

Application No.: A.24-09-XXX
Exhibit No.: Liberty-01
Witnesses: G. Sorensen



(U 933-E)

2025 General Rate Case

Before the California Public Utilities Commission

| *Chapter 1: Policy*

Tahoe Vista, California
September 20, 2024

Liberty-01: Policy

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1 I.

2 **POLICY**

3 **A. Executive Summary**

4 Liberty Utilities (CalPeco Electric) LLC (“Liberty” or the “Company”) is dedicated to
5 delivering safe, reliable electricity to its customers at reasonable rates. This general rate case
6 (“GRC”) furthers Liberty’s ongoing commitment while addressing the growing threat of
7 wildfires in California, particularly in Liberty’s service territory, where 94 percent is classified as
8 high-fire risk.

9 The majority of Liberty’s revenue request in this proceeding pertains to critical
10 infrastructure maintenance, grid improvements, customer service, and regulatory compliance,
11 However, a significant portion of the requested increase is driven by the escalating cost of
12 wildfire insurance—rapidly increasing wildfire insurance premiums comprise a large percentage
13 of Liberty’s requested revenue increase.

14 Liberty requests a revenue requirement increase of 19.1 percent from currently authorized
15 revenues. While this request reflects a substantial increase, Liberty believes the work associated
16 with this increase is essential to provide system safety, reliability, and protection from extreme
17 wildfire risks.

18 **B. Wildfire Mitigation Work**

19 Liberty is steadfast in its commitment to wildfire mitigation and community safety.
20 Liberty has made substantial progress in its wildfire mitigation efforts, but more work is
21 required, particularly as climate change exacerbates fire danger. Liberty’s updated 2023-2025
22 Wildfire Mitigation Plan (“WMP”) outlines a comprehensive set of programs designed to further
23 reduce the risk of a fire in Liberty’s service territory. Liberty is installing enhanced safety

1 equipment on its system, including covered conductor, non-expulsive fuses, and new poles.
2 Consistent with the Commission’s wildfire-related directives, Liberty continues to implement its
3 comprehensive vegetation management program designed for the specific challenges in Liberty’s
4 service territory. Liberty also continues to enhance its wildfire risk modeling capabilities.

5 These projects and programs must be implemented quickly and thoroughly, as Liberty’s
6 service territory is located in a mountainous tree-filled area with extensive tree deaths and
7 continuing drought conditions. This critical work is essential to safeguarding the community,
8 complying with regulatory requirements, and reducing wildfire risk. The Commission’s adoption
9 of Liberty’s WMP initiatives, and their associated costs, is critical to allowing for the continued
10 success of these programs.

11 **C. Wildfire Insurance and Rising Costs**

12 Wildfire insurance is an indispensable component of risk management for electric
13 utilities, particularly in high-fire-risk areas like Liberty’s service territory. Wildfire insurance
14 provides critical financial stability, enabling Liberty to continue making necessary investments in
15 fire prevention, meet state regulatory requirements, and stabilize customer rates following a
16 disaster. However, the increasing frequency and intensity of wildfires in the western U.S. have
17 led to skyrocketing premiums. Approximately 60 percent of Liberty’s requested revenue increase
18 in this GRC is attributable to these rising insurance costs. Since Liberty’s last GRC, premiums
19 have increased from \$7.962 million (Liberty’s currently authorized amount) to \$31.706 million
20 in 2025.

21 Liberty acknowledges the significant impact of wildfire insurance cost increases on
22 customer rates and is committed to collaborating with the state, the Commission, and other
23 stakeholders to identify solutions that benefit both ratepayers and the industry.

1 **D. Storm Balancing Account**

2 Due to the unpredictable nature and variability of storm-related damages from year to
3 year, Liberty requests authorization for a two-way storm balancing account. California has
4 experienced a marked increase in extreme weather events, including severe winter storms,
5 atmospheric river rainstorms, wildfires, wind events, and flooding that continue to impact critical
6 electric infrastructure. Without a mechanism to adequately address the financial burden these
7 events cause, utilities may face challenges in recovering costs and ratepayers could be subjected
8 to sudden rate spikes. The two-way storm balancing account directly addresses these concerns by
9 creating a structured and transparent means of handling storm-related costs that benefits both
10 ratepayers and Liberty.

11 The two-way storm balancing account will strike the requisite balance between allowing
12 Liberty to recover the actual costs of storm response and mitigating the risk of significant rate
13 increases for ratepayers. Ratepayers will benefit from the establishment of a storm balancing
14 account because Liberty will be able to recover the actual costs of storm-related expenses, rather
15 than relying on projections that can vary wildly from year to year. If storm costs are lower than
16 anticipated, customers benefit from reduced rates. The balancing account provides a structured
17 means of tracking and recovering storm-related costs. This mechanism allows for a timelier
18 recovery of actual storm-related costs, which can help protect the financial health of the
19 Company. Liberty provides additional details on its proposal in Chapter 3 O&M and A&G
20 expenses, including the proposed mechanism and disposition.

21 By approving this proposal, the Commission promotes a more resilient, responsive, and
22 financially stable electric service that benefits all Californians.

1 **E. New Fixed Charge for Residential Customers**

2 As directed in the Commission’s Demand Flexibility Rulemaking,¹ Liberty submitted a
3 Tier 3 advice letter to the Commission on September 12, 2024, proposing revised fixed charges
4 for residential customers. Liberty’s proposal shifts costs that are incurred regardless of how
5 much energy is used. This proposed shift provides a more equitable distribution of fixed costs
6 among customers, rather than placing a disproportionate burden on those who use more
7 electricity.

8 Liberty’s advice letter submission proposes increasing the fixed charge from \$12.00 to
9 \$39.95 a month, based on Liberty’s currently authorized revenues. The advice letter also
10 proposes lower fixed costs for low-income customers. A decision on the advice letter is expected
11 in 2025. Liberty’s proposed rate design in this proceeding (see Chapter 9) follows the same fixed
12 charge calculation as proposed in the advice letter, utilizing the revenues forecast in this
13 proceeding.

14 The new fixed charge for residential customers helps alleviate the disproportionate
15 burden placed on permanent residential customers to pay for costs such as vegetation
16 management and wildfire mitigation which remain the same regardless of electricity usage and
17 benefit all customers equally. For these reasons, Liberty proposes to discontinue the non-
18 permanent residential customer class and include all residential customers in a single customer
19 class.

20 **F. Interim Rates**

21 Due to the length and complexity of the Commission’s review process, the final decision
22 in this proceeding will more than likely be issued significantly later than the effective date of any

¹ R.22-07-005.

1 authorized revenue increase. Following past Commission precedent, these revenues will
2 eventually be recovered through a surcharge on customers from the decision date to the end of
3 2027, which will create a sudden significant bill increase for customers. To mitigate potential
4 rate shock, Liberty requests approval for interim rates, effective January 1, 2025, or as soon as
5 practicable, totaling 50 percent of Liberty’s requested revenue increase.

6 Liberty’s proposal represents a fair and balanced approach to address the gap between the
7 start of the new rate period and the expected timing of the decision. Implementing interim rates
8 allows ratepayers to absorb the increase gradually and avoid surcharges. Furthermore, interim
9 rates are subject to adjustment once the final decision is issued. If the Commission determines
10 that Liberty's final rate increase should be lower than requested, customers will receive refunds
11 or credits to offset any over-collection.

12 The Commission has granted interim rates several times in the past for electric utilities.
13 In D.24-02-010, the Commission granted interim rates to San Diego Gas & Electric, stating that
14 “in certain cases, the Commission has granted interim rate relief to (1) promote fairness to both
15 the utility and the public,² (2) reduce the potential for rate shock,³ (3) preserve the financial
16 integrity of a utility, minimize costs incurred by ratepayers and ensure rate stability,⁴ and (4)
17 smooth rate impacts on ratepayers.”⁵ ⁶ Liberty’s request here meets these criteria, as granting
18 interim rates here will minimize rate shock, provide rate stability, and smooth rate impacts on

² D.02-07-031 at p. 14, D.19-04-039 at p. 6.

³ D.16-08-003 at p. 9.

⁴ D.88-05-074 at p. 14.

⁵ D.19-04-039 at p. 6.

⁶ D.24-02-010 at p. 10.

1 ratepayers if, as expected, a decision is issued late, resulting in a large under-collection from
2 January 1, 2025 to the date of the financial decision in this proceeding.

3 By implementing interim rates, the Commission acknowledges the need for utilities to
4 recover reasonable costs in a timely manner while maintaining regulatory oversight and fairness
5 for ratepayers. Liberty's proposal to incorporate only half of the requested increase in the interim
6 period strikes the appropriate balance between revenue recovery and rate volatility and should be
7 adopted.

8 **G. Collaboration**

9 Liberty is committed to working with the Commission, Cal Advocates, and other parties
10 to develop an open and collaborative process to help reach a fair and timely decision in this
11 proceeding. Liberty has met with Energy Division, Cal Advocates, and the A-3 Customer
12 Coalition prior to submitting this GRC application to discuss its proposals and is committed to
13 keeping open lines of communication with interested parties throughout the GRC process.
14 Liberty hopes that an open and collaborative process will help narrow the number of contested
15 issues in this proceeding and make the best use of the Commission's and other parties' time.

16 **H. Summary of Liberty's Request**

17 Liberty's GRC application requests that the Commission authorize the following:

- 18 • 2025 revenues of \$247.920 million, an increase of \$39.773 million or 19.1 percent
19 over currently authorized revenues, effective January 1, 2025.⁷ (See Chapter 6)
- 20 • An authorized return on equity of 11.0 percent resulting in an overall Rate of
21 Return of 8.57 percent for test year 2025. (See Chapter 7)

⁷ Liberty will submit a motion for authorization to utilize its General Rate Cass Memorandum Account ("GRCMA") to track the difference in revenue requirement currently in effect and the final revenue requirement that the Commission authorizes to become effective on January 1, 2025.

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- A debt/equity structure of 47.5 percent/52.5 percent. (See Chapter 7)
- An increased fixed charge for residential customers, and the elimination of the non-permanent residential customer class. (See Chapter 9)
- Continuation of Liberty’s Post Test-Year Adjustment Mechanism (“PTAM”) in 2026 and 2027 to include authorized capital projects and revenue requirement escalation in rates in 2026 and 2027. (See Chapter 6)
- Implementation of Liberty’s proposed Storm Balancing Account to track the difference between authorized and recorded storm costs. (See Chapter 6)
- Interim rates set at 50 percent of Liberty’s requested revenue increase, to go into effect as soon as practicable.

Appendix A
Witness Qualifications

LIBERTY UTILITIES (CALPECO ELECTRIC) LLC
QUALIFICATIONS AND PREPARED TESTIMONY
OF GREG SORENSEN

1 **Q. Please state your name and business address for the record.**

2 A. My name is Greg Sorensen and my business address is 9750 Washburn Road, Downey,
3 California 90241.

4 **Q. Briefly describe your present responsibilities at Liberty Utilities (CalPeco Electric)**
5 **LLC.**

6 A. I am currently the Western Region President of Liberty Utilities.

7 **Q. Briefly describe your educational and professional background.**

8 A. I have a Bachelors Degree in Accounting from Wake Forest University. My current
9 position is President, West Region at Liberty Utilities, where I oversee Liberty's
10 regulated utilities in California, Arizona, Texas and Chile. I have worked for Liberty
11 since 2005. Prior to joining Liberty, I worked for Arthur Andersen as a staff and then
12 senior auditor for five years, after which I was a Director of Financial Reporting &
13 Analysis, Controller, and VP Finance for Excel Global Services, an international call
14 center company. I am a Certified Public Accountant, licensed in the State of Georgia.
15 Since joining Liberty in 2005 I have held a variety of positions, including Controller and
16 Director of Operations, Vice President and then President for Liberty's regulated
17 operations in Arizona and Texas, and president of Liberty's regulated utility operations in
18 California. I was promoted to President, West Region in 2017.

19 **Q. What is the purpose of your testimony in this proceeding?**

20 A. The purpose of my testimony in this proceeding is to sponsor Chapter 1: Policy.

1 **Q. Was this material prepared by you or under your supervision?**

2 A. Yes, it was.

3 **Q. Insofar as this material is factual in nature, do you believe it to be correct?**

4 A. Yes, I do.

5 **Q. Insofar as this material is in the nature of opinion or judgement, does it represent**
6 **your best judgment?**

7 A. Yes, it does.

8 **Q. Does this conclude your qualifications and prepared testimony?**

9 A. Yes, it does.