### BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Develop a Risk-Based Decision-Making Framework to Evaluate Safety and Reliability Improvements and Revise the General Rate Case Plan for Energy Utilities.

Rulemaking 13-11-006 (Filed November 14, 2013)

# LIBERTY UTILITIES (CALPECO ELECTRIC) LLC (U 933-E) COMMENTS ON SCOPE OF ISSUES AND QUESTIONS RAISED IN ORDER INSTITUTING RULEMAKING

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January 15, 2014

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Pursuant to Ordering Paragraph 4 in the *Order Instituting Rulemaking to Develop a Risk-Based Decision-Making Framework to Evaluate Safety and Reliability Improvements and Revise the General Rate Case Plan for Energy Utilities* ("OIR") issued on November 22, 2013, Liberty Utilities (CalPeco Electric) LLC (U 933-E) ("Liberty Utilities")<sup>1</sup> provides comments on the scope of issues in the OIR and responses to the specific questions raised regarding those issues in Sections 4.1 through 4.6 of the OIR.

Liberty Utilities' comments are primarily based on its recent experience completing a general rate case through its Application 12-02-014. Liberty Utilities filed this application on February 17, 2012, submitted an all-party settlement on September 28, 2012, was issued a Commission decision (Decision 12-11-030) on November 29, 2012, and placed its new rates into effect as of January 1, 2013. A number of factors that differentiate Liberty Utilities from the large California investor-owned utilities ("IOUs") enabled the Commission and the parties to process and implement Liberty Utilities' general rate case application in this less than eleven month period.

<sup>&</sup>lt;sup>1</sup> Ordering Paragraph 5 identifies Liberty Utilities as a respondent to the OIR (mimeo at 20). By Advice Letter 28-E submitted on July 15, 2013, California Pacific Electric Company, LLC ("CalPeco") notified the Commission of its formal change in name as of that date to Liberty Utilities (CalPeco Electric) LLC.

First, Liberty Utilities and the other small IOUs this Commission regulates do not submit a Notice of Intent ("NOI") as a prerequisite to filing a general rate case application. As a result, the Office of Ratepayer Advocates ("ORA") is not obligated to spend time and resources determining if there are any deficiencies within that NOI. By the Commission not subjecting the small IOUs to the NOI process, the schedule for their general rate case applications can be shortened by a minimum of 90 days.<sup>2</sup>

Second, Liberty Utilities is almost exclusively a distribution-only electric utility. Liberty Utilities has only minimal generation assets and no transmission assets.<sup>3</sup> Accordingly, its general rate case and other rate-related proceedings are significantly less complicated than the general rate cases for the large IOUs.

Third, power purchase costs make up a significant portion of Liberty Utilities' revenue requirement.<sup>4</sup> Liberty Utilities purchases its full requirements of power through one single Commission-approved power purchase agreement with NV Energy.<sup>5</sup> As a result, here again, Liberty Utilities' general rate case application was significantly less complex than the applications for the large IOUs.

Fourth, Liberty Utilities' service territory is relatively small and has generally homogeneous climate and geographic conditions. Furthermore, Liberty Utilities has relatively few customers (under 50,000), with most clustered within the Lake Tahoe basin. As a result, many of Liberty Utilities' programs, for example those related to customer care and

<sup>&</sup>lt;sup>2</sup> See Decision 07-07-004, mimeo at Appendix A, A-10 to A-12. NOIs are provided to ORA. ORA then has 25 days to notify the applicant of any deficiencies in its NOI. After the applicant cures any deficiencies and ORA accepts the NOI, the applicant must then serve the NOI within 5 days. The applicant may file its general rate case application no sooner than 60 days after the NOI is accepted.

<sup>&</sup>lt;sup>3</sup> See Decision 10-10-017, mimeo at 23. Liberty Utilities' lone generation asset is the Kings Beach Generation Facility. It is a 12 MW diesel-fired generating facility (comprised of 6 2 MW units) that is restricted by its permits to operate no more than 720 "machine hours" per calendar year. See Application 09-10-028, at 48.

<sup>&</sup>lt;sup>4</sup> See Exhibit 2, Chapter 8, Table 8.1A of Application 12-02-014.

<sup>&</sup>lt;sup>5</sup> See Decision 10-10-017, mimeo at 23.

infrastructure maintenance, are significantly less varied and much smaller than the equivalent programs for the large IOUs that cover relatively large geographic areas with varying terrains, climate zones, and customer densities.

Fifth, given its customer profile, Liberty Utilities has a relatively limited tariff structure, with the vast majority of its customers falling into domestic service (i.e., residential) (D-1); small non-domestic service (i.e., small commercial) (A-1); medium non-domestic service (i.e., medium commercial) (A-2); and large non-domestic service (i.e., large commercial) (A-3) customer classifications. One consequence of these fewer rate classifications has been that the limited number of intervenors participating in Liberty Utilities' rate proceedings. Historically, the only intervenors have been ORA, TURN, representing residential and small commercial customers, and the "A-3 Customer Coalition" representing the interests of the large commercial customers who receive service on the A-3 tariff.<sup>6</sup> This absence of multiple and complex rate classifications coupled with a limited number of intervenors who represent the vast majority of Liberty Utilities' customers further distinguishes the requirements for the processing of a general rate application for Liberty Utilities from the requirements for the processing of the large IOUs' applications.

The current procedures for Liberty Utilities have allowed intervenors to fully assess, scrutinize and challenge, if deemed necessary, all aspects of Liberty Utilities' general rate case application. For example, ORA, TURN and the A-3 Customer Coalition participated in Application 12-02-014. The submission by Liberty Utilities of direct and rebuttal testimony, along with the information set forth in Liberty Utilities' responses to discovery responses, provided sufficient information to enable the participants to reach an all-party settlement and

<sup>&</sup>lt;sup>6</sup> The A-3 Customer Coalition is an ad hoc coalition and consisted of four large commercial customers in Liberty Utilities' most recent general rate case proceeding. *See* Protest of the A-3 Customer Coalition in A.12-02-014.

allow all parties to avoid the costs associated with conducting a formal evidentiary hearing. The Commission then rendered a considered decision approving the all-party settlement. In total, 10 months expired from the filing of Liberty Utilities' general rate case application to the Commission's final decision approving the all-party settlement.

Had the Commission imposed a one-size-fits-all general rate case plan (especially one designed to correspond to the needs of the Commission and the multiple intervenors who regularly participate in general rate cases for the three large IOUs) upon Liberty Utilities and the other parties participating in its general rate case application, the process would have most likely been extended for a substantial period (and the costs of participation would have escalated for all parties) beyond ten months. Accordingly, in this OIR the Commission should assess the procedures for its processing of general rate cases for all utilities to further prioritize safety and reliability issues. However, in addressing more generic questions about the conduct of general rate cases, the Commission would err by ignoring the dramatically different needs for conducting general rate cases as between the large and small IOUs.

In particular, the Commission serves no benefit by seeking to create a one-size-fits-all general rate case plan. An application assessing an \$8 billion PG&E revenue requirement involving up to 23 parties requires dramatically different procedures than an approximately \$80 million Liberty Utilities rate proceeding with a total of four participants (i.e., the Liberty Utilities revenue requirement is approximately one percent of the PG&E request).

Imposition of the large IOU general rate case procedures on Liberty Utilities provide no benefit to any constituent group, and simply serve to prolong the proceeding and increase costs for all participants. Any claim that a one-size-fits-all promotes "administrative consistency" and thereby reduces the Commission's workload would be arbitrary and ignore the orders of magnitude differences between a general rate case proceeding for a small IOU as opposed to a

large IOU. Accordingly, the Commission should address whether any changes to the current protocols for general rate cases used by the small IOUs are necessary.

# I. QUESTIONS AND RESPONSES TO SECTIONS 4.1 THROUGH 4.6 Section 4.1.

- Question 1. Would developing a review process similar to the current CEQA review process, where internal review by the Commission staff is supplemented by technical review conducted by consultants, be effective, adequate, and desirable?
- A1. No. Liberty Utilities endorses the core concept of the OIR that that a review process be developed to elevate issues relating to safety within the general rate case process. However, a two-stage CEQA process designed to assess a single project would be ineffective, inadequate, and undesirable for the significantly broader and infinitely more comprehensive general rate case process. There are simpler, more cost effective measures the Commission can adopt to appropriately elevate the nexus between safety imperatives and rate recovery in general rate case proceedings.

The desired more focused safety review can be incorporated into the existing schedule. The applicant utility should include the required testimony on safety in its submission of direct testimony and the parties can then seek discovery on and submit reply testimony on the utility's safety showing. Explicit consideration of safety as part of the normal review process for all stakeholders will best ensure an adequate safety review by the Commission in making determinations as to the rate recovery the applicant should be authorized to recover to spend to direct the safety concerns identified.

The current CEQA review process is a two-stage application process related to the construction of infrastructure associated with a specific and defined project. First, the Commission staff conducts the environmental review of the project, which may be supplemented

by technical review conducted by consultants. Second, the Commission then reviews the project need and costs.

Presumably having the general rate case process mirror the CEQA process would require a similar two-stage process except that safety impacts would be analyzed rather than environmental impacts. A general rate case is a much more comprehensive and broader undertaking than the construction of a single specific infrastructure project. Requiring that every single aspect of a general rate case be preliminarily assessed by outside consultants for its possible safety implications, and then having staff propose mitigations and alternatives to reduce or avoid any determined safety impacts would be a massive undertaking for the Commission staff (no matter how many consultants were brought in to supplement the staff) that would make the entire general rate case process untenably long and laborious, add significant costs for all parties, and with the most negligible possible benefit.

Furthermore, the CEQA process analyzes 18 different environmental resources factors with regard to a **single** project. The OIR itself notes the similarly broad scope to safety, which would require a similar, if not even more complicated, analysis of various safety factors. Conducting such a complicated analysis with regard to <u>each</u> aspect of a general rate case, which in turn is meant to reflect every aspect of a utility's operations, would be near to impossible to conduct in any finite or reasonable amount of time. An entire general rate case process modeled after the CEQA process would not allow the Commission to determine the reasonable amount of revenue requirement necessary for an IOU to provide safe and reliable service, to cover costs, and to permit the utility an opportunity to make reasonable earnings, all within a reasonable time period for all stakeholders involved.

<sup>7</sup> See OIR at 8.

#### Section 4.2.

- Question 1. How should the Commission develop a new RCP for energy utilities in a way that will link strategy and goals to resource allocation? What kind of reporting requirements are needed in order to identify the framework, method, practices and activities used in assessing risk of safety, security, and/or reliability deficiencies and linking it to the requested funding in a GRC?
- A1. Liberty Utilities routinely considers and evaluates risk in determining the level of funding to request for various components of its general rate case applications.

The Commission can refine requirements for general rate cases and mandate explicit description of the risk-based decision-making process the applicant utility employed to support its specific resource allocation request for a specific component of its requested revenue requirement. Similarly, the Commission can ensure that its own decisions on the specific aspects of a general rate case application evaluate whether the risk-based decision-making process used by the utility was reasonable.

On the other hand, imposing additional reporting requirements to ensure the availability of evidence to support a later decision on the reasonableness of an IOU's risk-based decision is neither cost-effective nor necessary. By requiring that the applicant utility include a "risk assessment/decision making" showing as part of its direct evidence in the application, the Commission will ensure that the utility is responsible for being able to "report" (and conversely being at risk for any failure to provide) sufficient and cumulative data, whether quantitative or qualitative, that supports the reasonableness of the risk-based decision and provides the necessary record evidence for the requested rate recovery.

- Question 2. What criteria should be used by the Commission to evaluate whether a utility has produced an adequate risk-informed GRC filing?
- A2. As described above, the Commission should determine the reasonableness of the risk-based decision that informs a utility's resource allocation request.

# Question 3. Is the development of safety, reliability, and security assessment and review tools that could be used internally or externally desirable and sufficient for investment review purposes?

A.3. Both historically and today, the Commission assesses and reviews investments based on the need for and cost of the proposed expenditure. As part of its assessment of the need for and reasonableness of an investment, the Commission assesses safety, reliability and security. Accordingly, while the assessment and review tools needed to determine the safety, reliability and security of a utility's requested investment could be improved; there is no need for a completely new set of previous unutilized tools.

Rather, by making explicit assessment of safety, reliability and security that it has heretofore made an implicit part of every review, the Commission will have sufficiently accomplished a successful assessment of utility investment.

# Question 4. Who should bear the cost of developing safety assessment and review tools that the Commission might be using?

A.4. Should any additional assessment and review tools be necessary, the cost should be borne by all those who benefit from safer IOUs and safer IOU infrastructure. Accordingly, all Californians should pay through the legislature allocating the CPUC the needed incremental costs necessary for developing any additional assessment and review tools – not just the ratepayers of California IOUs.

### Section 4.3.

- Question 1. What should be the interval between GRCs for energy utilities? Should all energy utilities be treated uniformly? What should the schedule look like in the coming years?
- A1. As stressed in Liberty Utilities' preliminary statements, for purposes of developing general rate case protocols, the Commission should not treat "all energy utilities ... uniformly." Whatever the interval and associated schedule that are selected for the large IOUs

has little, if any, relevance to the appropriate GRC interval and schedule for Liberty Utilities.

Thus, Liberty Utilities will restrict its answer to this question (and other similar questions) to the facts, circumstances, policy implications, and costs solely associated with its own experience.

In Liberty Utilities' individual experience, a three-year rate case cycle has served it and all stakeholders well. Liberty Utilities urges that in all events, the Commission allow it to continue to employ the three year rate case cycle. The three-year interval has provided Commission, its staff, and the limited number of parties who have been regular participants in Liberty Utilities' rate proceedings sufficient time and procedures to successfully assess and review all aspects of Liberty Utilities' requested revenue requirement. We are aware of no participant in Liberty Utilities' rate proceedings asserting any deficiency in or prejudice caused by its current three year rate cycle.

The existing three year cycle has ensured that the costs associated with the general rate case process remain somewhat reasonable. Liberty Utilities has no opinion as to how the three year rate cycle may (or may not) work for the large IOUs and for the other small IOUs. Given the financial and cost consequences of the interval for changes in general rates, Liberty Utilities again urges the Commission to not adopt a generic one-size-fits-all general rate case plan for all energy IOUs.

- Question 2. How can we determine the timing of the incoming NOIs as well as the attrition years in order to reduce pressure on workload and allow adequate time for careful analysis?
- A2. As mentioned in the introduction, Liberty Utilities and the other small IOUs have processed their respective general rate applications and without the need for also filing an NOI. Thus Liberty Utilities has no comments about the workings of NOIs, other than to reiterate that Liberty Utilities' general rate proceedings have not required the additional and time-consuming NOI process.

With respect to attrition years (i.e., the calendar years between the effectiveness of general rate increases), in 2013, Liberty Utilities made its attrition year filing through its Post-Test Year Adjustment Mechanism via advice letter. <sup>8</sup> The process worked well and without increasing any burdens on Liberty Utilities, and presumably provided adequate time for analysis by and without imposition of any additional burdens on the Commission staff.

### Question 3. Under any of these scenarios, what consequence(s) should follow from utility's failure to meet its filing deadline under the plan?

A3. No additional penalty is necessary. A utility's failure to meet a filing deadline likely means a delay in a decision by the Commission, and a reduction in the utility's opportunity to earn a reasonable return. Thus, a utility is always economically motivated to meet filing deadlines relating to general rate cases.

# Question 4. Under any of these scenarios, what review of utility spending should occur in the intervening years?

A4. With respect to Liberty Utilities, the Commission should continue its existing practices to review its spending during intervening years through various reporting requirements and attrition year filings.

#### Section 4.4.

# Question 1. Aside from the interval between cases, how prescriptive should the RCP be regarding the schedule for the case itself?

A1. Liberty Utilities must reiterate that significant portions of the RCP that are applicable to the large IOUs have not been applied to the small IOUs. The Commission need not, and should not, impose any such one-size-fits-all "uniform RCP" on Liberty Utilities.

<sup>&</sup>lt;sup>8</sup> Calendar year 2013 effectively represented Liberty Utilities' first attrition year. As explained previously, Application 12-02-014 represented Liberty Utilities first general rate case and the resulting rate changes that the Commission authorized in Decision 12-11-030 became effective as of January 1, 2013.

Thus, with respect to Liberty Utilities, the Commission's requirements for the submission and processing of a general rate case application need not be prescriptive. The adopted protocols should provide a flexible guideline aimed at ensuring that all parties have the full ability to make a meaningful contribution, balanced against the needs to minimize costs of participation and ensure that a decision is issued in a reasonable time period. Timely decisions in general rate cases benefit all stakeholders, not just the utility applicant.

## Question 2. In what ways can the Commission improve the schedule such that all parties are provided with adequate time for meaningful contributions to the case?

A2. Again, in this response, Liberty Utilities' answer is based on and intended to address only its experience with its own general rate case proceeding (i.e., Liberty Utilities has no basis to respond to this question in the context of a general rate case for any of the large IOUs).

Liberty Utilities believes that the current schedule for its general rate case as demonstrated by its experience in A. 12-02-014 provides all parties adequate time to make a meaningful contribution.

# Question 3. Are there any stress points where all parties need extra time or any interval which is not spent efficiently?

A3. Liberty Utilities has no response with respect to the general rate cases the other California IOUs conduct. With respect to its own general rate case, Liberty Utilities is not aware of any instances in which parties needed extra time due to the Liberty Utilities proceeding and is not aware of any time that was not spent efficiently.

## Question 4. How much latitude should parties have to adjust the timing in particular rate cases, for example, to build in time for settlement efforts?

A4. Liberty Utilities will again limit its response to its own experience in conducting its general rate case. In Liberty Utilities' experience, it is imperative that parties (with

Supervision by and coordination with the Administrative Law Judge and Assigned Commissioner) have significant latitude to adjust the timing in particular rate cases as necessary, especially to build in time for settlement efforts. For this reason, and as already stated, the Commission's procedures for general rate cases for energy IOUs should be designed as a flexible guideline aimed at ensuring that all parties have the full ability to make a meaningful contribution, balanced against the needs to minimize costs of participation and ensure that a decision is issued in a reasonable time period.

### Question 5. How may additional safety review by the Commission and by other parties affect the RCP schedule?

A5. With respect to Liberty Utilities, the additional and more focused safety review should and can be incorporated into the existing schedule. For example, Liberty Utilities would include the required testimony on safety in its submission of direct testimony and the parties can then seek discovery on and submit reply testimony on Liberty Utilities' safety showing. Explicit consideration of safety as part of the normal review process for all stakeholders in a Liberty Utilities general rate proceeding will ensure an adequate safety review by the Commission in making determinations as to what amounts to reasonable resource allocations.

#### Section 4.5.

- Question 1. Are these or other differences relevant for purposes of the RCP? If there are material differences, should they be reflected in the plan itself or addressed case-by-case?
- A1. All five of the major categories of differences related to Liberty Utilities stated in the introduction are relevant for purposes of establishing a RCP. The Commission (with full intervenor participation) has successfully processed Liberty Utilities' most recent rate case proceeding while <u>not</u> following the formal RCP that was setup for the large IOUs. Accordingly, uniform application of a single rate case plan to all IOUs does not make sense in California.

Furthermore, any rate case plan that the Commission establishes for an individual utility (or a category of utilities; (i.e., small IOU and large IOU)) should only serve as a flexible guideline aimed at ensuring that all parties have the full ability to make a meaningful contribution, balanced against the needs to minimize costs of participation and ensure that a decision is issued in a reasonable time period.

As stressed throughout these responses, Liberty Utilities opposes the Commission imposing a generic, non-differentiated, "one-size-fits-all" RCP on every IOU, and without regard to whether its revenue requirement is \$8 billion or \$80 million. However, if for whatever reason, the Commission decides that some notion of "administrative convenience" demands that it arbitrarily impose a standard RCP on all or a group of utilities, Liberty Utilities urges that:

- 1. In no event impose the RCP applicable to the large IOUs on the small IOUs;
- 2. Establish rate case procedures that recognize the differences in complexity and dollars between rate cases for a \$8 billion revenue requirement as compared to revenue requirements of amounts less than \$100 million;
- 3. Continue to exempt small IOUs from any requirement to submit an NOI; and
- 4. Continue to allow rate cases for small IOUs to be processed in less time than required in the RCP for the large IOUs.

## Question 2. How much variation (if any) should be allowed between different utilities, between the gas and electric industries, or on any other basis?

A2. See Response to Question 1 in this section. Liberty Utilities provides only electric service and thus has no comments on issues relating to the processing of general rate cases for integrated gas and electric utilities.

#### Section 4.6.

- Question 1. Should particular features of the current RCP for energy utilities be updated, or even discarded? How could the Commission reduce complexity of the filings?
- A1. The current RCP should explicitly state that Liberty Utilities and the other small IOUs are not subject to it.
- Question 2. What kind of process changes might be helpful for stakeholders to enable them to review the application in an expedited manner? For example, would a presentation by the utility filing the application right after the submittal be helpful to familiarize the stakeholders with the application early in the process?
- A2. Liberty Utilities is limiting this response to the conduct of its own general rate case. Given the orders of magnitude differences in its own proceedings as compared to those conducted by the large IOUs, Liberty Utilities has no comments to offer regarding facilitating and enhancing stakeholder participation in the general rate cases for the large IOUs.

With respect to its own general rate case, Liberty Utilities informally made several presentations of its filing for ORA both before and after submission of its last general rate case. Liberty Utilities believes that these presentations benefited both itself and ORA, as well as facilitated the parties' ability to complete the rate case process in approximately 10 months. Liberty Utilities would also be amenable to making presentations to its small group of intervenors. However, at least with respect to Liberty Utilities, it would be inappropriate and likely counterproductive for the Commission to mandate such presentations.

For instance, it may be that intervenors would find that presentations by Liberty Utilities prior to filing or at an early stage of proceeding would provide no benefit. At least for Liberty Utilities, the best approach would be for the small number of parties, and with the possible assistance of the Administrative Law Judge, to the extent necessary, to decide among themselves

whether and when it would be most advantageous and cost-effective for Liberty Utilities to make a presentation.

- Question 3. What kind of process changes would be helpful for the general public to better understand the impact of rate case and participate in the proceeding?
- A3. Liberty Utilities' response is limited to issues relating to the understanding by the general public of its own general rate case proceedings.

Liberty Utilities currently provides notice of rate impacts to the general public through its website, bill inserts to its customers, and announcements in the local media. In addition, Liberty Utilities also provides notice of rate impacts to local elected officials. Liberty Utilities would welcome suggestions from constituent groups and other stakeholders within its service territory for other cost-effective methods that help the general public better understand the impacts and consequences of the rate case.

- Question 4. How effective is the NOI? Would the Commission and the parties be better served by simply having the utility file its application earlier than it does now?
- A4. See Response to Question 1. Liberty Utilities does not submit an NOI. Liberty Utilities reiterates that requiring it to submit an NOI would provide no party any benefit, would increase costs of participation, and unnecessarily prolong the time necessary to complete the general rate case process.
- Question 5. Whether or not the NOI is retained, should the "master data request" be reviewed and possibly updated? How can we modify the "master data request" in order to streamline the data requests and reduce the amount of unused data?
  - A5. See Response to Question 1.

Question 6. Even more fundamental, does the current division of GRCs between a "Phase 1" (results of operations/revenue requirement) and a "Phase 2" (rate design) [or Cost Allocation Proceeding for major gas utilities] need to be reconsidered and reformulated?

A6. The procedures adopted for any IOU general rate case need not be prescriptive, and instead should provide a flexible guideline aimed at ensuring that all parties have the full ability to make a meaningful contribution, balanced against the needs to minimize costs of participation and ensure that a decision is issued in a reasonable time period. Accordingly, the appropriate "phasing" of a rate case can best be determined for Liberty Utilities by the small number of parties, and with the assistance of the Administrative Law Judge, to the extent necessary, to decide among themselves the most advantageous and cost-effective "phasing" method.

Respectfully submitted,

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/s/

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January 15, 2014