Installation on Customer premises	\$ 13,558	\$ 13,558	\$ -	\$ -
Transportation Equipment	\$ 54,079	\$ 54,079	\$ -	\$ -
Power Operated Equipment	\$ 1,147	\$ 1,147	\$ -	\$ -
Total Proposed	\$ 315,473	\$ 315,473	\$ -	\$ -
Other Depreciation Expenses	\$ 4,598,224	\$ 4,598,224	\$ -	\$ -
Grand Total Depreciation	\$ 4,913,697	\$ 4,913,697	\$ -	\$ -

Source; Exhibit 1, Chapter 5, W.P. 1.5.1 page 1 of 1, Wittman

1 **III. DEPRECIATION EXPENSE**

2 **A. Overview of Liberty's Request**

3 Liberty Utilities, formerly known as California Pacific Electric Company
4 (CalPeco), purchased Sierra Pacific in 2011, and has had only one prior General
5 Rate Case (GRC) proceeding, in 2013, prior to this one. Liberty contracted an
6 outside contractor, (Gannett Fleming, the same contractor used by CalPeco), to
7 provide a depreciation study for Liberty Utilities' TY 2016 General Rate Case.
8 ORA's analysis of Liberty Utility's proposed depreciation rates was provided for
9 review and analysis of the Gannett Fleming Depreciation Study.

10 ORA has reviewed and analyzed Liberty's proposed revision of depreciation
11 rates and expenses. ORA is not recommending any changes. Any differences in
12 between ORA's and Liberty's depreciation expense forecasts are due to differences
13 in the respective capital expenditure forecasts.

14 Table 6-2 shows Liberty's current depreciation rates by FERC account.
15 Liberty's depreciation rates were authorized in CalPeco 2011 General Rate Case.
16 Liberty's authorized depreciation rates are compared to Liberty's proposed
17 depreciation rates.

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Table 6-2
Liberty Depreciation Rates
Currently Authorized, Liberty Proposed, and ORA Recommended

FERC Account	FERC Description	Currently Authorized	Liberty Proposed	ORA Recommendation
303	Software	12.5%	9.61%	9.61%
341	Structures & Improvements	3.47%	1.96%	1.96%
342	Fuel Holders, Producers & Accessories	3.47%	1.96%	1.96%
344	Generators	3.51%	1.94%	1.94%
346	Misc. Power Plant Equipment	3.35%	1.82%	1.82%
360	Land Rights	1.34%	1.22%	1.22%
361	Structures and Improvements	1.87%	1.68%	1.68%
362	Station Equipment	1.65%	1.34%	1.34%
364	Poles, Towers & Fixtures	1.73%	2.19%	2.19%
365	Overhead Conductors	2.72%	2.42%	2.42%
366	Underground Conduit	1.52%	1.41%	1.41%
367	Underground Conductors	2.15%	2.27%	2.27%
368	Line Transformers	1.65%	1.77%	1.77%
369	Services	1.37%	1.29%	1.29%
370	Meters	2.99%	2.46%	2.46%
371	Install on Customer Premises	1.01%	2.07%	2.07%
373	Street Lighting	3.03%	2.24%	2.24%
389.2	Land Rights	1.80%	1.85%	1.85%
390	Structures and Improvements	1.78%	1.59%	1.59
391.1	Office Furniture and Equipment	5.00%	5.00%	5.00%
392	Transportation Equipment	4.40%	7.14%	7.14%
393	Store Equipment	5.00%	5.00%	5.00%
394	Tools, Shop & Garage Equipment	4.00%	4.00%	4.00%
396	Power Operated Equipment	6.67%	7.14%	7.14%
397	Communication Equipment	6.67%	6.67%	6.67%

5 Source: Liberty Utility reply to Data Request, ORA-061-GSD sent 10-7-15.

1 **B. ORA's Analysis**

2 **1. FERC Account 364 – Poles, Towers and Fixtures**

3 Liberty proposes to increase the depreciation rate for FERC account 364,
4 Poles, Towers and fixtures, rate from 1.73% to 2.19%. Liberty proposes to increase
5 Net Salvage calculation from +40% to +50%, due to recent historical recorded data
6 for net salvage.⁴ ORA has reviewed Liberty's showing, and does not object to
7 Liberty's proposed increase for this account.

8 **2. FERC Account 367 – Underground Conductors**
9 **and Devices**

10 Liberty proposes to change FERC account 367, Underground Conductors
11 and Devices, survivor curve from R 4.0 to R 3.0, a widening and flattening of the
12 survivor curve due to recent historical recorded data regarding survivor data for
13 Underground Conductors and Devices.⁵ Liberty proposes to increase its
14 depreciation rate from 2.15% to 2.27%. ORA has no objection to Liberty's proposed
15 increase for Underground Conductors and Devices.

16 **3. FERC Account 368 – Line Transformers**

17 Line Transformers: Liberty proposes to increase, FERC Account 368, Line
18 Transformers service life, from 50 to 52 years and increase net salvage value from
19 +5% to +10%, due to recent historical recorded data for service life and net salvage
20 data.⁶ Liberty proposes to increase its depreciation rate from 1.65% to 1.77%. ORA
21 has no objection to Liberty's proposed increase for Line Transformers.

22 **4. FERC Account 371 – Installation on Customers'**
23 **Premises**

24 Installation on Customers' Premises: Liberty proposes to increase FERC
25 Account 371, Installation on Customers' Premises from 1.01% to 2.07% due to a

⁴ Data Request: ORA-063-GSD, responded Oct. 8, 2015, Response to question 1, Page 4.

⁵ Ibid

⁶ Ibid

1 calculation based on plant and reserve for assets Sierra at 12/31/2009 versus
2 Liberty's calculation based on plant and reserve assets at 12/31/2013.⁷ ORA has no
3 objection to Liberty's proposed increase for Installation on Customer Premises.

4 **5. FERC Account 392 – Transportation Equipment**

5 Transportation Equipment: Liberty proposes to increase FERC Account 392,
6 Transportation Equipment net salvage value from +8% to +10% due to recent
7 historical recorded data for net salvage value.⁸ Liberty also proposed to increase its
8 depreciation rate from 4.40% to 7.14%. ORA has no objection to Liberty's proposed
9 increase for Transportation Equipment.

10 **6. FERC Account 396 – Power-Operated Equipment**

11 Power-Operated Equipment: Liberty proposes to change FERC Account 396,
12 Power-Operated Equipment survivor curve from R1.5 to L1.0 due to recent recorded
13 Power-Operated Equipment recorded historic data.⁹ This revised data shifts the
14 Iowa survivor curve from right to left, showing a change to a shorter more dispersed
15 equipment lifetime than previously recorded for this equipment. Also Liberty
16 proposes to increased net salvage value from +8% to +10% due to recent recorded
17 historical data for net salvage value. Liberty proposes to increase its depreciation
18 rate from 6.76% to 7.14%. ORA has no objection to Liberty's proposed increase for
19 Power-Operated Equipment.

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⁷ Ibid

⁸ Ibid

⁹ Ibid

1 **IV. DEPRECIATION RESERVE**

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3 The depreciation reserve balance for the test year is calculated in the Results
4 of Operations (RO) model which incorporates the estimated depreciation expenses
5 based on net plant addition forecasts and automatically calculates the reserve
6 requirement for the test year.

7 ORA does not propose any changes to Liberty's proposed method of
8 calculating depreciation reserve. Any difference between ORA's and Liberty's
9 depreciation reserve forecast is due to the respective differences in the capital
10 expenditure and depreciation expense forecasts.