Application No.:	A.24-09-XXX
Exhibit No.:	Liberty-06
Witnesses:	M. Rao

(U 933-E)

2025 General Rate Case

Before the California Public Utilities Commission

Chapter 6: Revenue Requirement

Tahoe Vista, California

September 20, 2024

Liberty-06: Revenue Requirement

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REVENUE REQUIREMENT

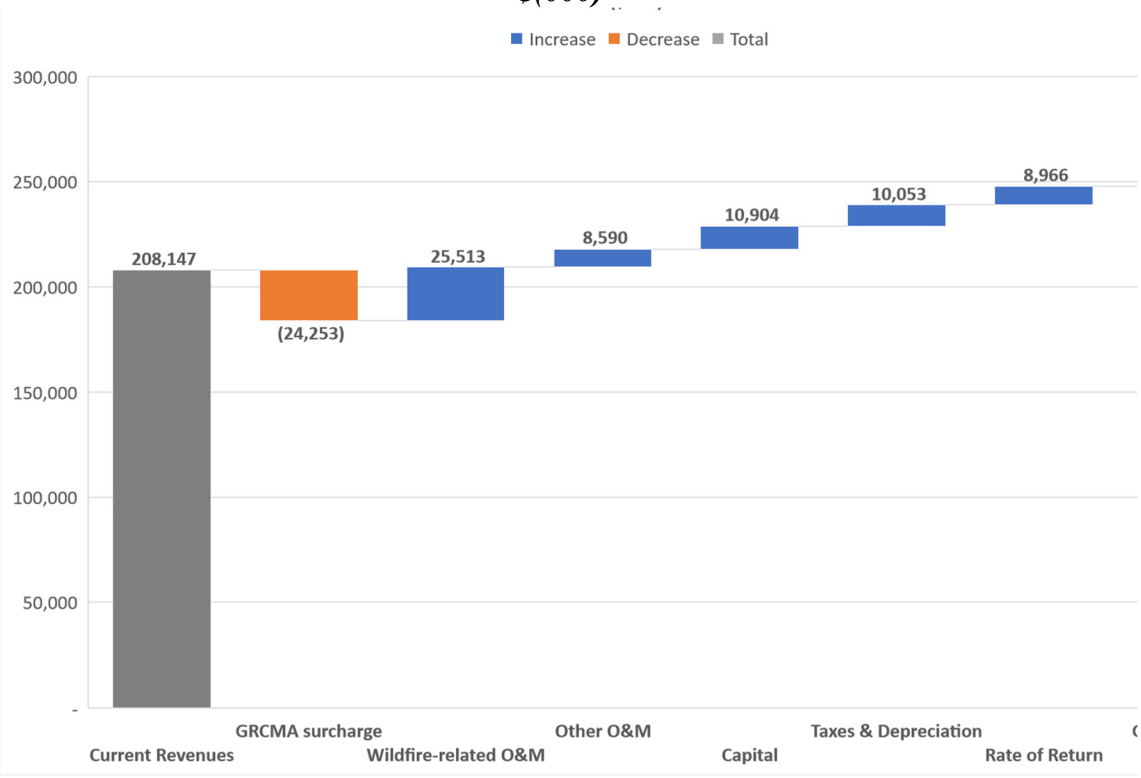
A. Proposed Revenue Requirement

Liberty Utilities (CalPeco Electric) LLC ("Liberty") proposed revenue requirement for Test Year 2025 incorporates forecast of operations and maintenance ("O&M") and administrative and general ("A&G") expenses, depreciation expenses, taxes, and rate base components discussed in testimony and supported by various witnesses throughout this filing. Liberty's proposed revenue requirement for test year 2025 of $247.920 million, as shown in Table I-1, reflects an overall revenue increase of 19.1% and a base revenue increase of 39.9%. Figure I-1 presents the comparison of current authorized revenues to forecast revenue requirement for test year 2025 by major drivers.

Table I-1
Forecast Summary of Earnings
$(000)

	2025
Operating Revenues	
Sales Revenue	$ 224,518
Other Operating Revenue	520
Revenue Credits	922
Energy Effciency	467
Solar Initative Program (SIP)	420
Vegetation Management (VM)	-
Other Memo Accts BRRBA	21,073
Total Operating Revenues	247,920
Operating Expenses	
Fuel & Purchased Power	44,172
ECAC	-
VM, CEMA, EE, SIP, BRRBA	21,960
Other O&M Expense	84,181
Depreciation & Amortization Expense	27,133
Taxes Other Than Income	9,921
Deferred Income Taxes	-
EADIT Amortization	(148)
Federal Income Tax	6,376
California Corporate Franchise Tax	3,220
Total Operating Expenses	196,815
Operating Income	51,105
Rate Base	
Gross Plant in Service	793,578
Accumulated Depreciation Reserve	(162,118)
Net Plant in Service	631,460
Additions	
Construction Work In Progress	-
Materials & Supplies	18,341
Prepayments	9,757
Other Additons	11,656
Working Cash	8,197
Total Additions	47,951
Deductions	
Customer Advances for Construction	(18,499)
Accumulated Deferred Income Tax	(24,414)
Other Deductions - COR	(40,073)
Total Deductions	(82,987)
Rate Base	$ 596,424
Rate of Return (%)	8.57%

Figure I-1
Summary of Revenue Requirement increase by Drivers
$(000)



B. Rate Base

Liberty proposes $596,424 million for its test year 2025 rate base as shown below in Table I-2. Rate base is forecast at the major category level (i.e., Plant-in-Service) beginning with recorded EOY 2023 account balances that are forecast monthly in order to calculate weighted averages each year. Each rate base component is analyzed individually and developed and presented using thirteen month average (December to December) balances.[1]

Table I-2
Rate Base Forecasts
$(000)

		2025
Plant in Service		
Gross Plant in Service	$	793,578
Accumulated Depreciation Reserve		(162,118)
Net Plant in Service		631,460
Rate Base Additions		
Construction Work In Progress		-
Materials & Supplies		18,341
Prepayments		9,757
Other Additons		11,656
Cash Working Capital		8,197
Total Rate Base Additions		47,951
Rate Base Deductions		
Customer Advances for Construction		(18,499)
Accumulated Deferred Income Tax		(24,414)
Other Deductions - COR		(40,073)
Total Deductions		(82,987)
Rate Base	$	596,424
Rate of Return (%)		8.57%

1. Plant Forecast

Liberty's determination of 2024-2025 weighted average plant balances is based on the

[1] *See* workpapers for rate base forecast.

recorded plant-in-service and construction work in progress ("CWIP") balances by plant account as of December 2023.[2] Liberty applied the forecast capital budget expenditures for projects closing through year-end 2027 to develop the forecast capital additions used in this filing.[3] The capital projects included in this rate case are discussed in detail by Mr. Lykens in Chapter 2. Liberty utilized forecast capital additions and retirements to project monthly plant balances through the end of 2027.[4] Table I-3 provides the 2025 weighted average plant balances by plant category.

Table I-3
Plant in Service Weighted Average
($000)

	2025
Intangibles	$ 42,660
Other Production	108,015
Distribution	589,955
General	52,949
	$ 793,578

2. Depreciation

Liberty's determination of 2024-2027 weighted average accumulated depreciation balances is based on the recorded reserve balances net of accumulated cost of removal ("COR") balances by account as of December 2023. The plant balances were used to forecast monthly depreciation expenses based on capital additions and other reserve activity affecting the accumulated depreciation reserve balances. Similarly, accumulated cost of removal was forecast

[2] *See* workpapers.
[3] *See* workpapers.
[4] *See* workpapers for retirement forecast by FERC account for 2024-2027.

separately and used authorized and proposed COR rates provided in the depreciation rate schedule provided by Mr. Allis.[5] See Table I-4 for the forecast weighted average accumulated depreciation reserve balances for 2025 and accumulated cost of removal balances. Both balances are reductions to weighted average plant balances.

Table I-4
Accumulated Depreciation Reserve Weighted Average
($000)

		2025
Intangibles	$	(17,503)
Other Production		(30,014)
Distribution		(100,752)
General		(13,848)
	$	(162,118)

Table I-5 presents Liberty's authorized and proposed depreciation rates. The proposed depreciation rates are based on the depreciation study developed for this proceeding.[6]

[5] The depreciation study is provided in workpapers.
[6] *See* workpapers.

Table I-5
Proposed Depreciation Rates

Depreciation Group Description	Authorized Rate	Proposed Rate
302 CA Franchises & Consents		
303 CA Software	10.14%	10.89%
340.1 CA Land		
341 CA Structures & Imp	1.89%	1.89%
342 CA Fuel Hldrs, Prod & Acc	1.92%	1.90%
344 CA Generators	1.87%	1.86%
346 CA Misc Power Equipment	1.74%	1.73%
360 CA Land		
360.1 CA Land Rights	0.56%	1.24%
361 CA Structures & Imp	1.75%	1.93%
362 CA Station Equipment	1.40%	2.46%
363 CA Storage Battery Equip	6.33%	6.33%
364 CA Poles, Twrs & Fixtures	2.31%	3.01%
365 CA OH Cond & Devices	2.59%	3.75%
366 CA Underground Conduit	1.41%	1.67%
367 CA UG Cond & Devices	2.53%	2.83%
368 CA Line Transformers	1.97%	3.60%
369 CA Services	1.53%	2.16%
370 CA Meters	2.28%	5.23%
371 CA Installs Cust Premise	2.51%	3.89%
373 CA Street Light & Sig Sys	2.38%	2.45%
389 CA Land		
389.1 CA Land Rights	1.32%	1.50%
390 CA Structures & Imp	1.63%	1.79%
391 CA Office Furn & Equip	5.00%	5.00%
392 CA Transportation Equip	5.95%	5.36%
393 CA Stores Equipment	5.00%	5.00%
394 CA Tool, Shop & Garage Equip	4.00%	4.00%
394.1 CA CNG Refueling Stations	7.76%	8.56%
396 CA Power Operated Equip	5.72%	2.32%
397 CA Communication Equip	6.67%	6.67%
398 CA Miscellaneous Equip	5.00%	5.00%
* Life span method is used. Curve shown is interim survivor curve.		
** Legacy meter costs to be recovered over a 10-year period.		

3. Other Rate Base

a) Materials & Supplies

Materials and Supplies ("M&S") inventory are maintained to meet routine operational needs for repairs and/or replacements and for scheduled capital project requirements. Liberty accounts for materials and supplies either directly to job orders in CWIP or to M&S inventory until the equipment is needed for capital or O&M repairs. Liberty's working capital requirement of M&S in rate base compensates investors for the average time between purchasing inventory to

when the M&S is used and useful in Plant-in-service or used for O&M work. Liberty's M&S forecast was developed using an average of monthly account balance changes for 3 years and applying that average each month for 2024-2025.[7]

b) Working Cash and Other Working Capital

Working cash and other working capital components are discussed in Mr. Sheikh's testimony in Chapter 8 and in supporting workpapers.

c) Customer Advances for Construction

Customer advances for construction reflect deposits received from customers upon agreement and in advance of construction. Upon completion of the construction, Liberty reconciles the actuals and estimated agreed construction costs, and bills or credits the customer for any discrepancies.

4. Taxes

a) Accumulated Deferred Taxes

Accumulated Deferred Income Taxes ("ADIT") reflect the net of Liberty's deferred tax assets and liabilities. The primary deferred tax asset is from Liberty's stand-alone net operating losses (NOL's) and deferred tax liabilities from federal and state liberalized depreciation, tax repairs, and deferred tax liabilities associated with partnerships.

The 2017 Tax Cuts and Jobs Act reduced the federal tax rate from 35% to 21%. The remeasurement of Liberty's ADIT created a net regulatory liability that is being amortized over the weighted average remaining life of plants assets.

b) Taxes - Other than income

Liberty currently pays Property Taxes in California and Nevada. Liberty's annual

[7] *See* workpapers.

California property taxes are determined based upon a weighted average of the income and cost approaches with a majority of the value being assigned to the historical cost approach. The annual assessment is then assigned to each county and the local county(s) tax rates are applied. Liberty also pays property taxes at its solar generation facilities in Nevada. The Nevada assessment is determined based upon a historical cost approach with the local state, county and local combined property tax rates applied.

Payroll Taxes are the combination of forecasted wages and applicable payroll tax rates. City and County Franchise Taxes are based on existing franchise agreements.

c) Income Taxes

The calculation for federal income taxes begins at Book Income before Federal Income Tax and Book Depreciation. Federal tax adjustments such as depreciation, repair deduction, and state income tax are then made to arrive at Federal Taxable Net Income. This figure is then multiplied by the current federal tax rate of 21% to determine current Federal Income Tax.

State of California Income Tax begins with the same figure as above and is adjusted by book depreciation and the tax repair deduction to arrive at California Taxable Net Income. This figure is then multiplied by the current California tax rate of 8.84% to determine California Corporate Franchise Tax expense.

The TCJA regulatory liability is amortized using the weighted average remaining life of plant assets and is recorded as a reduction to income tax expense.

d) State Flow Through of Tax Repairs

The adjustment for tax repairs represents the difference between expenditures that are permitted to be deducted under §162 and those same expenditures that are required to be capitalized for financial reporting purposes. Liberty uses the flow through method to account for tax repairs in the calculation of California state income taxes. Under the flow-through

methodology, the impact of the repairs deduction immediately reduces tax expense, thereby reducing the revenue requirement. The immediate reduction to total tax expense is thus immediately flowed through to the ratepayer.

e) Accumulated Deferred Income Tax – CA NOL

As mentioned above, Liberty's ADIT reflects the net of Liberty deferred tax assets and liabilities. The primary deferred tax asset is related to Liberty's stand-alone NOL carryforward. Liberty's NOL was created primarily by accelerated tax depreciation.

Under California S.B. 167, for tax years beginning on or after January 1, 2024, and before January 1, 2027, S.B. 167 prohibits the use of NOLs for businesses with California-apportioned income and individuals with income of at least $1 million or more. Due to this limitation, Liberty will not be able to offset its California state taxable income with its California NOL generated in prior years for tax year between 2024-2027 thus causing Liberty's California DTA related to NOL to remain unused between tax years 2024-2027.

f) Tax Depreciation

Liberty uses the Modified Accelerated Cost Recovery System (MACRS) in determining depreciation for federal income tax purposes. Liberty used the same forecasted book additions to calculate both book and tax depreciation. This was performed for each of the future test periods.

The tax basis was adjusted for an estimated qualified tax repair deduction. This tax repair deduction was calculated by a review of each of the forecasted capital additions.

g) Tax Memorandum Account

Liberty has a tax memorandum account as established in D.16-12-024. This memorandum account provides the Commission with greater information of the tax expenses incurred by the utility during a GRC period and will allow the Commission to review the

reasonableness of various tax options, such as tax policies, tax laws, or tax accounting changes, elected by the utility. It's Liberty's understanding that, if corporate income tax rates change in the future, Liberty would be authorized to use this account to track any tax related impacts on regulatory assets and liabilities.

C. Ratemaking Overview

Liberty's proposed revenue requirement also includes costs for programs outside of the regular O&M costs, such as public purpose programs discussed by Ms. Guenther in Chapter 4. These program costs are tracked in regulatory accounts, as described below.

1. Energy Efficiency Balancing Account ("EEBA")

Liberty EEBA records the difference between the authorized and recorded expenses associated with Liberty Energy Efficiency program, which is discussed by Ms. Guenther in Chapter 4. Liberty authorized annual expenses for this program is $0.250 million. Liberty has requested to set spending at $0.467 million per year through this rate case cycle.

2. Solar Initiative Program Balancing Account

Liberty's Solar Initiative Program Balancing Account ("SIPBA") records the difference between the authorized and recorded expenses associated with Liberty Solar Initiative program, which is discussed by Ms. Guenther in Chapter 4. Liberty's authorized annual expenses for this program is $0.420 million. Liberty has requested to set spending at $0.420 million per year through this rate case cycle.

3. Base Revenue Requirement Balancing Account

Liberty's Base Revenue Requirement Balancing Account ("BRRBA") tracks the difference between Liberty's authorized and recorded base revenues. Liberty is currently recovering an under-collection in base revenues through a BRRBA surcharge, approved in

Advice Letter 227-E-A.

4. Post Test-Year Adjustment Mechanism

Liberty proposes to continue to use its Post Test-Year Adjustment Mechanism ("PTAM") to adjust revenue requirement for 2026 and 2027. Liberty also proposes that the Commission again waive the $4 million threshold for projects to qualify for PTAM treatment. In D.23-04-043, the Commission authorized Liberty to utilize PTAM for capital additions in the post test-years (2023 and 2024) and waived the $4 million threshold for projects to qualify for PTAM treatment.

As was approved in Liberty's last GRC, Liberty respectfully requests that post-test year capital costs (2026 and 2027) be found eligible for PTAM treatment. Liberty should be allowed to recover these costs in rates if the Commission finds Liberty's cost forecasts to be reasonable. Table I-6 below lists Liberty's 2026 and 2027 capital forecasts and asks that the Commission authorize PTAM treatment for these costs in its decision.

Table I-6
Proposed PTAM Capital Projects
($000)

Project Name	Category	2026	2027
Automatic Reclosers and Fast-Curve Setting	Safety and Reliability -Wildfire Mitigation	$ -	$ -
Covered Conductor	Safety and Reliability -Wildfire Mitigation	7,081	6,361
Distribution Fault Anticipation	Safety and Reliability -Wildfire Mitigation	-	-
Fuse Replacement Program	Safety and Reliability -Wildfire Mitigation	2,000	2,000
Resiliency Program (Poles and Fuses)	Safety and Reliability -Wildfire Mitigation	-	2,000
Emerging Technology	Safety and Reliability -Wildfire Mitigation	2,500	100
Traditional Overhead Hardening Initiative	Safety and Reliability -Wildfire Mitigation	5,000	5,000
Tree Attachment Program	Safety and Reliability -Wildfire Mitigation	1,132	1,163
Weather Stations	Safety and Reliability -Wildfire Mitigation	-	-
Northstar Redundancy (2nd Transformer)	Safety and Reliability -Wildfire Mitigation	-	1,049
Wire Upgrade Program (Open Wire/Gray Wire)	Safety and Reliability -Wildfire Mitigation	3,000	3,000
Pole Replacements Per Test	Safety and Reliability - Distribution	490	504
Overhead Failures/Services	Safety and Reliability - Distribution	1,838	1,889
Underground Failures/Services	Safety and Reliability - Distribution	1,225	1,259
Overhead Rebuilds	Safety and Reliability - Distribution	2,385	2,450
Underground Rebuilds	Safety and Reliability - Distribution	3,693	7,402
Submersible Transformer Replacements	Safety and Reliability - Distribution	5	6
Claims	Safety and Reliability - Distribution	206	212
Street and Highway Improvements	Safety and Reliability - Distribution	279	287
Portola Substation	Safety and Reliability - Substation	-	-
Squaw Valley Substation	Safety and Reliability - Substation	2,358	4,031
Prosser Substation	Safety and Reliability - Substation	276	1,234
Stateline Substation	Safety and Reliability - Substation	6,218	13,588
Sierra Brooks Substation	Safety and Reliability - Substation	1,024	4,620
Cemetery Substation	Safety and Reliability - Substation	1,380	5,918
Glenshire Substation	Safety and Reliability - Substation	5,443	-
Meyers Substation	Safety and Reliability - Substation	19,582	-
Beckworth Peak Substation	Safety and Reliability - Substation	200	300
Emergency Equipment Replacement	Safety and Reliability - Substation	624	641
Substation/Distribution Automation	Safety and Reliability - Substation	269	276
New Commercial	Customer Driven	1,152	1,184
New Residential	Customer Driven	5,844	6,005
New Meters	Customer Driven	477	490
Rule 24 EV Chargers	Customer Driven	528	542
Fleet	Other	2,639	3,861
Buildings and Grounds	Other	175	175
NLT Campus	Other	-	-
SLT Campus	Other	6,500	-
Portola Land Purchase	Other	1,500	-
Information Technology	Other	4,257	2,858
EV Charging Infrastructure	Other	-	-
Luning Buyout	Other	-	-
Turquoise Buyout	Other	-	-
Total		$ 91,280	$ 80,404

B. Proposed New Charge – Manual Meter Reading and Reconnections

Liberty requests authority to create monthly manual meter reading and manual reconnection fees for customers that opt out of Liberty's AMI meter program. Liberty estimates that the monthly cost to manually read a meter will be $52.96 and the cost to manually reconnect a customer will be $61.52. Liberty proposes that CARE customers would receive a 50% discount for these services.

In Liberty's 2022 GRC, the Advanced Metering Infrastructure ("AMI") project was approved. The costs for the project will be included in rates via a Tier 2 advice letter once the project is completed and placed into service, which Liberty estimates will take place during this rate case cycle. For those who opt out, meters will need to continue to be manually read.

Manual meter readings require utility personnel to visit customer properties, increasing labor and operational costs. It is reasonable for customers who choose not to use an AMI meter, which automates these processes, to bear the additional costs of these manual services. Customers who decline this technology effectively impose higher costs on the utility, which could otherwise allocate resources more efficiently.

II.

SALES AND CUSTOMER FORECASTS

Liberty's sales and customer forecast uses a regression analysis to compare historical sales to a number of factors, such as weather patterns and economic patterns.

1. For the residential and commercial rate classes, Liberty's method used historic billing data from 2018-2022 to develop monthly use and customer counts by class. Using billing period start and end dates, daily use for each customer was calculated and then totaled daily use by calendar month for all retail customers. usage and customer counts to develop customer and usage models specific to each rate group and converted the total monthly calendar use to use per customer.
2. Class specific sales and customer forecasts were developed using the results from customer and use-per-customer regression models for each rate class.
3. The first regression model forecasts the number of customers by class (existing and proposed) in the service territory. The regression model projects future customer counts based on a 5-year average of customer growth. The actual customer class-specific forecast then applies the monthly growth in new customers to the existing customer count for each customer class.
4. The second regression model forecasts the use per customer for each customer class. Several variables factor into the use-per-customer model including:
    - monthly intercept adjustments,
    - heating degree days ("HDD"),
    - cooling degree days ("CDD"), and
    - a time trend to capture changes in market conditions due to new technologies

and energy conservation.

5. These two regression models (the customer forecast by class and the use-per-customer) are combined and used to estimate the total sales forecast for the forecast years.

6. In addition, Liberty developed sales forecasts for the irrigation, outside lighting, and street lighting customer classes based on the recorded data of average sales by month for the 2018-2022 time period.

Appendix A
Witness Qualifications

LIBERTY UTILITIES (CALPECO ELECTRIC) LLC

QUALIFICATIONS AND PREPARED TESTIMONY

OF MANASA RAO

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

A. My name is Manasa Rao and my business address is 9750 Washburn Road, Downey, California 90241.

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

A. I am employed by Liberty Utilities (Park Water) Corp. as Senior Director, Rates and Regulatory Affairs.

Q. Briefly describe your educational and professional background.

A. Prior to my present role, I was the Director of Financial Planning & Analysis, West region for two years. Prior to that, I was employed by Liberty Utilities (Canada) Corp. for over seven years in various Finance related positions, including Manager, External Reporting and Senior Manager, Financial Planning & Analysis. I received my Bachelor's in Business Administration from Truman State University, MO in 2004 and also hold a Chartered Professional Accountant (CPA, CMA) designation from Canada. In my current role as the Senior Director, Rates and Regulatory Affairs (West region), I am responsible for the overall coordination of Liberty Park Water's regulatory filings with the Commission and am acting as the Project Manager for this proceeding.

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

A. The purpose of my testimony in this proceeding is to sponsor Chapter 6: O&M and

A&G.

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

A. Yes, it was.

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

A. Yes, I do.

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

A. Yes, it does.

Q. Does this conclude your qualifications and prepared testimony?

A. Yes, it does.