Application No.:	A.25-06-
Exhibit No.:	Liberty-06
Witnesses:	M. Rao

(U 933-E)

Mountain View Fire Cost Recovery Application

Before the California Public Utilities Commission

Liberty-06: Legal and Financing Costs

Tahoe Vista, California

June 20, 2025

Liberty-06: Legal and Financing Costs

Table Of Contents

Liberty-06: Legal and Financing Costs

List of Tables

Table	Page

I.

Executive Summary

This chapter describes the reasonable litigation expenses and financing costs that Liberty Utilities (CalPeco Electric) LLC ("Liberty") incurred in connection with the 2020 Mountain View Fire claims. Liberty has recorded the litigation and financing costs in its Wildfire Expense Memorandum Account ("WEMA"), and seeks recovery of these costs.

As discussed in *Liberty-05: Litigation and Claims Resolution*, Liberty faced significant exposure from plaintiffs' claims related to the Mountain View Fire. The resulting litigation costs were a reasonable and prudent response to dealing with those claims. Liberty prudently defended itself by utilizing an experienced and cost-effective team of attorneys and experts and, with the assistance of mediators in some instances, reached pre-trial resolutions that minimized overall litigation costs. As of May 31, 2025, Liberty incurred incremental litigation-related costs of $4.8 million, representing less than 3% of the total amounts paid to settle the claims.

Likewise, Liberty necessarily incurred reasonable and prudent financing costs in connection with the defense and settlement of the Mountain View Fire claims. Given the regulatory framework for cost recovery, there was an inevitable delay between when Liberty began incurring Mountain View Fire-related costs and when Liberty could file its application to recover its costs pursuant to AB 1054. Financing was necessary to bridge that multi-year period. The primary source of that funding was a short-term intercompany revolving loan from Liberty's parent company, Liberty Utilities Co. ("LUCo"). Liberty incurred incremental financing costs associated with the Mountain View Fire-related expenditures in the amount of $2.841 million through May 31, 2025. Liberty anticipates utilizing long-term financing for continued, low-cost financing of its WEMA costs during the pendency of this Application and until authorized WEMA costs can be recovered from customers.

In addition to the costs incurred through May 31, 2025, Liberty forecasts additional financing costs from June 2025 to August 2029, based on the anticipated 12-month timeline to complete this catastrophic wildfire proceeding, implementation of rates in September 2026, and Liberty's proposed three-year amortization period to recover the costs in rates, with an estimated 5.87% interest rate for future financing. (See *Liberty-07: Cost Recovery* for detailed discussion of Liberty's cost recovery proposal.)

II.

Liberty's Legal Expenses Were Prudent and Reasonable

A. Liberty Reasonably Incurred Outside Counsel Costs

The bulk of Liberty's legal expenses were payments to outside counsel retained to defend against the claims brought against it in the numerous lawsuits, as described in *Liberty-05: Litigation and Claims Resolution*. In light of the number and nature of the claims, it was essential for Liberty to retain outside counsel. At the time the claims were first brought, Liberty had only one in-house counsel and did not have expertise in handling wildfire claims.

At the recommendation of Liberty's insurer, Liberty retained the law firm of Haight Brown & Bonesteel LLP as outside litigation counsel ("HBB" or "outside counsel"). The attorneys who led the defense of the claims were experienced litigators and had experience handling fire litigation.

During the more than four-year period of defending the claims, Liberty's outside counsel necessarily worked a substantial number of hours to defend against the 22 lawsuits by roughly 380 plaintiffs. Outside counsel engaged in substantial motion practice and other briefing, including motions to dismiss, ten removals to federal court and seven subsequent motions to remand, and an appeal regarding a Liberty motion to disqualify the trial judge. Outside counsel also necessarily engaged in extensive discovery efforts, including reviewing voluminous documents (over 125 boxes) for potential production, serving and handling over 250 sets of incoming and outgoing written discovery, often further entailing significant meet-and-confer efforts to address discovery disputes, and taking or defending over 50 depositions. Outside counsel also worked extensively with a large number of expert witnesses and consultants. Specifically, outside counsel worked with numerous experts and consultants, with a broad range of expertise (expertise that is described in the next section below) to evaluate and defend against the claims. Outside counsel also engaged in settlement negotiations and mediations to resolve claims.

Through May 31, 2025, Liberty paid HBB $4.553 million relating to the Mountain View Fire matter. Those payments include outside counsel's fees, as well as reimbursements for amounts that HBB paid to experts and mediators on behalf of Liberty. After deducting the reimbursements for amounts paid by outside counsel to experts and mediators (discussed below), Liberty paid $3.384 million for the extensive services (and associated costs) of outside counsel as outlined above. In addition, Liberty retained Crawford Global Technical Services ("Crawford") to perform claims adjuster functions to assist in addressing the numerous individual plaintiff claims. Liberty paid Crawford $0.136

million. The fees paid to outside counsel and the claims adjuster were at their standard and reasonable rates.

B. Liberty Reasonably Incurred Expert Witness, Consultant and Mediator Costs

In order to evaluate and defend against the claims, Liberty prudently utilized expert witnesses and consultants across a wide range of subjects, including experienced experts in fire origin and investigation, electrical engineering (in particular, regarding events with respect to the power line at issue), fire weather, metallurgy, LiDAR, standards of care for utilities, and damages calculations (to evaluate plaintiffs' claims and the reasonableness of settlement demands). Liberty paid those experts, collectively, $1,187,896.02. Of that total, $1.122 million was initially paid by outside counsel and then reimbursed by Liberty. In addition, Liberty separately retained, and paid directly, expert consultants in other related areas for the defense of claims related to the Mountain View Fire, including jury/trial and communications consultants, a fire investigator, and environmental legal services. Liberty paid a total of $0.066 million for these services. In each instance, Liberty did not have adequate in-house expertise in these areas.

Finally, Liberty engaged mediators to assist in attempting to resolve the claims of individual plaintiff groups. In particular, Liberty retained three experienced and highly reputed mediators: Judge Peter Lichtman (Signature Resolution), Judge Jay Gandhi (JAMS) and Lexi Myer-Wolfe (JAMS). Liberty paid those mediators, collectively, $91,317 (consisting of $44,750 paid directly by Liberty and $46,567 paid by outside counsel and then reimbursed by Liberty).

The experts and mediators fees were based on standard hourly rates in litigation, rates that were and are commonly accepted as reasonable.

C. Summary of Litigation-Related Costs

The following is a summary of the amounts paid by Liberty for above-described litigation-related costs that Liberty reasonably incurred (in addition to the claims settlements amounts reflected in *Liberty-05:Litigation and Claims Resolution*, and the financing costs discussed in Section III below):

Table 1: Summary of Litigation-Related Costs as of May 2025 ('000s)[1]

Cost Type		Total
Outside Counsel	$	3,384
Experts/Consultants	$	1,188
Claims Adjuster	$	136
Mediators	$	91
Total WEMA Costs	**$**	**4,800**
Insurance recoveries	$	(750)
Net WEMA Costs	**$**	**4,050**

Liberty's first $0.75 million of insurance recoveries were applied to the earlier litigation costs incurred (with the remainder of the insurance recoveries offset against claims settlement payments), leaving a net WEMA amount for litigation costs of approximately $4.05 million.

III.

Liberty Has Incurred Reasonable and Prudent Financing Costs

A. Liberty Needed to Finance Fire-Related Costs

Liberty has incurred substantial costs as a result of the Mountain View Fire-related claims, which necessitated Liberty access additional financing to fund these costs.

Liberty began incurring substantial litigation-related costs immediately after the fire ignited, and those costs have continued up to the present. Liberty's costs increased significantly when it began settling the fire claims. The earliest settlements were fully covered by insurance.[2] The third round of settlements, on August 25, 2024, brought the cumulative total to above the insurance limits, and thus was only partly covered by insurance, with Liberty paying the amounts above those limits. All settlements thereafter have been fully paid and financed by Liberty. The incremental Mountain View-related costs financed from 2021 to May 31, 2025, for settlements and litigations expenses, net of insurance recoveries, are recorded in Liberty's WEMA .

The magnitude and nature of the costs to be financed differed significantly from Liberty's financing for its standard operations. It was therefore necessary to retain specialized advisors in

[1] Amounts paid to experts and mediators are reflected in those respective categories even where the underlying fees were billed through outside counsel.

[2] Liberty does not seek to recover financing costs for amounts paid on claims settlement funded by insurance.

connection with the evaluation of options and the development of the financing arrangements between Liberty and its parent company (described below). The amounts paid to such advisors were recorded in Liberty's WEMA and are included in the total financing costs.

B. Liberty's Mode of Financing Was Reasonable

Liberty determined that the most efficient and cost-effective method for financing these litigation costs was through a short-term intercompany revolving loan pursuant to an annual Revolving Credit Agreement between Liberty and its parent company, LUCo (as amended, "Credit Agreement"). The revolving loan funds were used not only for Mountain View Fire costs but also for Liberty's standard operational needs. Only the financing costs associated with Mountain View Fire costs were recorded in Liberty's WEMA.

The interest rate terms established under the Credit Agreement were based on LUCo's short-term borrowing costs using commercial paper plus a margin where applicable to reflect Liberty's credit profile. The average interest rate used to finance the Mountain View Fire WEMA costs through May 31, 2025, was 3.61%. The financing provided by LUCo to Liberty pursuant to the Credit Agreement was more favorable to Liberty than Liberty attempting to issue its own commercial paper. Liberty likely could not practically have issued commercial paper in these amounts, and any alternative debt instrument that Liberty itself issued would have required significantly higher interest rates than the rate under the Credit Agreement. Moreover, three-month commercial paper is not customarily used for long term financing of costs of the magnitude incurred as a result of the Mountain View Fire. The margin under the Credit Agreement also reasonably accounted for Liberty-specific credit risk, such as its service territory being in a high fire risk area, and associated litigation risk. Liberty confirmed this as a reasonable estimate of Liberty's fair market rate through discussions with market participants and consultants.

C. Finance Costs Incurred

Over the period from January 1, 2021 to May 31, 2025, Liberty incurred financing costs in the aggregate amount of $2.841 million.[3]

[3] Prior to the settlements exceeding Liberty's insurance, the only amounts financed and included in the WEMA account were the litigation expenses (to the extent not reimbursed by the initial $750,000 insurance payment). The financing costs are comprised of the interest expense owed by Liberty to LUCo under the Credit Agreement as well as fees paid to advisors in connection with the financing provided by LUCo to Liberty.

Liberty's WEMA tariff authorizes Liberty to record "[a]ll incremental amounts paid by Liberty CalPeco that are the direct or indirect result of a wildfire, including the costs categories listed . . . in Section 1."[4] Section 1 in turn includes "[t]he cost of financing [the] amounts" of "[p]ayments to satisfy wildfire claims" and "[o]utside legal expenses incurred in the defense of wildfire claims."[5] Thus, Liberty properly incurred and recorded the described financing costs and they should be authorized for recovery as reasonably incurred.

D. Anticipated Ongoing Finance Costs

Effective August 1, 2025, Liberty plans to enter into a secured seven-year note ("Note") that will replace the Mountain View Fire financing under the Credit Agreement.[6] Liberty estimates that the Note will bear interest at 5.87%, and that rate is used herein to calculate estimated future financing costs.[7] Liberty will quantify and update the financing costs incurred post-May 2025 in its rebuttal testimony in this proceeding. The Note will allow for long-term cost certainty regarding the subject financing amount, as opposed to the uncertainty of future commercial paper (where rates will fluctuate), and it reflects the current external market rate. Liberty anticipates paying approximately $0.329 million in interest under that Note in August 2025. The monthly interest costs thereafter will grow due to inclusion of ongoing financing costs in the balance being financed. Liberty estimates post-filing financing costs through August 2029 of $11.477 million. That would yield total financing costs, past and future, including the financial advisors costs, of $14.318 million. The table below assumes that Liberty's Application and cost recovery proposal are approved as proposed (with recovery beginning in September 2026), and provides a breakdown of the forecasted post-filing interest from June 2025 to August 2029.

---

[4] Tariff effective August 13, 2020, at § 13.O.2.a (definition of "Costs Arising From Wildfires").

[5] *Id.*, §§ 1(a)-(b), 1(c).

[6] *See* D.25-03-006, OP 1 (authorizing Liberty "to issue evidence of long-term indebtedness for an aggregate principal amount not to exceed $500 million through intercompany promissory notes or other evidence of indebtedness, for the purposes of rebalancing Liberty's capital structure to 52.50 percent equity and 47.50 percent debt, refinancing Liberty's short-term debt incurred through intercompany borrowings, and funding the construction, completion, extension, or improvement of its facilities.").

[7] Liberty will provide an update of the actual Note rate, and resulting financing costs, in its rebuttal testimony.

Table 2: Forecasted Post-Filing Financing Costs ('000s)

Timeframe	Amount
June - December 2025	$ 2,250
2026	4,075
2027	3,104
2028	1,718
2029	330
Total forecasted financing costs	**$ 11,477**

A timely decision on this Application authorizing Liberty to recover its costs, including reasonably incurred financing costs, will allow Liberty to relieve customers of the continued burden associated with carrying these costs.