

Docket : A.15-05-008  
Exhibit Number : ORA-01 R  
Commissioner : L. Randolph  
ALJ : K. McDonald  
Witness : J. Wuehler



**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**

Executive Summary and Post-Test Year Ratemaking

San Francisco, California  
November 9, 2015

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1 The rate of return on rate base proposed by Liberty in its application is 7.92%  
2 for test year 2016 and is based on a 10.50% return on equity (ROE) and a capital  
3 structure of 45% long-term debt and 55% common equity.  
4

5 **B. ORA Recommends a \$3.613 million increase in Base Rates**

6 ORA recommends an overall rate increase in rates totaling \$3.613 million  
7 annually or 4.62 percent increase over present.”<sup>4</sup> The primary components of the  
8 recommendation are:

- 9 (1) A proposed Rate of Return of 7.17%;
- 10 (2) An annual decrease to Energy Cost Adjustment Clause (ECAC)  
11 revenues of \$3.68 million;
- 12 (3) An annual increase of \$0.700 million to amortize costs in its Catastrophic  
13 Events Memorandum Account (CEMA);
- 14 (4) An annual increase of \$0.070 million for Energy Efficiency programs;  
15 and
- 16 (5) An annual increase of \$0.371 million to implement a Solar Incentive  
17 Program.<sup>5</sup>

18 The result is an increase in total revenues of 4.62%, from \$78.256 million to  
19 \$81.869 million.

20 ORA recommends that the Commission adopt a rate of return on rate base  
21 for Liberty of 7.17% for test year 2016 which is based on a 9.71% return on equity  
22 (ROE) and Liberty’s 2015 actual capital structure of 51.63% long-term debt and  
23 48.37% common equity.

24 ORA proposes lower test year forecasts of \$1.440 million for Operation and  
25 Maintenance expenses and \$0.745 million Administrative and General expenses as  
26 compared to Liberty’s requests.

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<sup>4</sup> Ex. No. Liberty-\_\_\_, Volume 1, page 6 of 253.

<sup>5</sup> Ex. No. Liberty-\_\_\_, Volume 1, page 7 of 253.

1           ORA recommends that a third attrition year be added before Liberty files its'  
2 next general rate case which would change the amortization period of costs being  
3 amortized in this GRC from 3 years to 4 years and would make 2020 Liberty's next  
4 GRC test year.

## 5   **II.    Organization of ORA's Showing**

6           This section lists how ORA's exhibits are organized and briefly summarizes  
7 the contents of each exhibit.

### 8                   1. Exhibit ORA-01, Executive Summary

9           This exhibit provides a brief overview of Liberty' request; presents the overall  
10 organization of ORA's exhibits; summarizes the differences between ORA's and  
11 Liberty' test year (TY) 2016 estimates; and summarizes ORA's examination.

### 12                   2. Exhibit ORA-02, Summary of Earnings and Income 13                    Taxes

14           This exhibit compares ORA's and Liberty's summary of earnings for test year  
15 2016. This exhibit also presents ORA's analyses and recommendations regarding  
16 Liberty's tax expenses for the test year. ORA recommends that any changes to  
17 existing tax law including new provisions that may allow for bonus depreciation  
18 should be incorporated in the R/O model to develop the rates adopted in this GRC.

### 19                   3. Exhibit ORA-03, Operation and Maintenance 20                    Expenses and Administrative and General Expenses

21           This exhibit presents ORA's analyses and recommendations regarding  
22 Liberty's Production, Transmission, Distribution, Customer Accounting and  
23 Operation and Maintenance (O&M) expenses for test year 2016. It also presents  
24 ORA's analyses and recommendations regarding Liberty's Administrative and  
25 General (A&G) expenses for the test year. ORA recommends \$7.663 million for  
26 Administrative and General expenses which is \$0.745 million less than Liberty's  
27 forecast of \$8.408 million. ORA recommends \$7.004 million for Operation and  
28 Maintenance expenses which is \$1.440 million less than Liberty's forecast of \$8.444  
29 million.

1                   4. Exhibit ORA-04, Energy Cost Adjustment Clause and  
2                   Fuel and Purchased Power

3                   This exhibit presents ORA's analyses and recommendations regarding  
4 Liberty's Energy Cost Adjustment Clause (ECAC) costs and Liberty's Fuel and  
5 Purchased Power forecasts. ORA used a lower forecast to arrive at projected costs  
6 for Liberty's Fuel and Purchased Power costs.

7                   5. Exhibit ORA-05, Other Taxes, Energy Efficiency  
8                   Programs and Solar Incentive Program

9                   Regulated tax expense is comprised of the following items: (1) Federal  
10 Income Taxes (FIT); (2) State Income Taxes or California Corporate Franchise  
11 Taxes (CCFT); (3) payroll taxes; (4) property or ad valorem taxes; (5) franchise  
12 taxes; and (6) deferred taxes. ORA recommends an adjustment of \$0.070 million to  
13 Liberty's requested revenue requirement for energy efficiency programs.

14                   6. Exhibit ORA-06, Depreciation Expense and Reserves

15                   This exhibit presents ORA's analyses and recommendations regarding  
16 Liberty's Depreciation Expense and Reserves for test year. ORA recommends no  
17 adjustments to Liberty's proposed depreciation rates.

18                   7. Exhibit ORA-07, Plant and Rate Base

19                   This exhibit presents ORA's analyses and recommendations regarding  
20 Liberty's Rate Base for the test year. This exhibit also presents ORA's analyses and  
21 recommendations regarding Liberty's transmission, distribution and general plant for  
22 2014 through 2016. ORA's recommends lower net plant (\$12.597 million less than  
23 Liberty) due to several issues, including the use of recorded 2014 plant which is  
24 lower than the 2014 plant figure used in Liberty's application.

25                   8. Exhibit ORA-08, Sales, Customers and Revenues  
26                   Plant

27                   This exhibit presents ORA's analyses and recommendations regarding  
28 Liberty' Sales, Customers, and Revenues forecast(s) for the test year(s).

29                   9. Exhibit ORA-09, Cost of Capital and Rate of Return

30                   This exhibit discusses ORA's and Liberty's recommended rate of return  
31 (ROR) on rate base for the test year. The ROR or weighted cost of capital is defined

1 as the cost of common equity, preferred equity and long-term debt in the capital  
2 structure.

3 10. Exhibit ORA-10, Results of Examination

4 This exhibit presents the results of ORA's examination of Liberty's historical  
5 records.

6 11. Exhibit ORA-11, Witness Qualifications

7 This exhibit presents the qualifications of ORA's witnesses who prepared  
8 exhibits 1 through 10.

9 **III. Post-Test Year Ratemaking**

10 This section presents ORA's analyses and recommendations regarding  
11 Liberty's Post-Test Year Ratemaking testimony.

12 **Background**

13 In D.12-11-030, Liberty's 2013 General rate case (A.12-02-014), the  
14 Commission adopted an all-party settlement.

15 The adopted settlement agreed that the "Post-Test Year Adjustment  
16 Mechanism shall retain the current productivity adjustment increases in labor  
17 costs."<sup>6</sup> The adopted settlement further agreed that the Post-Test Year Adjustment  
18 Mechanism (PTAM) would "remain effective in accordance with its terms unless and  
19 until the Commission approves a future modification or deletion of the tariff."<sup>7</sup>

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<sup>6</sup> D.12-11-030, Appendix A, Section 4.17.

<sup>7</sup> Ibid.

1            **Liberty's Post-Test Year Adjustment Mechanism Request**

2            Liberty did not include a request for a Post-Test Year Adjustment Mechanism  
3 (PTAM) in this case. ORA proposes that the PTAM mechanism adopted in D.12-11-  
4 030 remain in effect for attrition years of this GRC.

5            **ORA Recommendations**

6            ORA recommends the following:

7                            1. ORA Recommends Continued Use of the Current  
8                            PTAM Mechanism

9            ORA recommends that the Commission continues to use Liberty's current  
10 PTAM mechanism based on CPI minus a 0.5% productivity factor for both labor and  
11 non-labor components. Given the current low inflation regime, the current CPI  
12 minus a productivity factor PTAM is reasonable.

13                           2. ORA Recommends the addition of a Third Attrition  
14                           Year

15            ORA recommends that the Commission adopt a third attrition year using this  
16 same PTAM mechanism. This will save Liberty and the Commission time and costs  
17 by extending the time before Liberty's next GRC would be filed. The next test year  
18 for that GRC would be 2020. If adopted, this would require an adjustment to the  
19 amortization period for items that are being amortized over 3 years to a 4 year  
20 amortization.