BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

In the Matter of the Application of Liberty Utilities (CalPeco Electric) LLC (U 933 E) for Authorization to Recover Costs Recorded in Various Memorandum Accounts.	Application 22-10- ___ (Filed October 31, 2022)

APPLICATION OF LIBERTY UTILITIES (CALPECO ELECTRIC) LLC (U 933-E) FOR AUTHORIZATION TO RECOVER COSTS RECORDED TO VARIOUS MEMORANDUM ACCOUNTS

Daniel W. Marsh
Senior Manager, Rates & Regulatory Affairs
Liberty Utilities (CalPeco Electric) LLC
701 National Avenue
Tahoe Vista, CA 96148
Telephone: (530)721-2435
E-mail: dan.marsh@libertyutilities.com

Victor T. Fu
Joni A. Templeton
Prospera Law, LLP
1901 Avenue of the Stars, Suite 480
Los Angeles, CA 90067
Telephone: (424) 239-1890
Facsimile: (424) 239-1882
E-mail: vfu@prosperalaw.com
jtempleton@prosperalaw.com

Dated: October 31, 2022

Attorneys for Liberty Utilities (CalPeco Electric) LLC

Table Of Contents

Table Of Contents

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

In the Matter of the Application of Liberty Utilities (CalPeco Electric) LLC (U 933 E) for Authorization to Recover Costs Recorded in Various Memorandum Accounts.	Application 22-10- ___ (Filed October 31, 2022)

APPLICATION OF LIBERTY UTILITIES (CALPECO ELECTRIC) LLC (U 933-E) FOR AUTHORIZATION TO RECOVER COSTS RECORDED TO VARIOUS MEMORANDUM ACCOUNTS

I. INTRODUCTION

Liberty Utilities (CalPeco Electric) LLC ("Liberty") respectfully submits this Application requesting that the California Public Utilities Commission ("CPUC" or "Commission") authorize Liberty to recover costs recorded in the following memorandum accounts:

- Catastrophic Events Memorandum Account ("CEMA") associated with the following five catastrophic events:
  - Tree Mortality/Drought
  - 2021 Tamarack Fire
  - 2021 Caldor Fire
  - 2021 Winter Storms
  - 2017 Winter Storms
- Wildfire Mitigation Plan Memorandum Account ("WMPMA");
- Fire Risk Mitigation Memorandum Account ("FRMMA");
- Wildfire Expense Memorandum Account ("WEMA");

- Fire Hazard Prevention Memorandum Account ("FHPMA"); and
- Covid-19 Pandemic Protections Memorandum Account ("CPPMA")

Liberty provides electricity to approximately 49,000 customers in portions of seven counties around the Lake Tahoe area. The service territory is geographically compact and generally encompasses the western portions of the Lake Tahoe Basin (almost 80% of Liberty's customers are in the Lake Tahoe Basin), extending north to Portola, and south to Markleeville. As described in Liberty's Wildfire Mitigation Plan ("WMP"), approximately 94% of the service territory is in a high wildfire risk area.

Pursuant to Section 454.9 of the California Public Utilities Code and Rule 2.1 of the California Public Utilities Commission ("Commission") Rules of Practice and Procedure, Liberty is requesting recovery of costs recorded to the CEMA were incurred to: (1) restore service to customers, (2) repair, replace, or restore damaged facilities, and (3) comply with governmental agency orders in connection with events declared disasters by competent state or federal authorities. For the other memorandum accounts, Liberty requests authorization to recover the costs it incurred related to the specific events for which the memorandum account was created.

II. STATEMENT OF RELIEF SOUGHT

For the reasons set forth in this Application and the supporting testimony, Liberty respectfully requests that the Commission authorize a total revenue requirement of $42.532 million, which includes $38.531 million in incremental O&M expenses and $4.001 million in revenue requirement based on incremental capital expenditures. Specifically, Liberty asks the Commission to:

- Find reasonable $7.288 million in incremental Operations and Maintenance ("O&M") expenses related to Liberty's response to the Tree Mortality/Drought efforts, recorded in Liberty's CEMA;
- Find reasonable $9.165 million in capital expenditures and $0.126 million in incremental O&M expenses related to Liberty's response to the 2021 Tamarack Fire, recorded in

Liberty's CEMA;

- Find reasonable $2.289 million in capital expenditures and $0.164 million in incremental O&M expenses related to Liberty's response to the 2021 Caldor Fire, recorded in Liberty's CEMA;
- Find reasonable $5.002 million in incremental O&M expenses related to Liberty's response to the December 2021 Winter Storms, recorded in Liberty's CEMA;
- Find reasonable a credit of $0.676 million related to Liberty's overcollection of CEMA costs related to the 2017 Winter Storms;
- Find reasonable $13.546 million in incremental O&M expenses related to Liberty's implementation of its Wildfire Mitigation Plan, recorded in Liberty's WMPMA through December 31, 2021;
- Find reasonable $1.342 million in incremental O&M expenses related to Liberty's development of its Wildfire Mitigation Plan, recorded in Liberty's FRMMA;
- Find reasonable $9.711 million in incremental O&M expenses related to Liberty's wildfire insurance costs above those authorized in its General Rate Case ("GRC"), recorded in Liberty's WEMA through December 31, 2021;
- Find reasonable $0.660 million in incremental O&M expenses related to Liberty's participation in Rulemaking ("R.") 08-11-005, recorded in Liberty's FHPMA;
- Find reasonable $1.367 million in incremental O&M expenses related to Liberty's costs of dealing with the COVID-19 pandemic, recorded in Liberty's COVID-19 Pandemic Protections Memorandum Account.
- Find reasonable $4.001 million in 2022-2024 revenue requirement associated with $11.454 million in incremental capital expenditures related to the Tamarack and Caldor Fires.
- Authorize Liberty to recover the $42.532 million in revenue requirement through a 36-month surcharge to all customer classes.

Pursuant to Section 454.9(b) of the California Public Utilities Code, Liberty requests an expeditious review, and approval of, this Application.[1]

III. BACKGROUND

A. Catastrophic Events Memorandum Accounts ("CEMA")

Liberty is requesting authority to recover $15.905 million in revenue requirement associated with incremental capital and O&M costs associated with various catastrophic events, including the drought emergency, Tamarack and Caldor Fires, and the December 2021 winter storms. The $15.905 million includes $11.904 million in incremental O&M expenses and $4.001 million in 2022-2024 revenue requirement associated with incremental capital expenditures. Each of these events resulted in the Governor of California proclaiming a state of emergency and, in turn, Liberty notifying the Commission that it had activated its CEMA to record the costs associated with restoring service, repairing, and replacing damaged facilities, and complying with governmental agency orders pursuant to Resolution E-3238.

Liberty reviewed the recorded CEMA costs to confirm the costs were incremental. Incremental costs were those incurred by Liberty as a result of (or would not have been incurred "but for") the CEMA event and are not part of Liberty's normal business operations (and are, therefore, not funded through existing rates). Once a CEMA was activated for each catastrophic event, Liberty created specific accounts to record costs. Liberty personnel were instructed to record related costs to these specific CEMA accounts.

1. Tree Mortality/Drought

On October 30, 2015, Governor Edmund G. Brown declared a state of emergency in California due to the vast tree mortality in several regions of the state caused by the lack of precipitation over the previous four years which caused trees to be susceptible to the infestation of bark beetles. California

[1] See Cal. Pub. Util. Code § 454.9(b) ("The commission shall hold expedited proceedings in response to utility applications to recover costs associated with catastrophic events.").

experienced a sharp increase in the number of dead trees that can be directly correlated to the prior year's drought condition levels.

On July 5, 2017, Liberty notified the Executive Director of the CPUC by letter that it had activated its CEMA to record the costs associated with the 2018 and 2019 Tree Removal Program. Beginning on January 1, 2018, Liberty began recording incremental costs in its CEMA to record costs incurred to address tree mortality throughout its service territory. As a result, Liberty mobilized contract resources for the identification and removal of dead trees that could fall on or make contact with Liberty's electrical facilities.

Through December 31, 2021, Liberty incurred $7.288 million in total incremental O&M expenses in the identification and removal of dead and dying trees within its service territory. In determining the costs in CEMA, Liberty confirmed such costs were incremental and not duplicative of costs already included in rates set forth in the last GRC.

2. 2021 Tamarack Fire

The Tamarack Fire was first reported on July 4, 2021 on a rocky ridgetop in the Mokelumne Wilderness, approximately seven miles southwest of Markleeville, California in Alpine County. The fire was believed to be caused by a lightning strike. Fire officials allowed the fire to burn naturally until July 16, 2021, when high winds caused the fire to start spreading northeast toward Markleeville, which is in Liberty's service territory. The Tamarack Fire resulted in evacuations of numerous communities in Alpine County, including Alpine Village, Markleeville, Mesa Vista and Woodfords, starting July 16, 2021. The fire damaged over 23 miles of Liberty's distribution lines, including 182 distribution poles and various other equipment. In total, the fire burned 68,637 acres.

On August 13, 2021, Liberty notified the Deputy Executive Director for Energy and Climate Policy of the CPUC by letter that it had activated its CEMA to record the costs associated with the

Tamarack Fire. Liberty incurred $0.126 million in total incremental O&M expenses and $9.165 million in incremental capital expenditures in restoring power, rebuilding its facilities, and complying with governmental agency orders. In determining the costs in CEMA, Liberty confirmed such costs were incremental and not duplicative of costs already included in rates set forth in the last GRC.

3. 2021 Caldor Fire

On August 14, 2021, the Caldor Fire began burning in western El Dorado County, outside of Liberty's service territory. On August 30, 2021, it became the second fire known to cross the Sierra Nevada Mountains, following the Dixie Fire, which crossed a few days earlier on August 18, 2021. It then threatened the communities of Meyers and South Lake Tahoe, causing evacuations to be ordered for more than 20,000 people before the fire's progress was halted. The evacuation included Liberty's office and yard in South Lake Tahoe. The Caldor Fire was the third largest and second-most-destructive of the 2021 season in California. The cause of the fire is under investigation. The fire damaged approximately three miles of Liberty's distribution lines, including 20 distribution poles and various other equipment. In total, the fire burned 221,835 acres.

On August 17, 2021, Governor Gavin Newsom proclaimed a state of emergency in El Dorado County due to the Caldor Fire. On August 30, 2021, Liberty notified the Deputy Executive Director for Energy and Climate Policy of the CPUC by letter that it had activated its CEMA to record the costs associated with the Caldor Fire. Liberty incurred $0.164 million in total incremental O&M expenses and $2.289 million in incremental capital expenditures in restoring power, rebuilding its facilities, and complying with governmental agency orders. In determining the costs in CEMA, Liberty confirmed such costs were incremental and not duplicative of costs already included in rates set forth in the last GRC.

4. 2021 Winter Storms

In December 2021, a series of severe winter storms hit the Lake Tahoe region in Liberty's service territory, causing significant power outages and damage to Liberty's infrastructure. These storms affected communications and other critical infrastructure, resulting in power outages to thousands of households and businesses, and damages to structures and obstruction of major highways. The severity of the snowstorms also damaged and forced the closure of major highways and local roads, including primary corridors into the Tahoe Basin. Liberty crews worked around the clock to conduct safety inspections and make necessary repairs on power lines.

On December 31, 2021, Governor Gavin Newsom proclaimed a state of emergency in California due to these winter storms. On January 12, 2022, Liberty notified the Deputy Executive Director for Energy and Climate Policy of the CPUC by letter that it had activated its CEMA to record the costs associated with the winter storms. Liberty incurred $5.002 million in total incremental O&M expenses in restoring power, rebuilding its facilities, and complying with governmental agency orders. In determining the costs in CEMA, Liberty confirmed such costs were incremental and not duplicative of costs already included in rates set forth in the last GRC.

5. 2017 Winter Storms

On October 25, 2017, Liberty submitted Application ("A.") 17-10-018 requesting authorization to recover incremental expenses and capital costs it incurred in responding to the January 2017 winter storms. In Decision ("D.") 19-06-007, the Commission authorized Liberty to recover revenue requirement associated with these storms totaling $3,524,696.31. On August 12, 2019, Liberty submitted Advice Letter 135-E, which added a CEMA surcharge to customer bills effective on January 1, 2020. On March 31, 2021, Liberty submitted Advice Letter 168-E, which notified the Commission that Liberty had removed the CEMA surcharge from its rates. While the CEMA surcharge was in effect, Liberty over-collected the authorized CEMA revenue requirement by $0.676 million. Liberty is including this over-collection as a reduction to its overall CEMA request in this Application.

B. Wildfire Mitigation Plan Memorandum Account ("WMPMA")

Pursuant to D.19-05-040, Liberty established the WMPMA to track incremental costs of wildfire risk mitigation work incurred to implement Liberty's WMPs that are not otherwise recovered in Liberty's authorized revenue requirement. Liberty submitted AL 117-E on June 9, 2019 to establish the WMPMA. The costs recorded in Liberty's WMPMA include the incremental O&M costs of implementing various initiatives approved in Liberty's WMP. These initiatives include enhanced inspection and maintenance of Liberty's system, enhanced vegetation management programs, de-energization/PSPS planning, and customer outreach plans.

Liberty incurred $13.546 million in total incremental O&M expenses in implementing its WMP through December 31, 2021. The $13.546 million includes $7.362 million in increased vegetation management costs above and beyond what is currently in authorized rates and $6.184 million in incremental non-vegetation management WMP implementation costs. Liberty's 2019 GRC-authorized revenue requirement did not include any authorized amounts for WMP-related costs, because WMPs were implemented subsequent to the 2019 GRC proceeding. Forecast costs for 2022 and beyond were included in Liberty's 2022 GRC Application (A.21-05-017).

C. Fire Risk Mitigation Memorandum Account ("FRMMA")

Pursuant to R.18-10-007 and California Senate Bill ("SB") 901, Liberty established the FRMMA to track costs incurred for fire risk mitigation planning activities, including development of its WMPs, that are not otherwise reflected in Liberty's rates. Liberty submitted AL 110-E on December 21, 2018 to establish the FRMMA. A second memorandum account, the WMPMA, was subsequently established to record the costs of implementing Liberty's WMP activities. Liberty incurred $1.342 million in total incremental O&M expenses in its FRMMA through December 2021. The costs recorded to the FRMMA are primarily related to consultant, legal, communication, and Liberty labor costs associated with developing Liberty's WMP plans in 2019-2021. Liberty labor costs only include labor for incremental hires for Liberty's wildfire mitigation group, whose costs are incremental to the labor that is currently included in Liberty's authorized revenue requirement established in the 2019 GRC Decision.

D. Wildfire Expense Memorandum Account ("WEMA")

Liberty's service territory encompasses mostly Tier 2 (elevated risk) and Tier 3 (extreme risk) fire risk areas. While Liberty's past wildfire liability insurance coverage was sufficient to cover prior wildfire risks and costs, Liberty's wildfire liability insurance costs have dramatically increased driven by the challenging casualty insurance market conditions for electric utilities. In particular, Liberty's wildfire insurance premium for the 2020-2021 policy year had increased over ten times the amount Liberty paid for the same coverage for the 2019-2020 policy year, far exceeding the insurance costs authorized in Liberty's 2019 GRC Decision. Liberty submitted A.20-08-009, seeking to establish WEMA to track incremental cost associated with wildfires, including wildfire insurance costs. The Commission granted Liberty's request in D.20-11-034, effective August 13, 2020. Liberty recorded $9.711 million in total incremental wildfire insurance expenses in its WEMA through December 31, 2021. These costs are incremental to the costs authorized in Liberty's 2019 GRC timeframe (January 1 2019 – December 31, 2021). Forecast costs for 2022 and beyond were included in A.21-05-017, Liberty's 2022 GRC Application.

E. Fire Hazard Prevention Memorandum Account ("FHPMA")

The FHPMA was established as part of R.08-11-005, which was opened on November 6, 2008 to consider and adopt regulations to reduce the fire hazards associated with overhead power lines. The Commission adopted measures to reduce fire hazards in D.09-08-029, D.12-10-032, and D.14-02-015.

Liberty recorded $0.660 million in total incremental costs in its FHPMA. The majority of costs recorded to Liberty's FHPMA are associated with Liberty personnel and consultants who took active roles in the rulemaking proceeding. The costs in the FHPMA were incremental and not duplicative of costs already included in rates set forth in currently authorized rates.

F. Covid-19 Pandemic Protections Memorandum Account ("CPPMA")

On March 4, 2020, Governor Newsom declared a State of Emergency in California as part of the state's response to address the global outbreak of COVID-19. On March 17, 2020, Commission Executive Director Alice Stebbins directed utilities to submit advice letters implementing the applicable Emergency Disaster Relief Program ("EDRP") customer protections set forth in D.19-07-015 and to apply such protections retroactively to March 4, 2020, when the State of Emergency was declared.

On March 24, 2020, Liberty submitted AL 139-E, implementing the EDRP customer protections and proposed establishment of the CPPMA to track incremental costs incurred in response to the COVID-19 pandemic, including the costs to implement the customer protections adopted in D.19-07-015 and activated in Resolution M-4842. The Commission approved AL 139-E effective March 4, 2020. Liberty incurred $1.367 million in total incremental O&M expenses in its response to the COVID-19 pandemic. Incremental costs included COVID-19 protection equipment such as face masks and hand sanitizers, vehicle rentals to comply with rules associated with sharing vehicles, and other activities designed to mitigate the COVID-19 related risks to Liberty employees and customers.

IV. PROCEDURAL REQUIREMENTS

A. Identification of Statutory Authority – Rule 2.1

Liberty files this Application pursuant to Section 701 of the California Public Utilities Code, and Rule 2.1 of the ("Commission") Rules of Practice and Procedure. This Application is made pursuant to California Public Utilities Code Sections 451, 454.9, 701, and 729, et al., Liberty's CEMA tariff, Commission Resolution E-3238, the Commission's Rules of Practice and Procedure, and the prior decisions, orders, and resolutions of the State and the Commission as referenced above in the Background section.

B. Legal Name and Principal Place of Business; Correspondence or Communication Regarding this Application (Rule 2.1(a)-(b))

Liberty's full legal name is Liberty Utilities (CalPeco Electric) LLC. Liberty is a limited liability company organized and existing under the laws of the State of California. Its principal place of business is 933 Eloise Avenue, South Lake Tahoe, California 96150.

All correspondence and communications regarding this Application should be addressed or directed as follows:

Daniel W. Marsh
Senior Manager of Rates & Regulatory Affairs
Liberty Utilities (CalPeco Electric) LLC
701 National Avenue
Tahoe Vista, CA 96148
Telephone: (530) 721-2435
Email: dan.marsh@libertyutilities.com

Victor T. Fu
Joni A. Templeton
Prospera Law, LLP
1901 Avenue of the Stars, Suite 480
Los Angeles, CA 90067
Telephone: (424) 239-1908
Email: vfu@prosperalaw.com
jtempleton@prosperalaw.com

C. Scoping Memo; Categorization; Hearings; Issues to be Considered; and Proposed Schedule

Pursuant to Rule 2.1(c), Liberty proposes the following categorization, need for hearings, issues to be considered, and proposed schedule.

1. Proceeding Category

In accordance with Rules 1.3(g), 2.1(c) and 7.1(e)(2), Liberty requests that this Application be categorized as a "ratesetting" proceeding within the meaning of Rules 1.3(g). This Application does not raise questions of policy or rules of general applicability or adjudicate any allegations or violations of law. In this Application, Liberty requests that the Commission authorize recovery of costs recorded to various memorandum accounts.

2. Need for Hearings

Liberty does not believe that approval of this Application should require hearings. Liberty has provided ample information, analysis, and documentation that provide the Commission with a sufficient record upon which to grant the relief requested on an *ex parte* basis. However, should the assigned Administrative Law Judge determine that hearings are necessary, Liberty respectfully requests that such hearings be conducted in accordance with the proposed schedule set forth in Section 4 below.

3. Issues to be Considered

The following issues should be considered in this proceeding:

- Should the Commission find Liberty's incremental O&M expenses and capital expenditures recorded in the CEMA, WMPMA, FRMMA, WMA, FHPMA and CPPMA were incremental and reasonably incurred?
- Should the Commission authorize Liberty to recover a total revenue requirement of $42.532 million, which includes $38.531 million in incremental O&M expenses and $4.001 million in revenue requirement based on costs recorded in the CEMA, WMPMA, FRMMA, WMA,

4. Proposed Schedule

Liberty requests that the Commission approve the following proposed schedule which would resolve the Application within 18 months or less:

Date	Action Item
October 31, 2022	Application file date
+ 5 days	Daily Calendar Notice of Application
+ 30 days (Rule 2.6)	Protests Due
+ 10 days (Rule 2.6)	Reply to Protests Due
December 2022	Prehearing Conference

December 2022	ALJ/AC issues Scoping Memo
February 2022	Intervenor Testimony Due
+ 18 days	Concurrent Rebuttal Testimony and Motions for Evidentiary Hearings
May 2023	Evidentiary Hearings (if necessary)
June 2023	Concurrent Opening Briefs
+15 days	Concurrent Reply Briefs
September 2023	Proposed Decision Issued
+15 days	Comments Due on Proposed Decision
+10 days	Reply Comments on Proposed Decision
Q4 2023	Commission issues Final Decision

D. Organization and Financial Statements

Pursuant to Rule 2.2 and Public Utilities Code section 1004, a copy of the Articles of Organization of Liberty has previously been filed with the Commission as part of A.21-05-017 and is incorporated herein by this reference pursuant to Rule 2.2 of the Commission's Rules of Pracctice and Procedure. Appendix A to this Application is Liberty's financial statements, including income statements, balance sheets, and summary of earnings for the period from 2017 to 2021.

E. Statement of Proposed Rate Changes

As detailed in the accompanying testimony and as shown in the table below, Liberty is requesting $42.532 million in incremental revenue requirement associated with the memorandum accounts covered by this Application.

Table IV-1
Total Requested Revenue Requirement
($000)

Memo Account	Revenue Requirement O&M	Capital	Total
CEMA	11,904.2	4,000.8	15,905.0
WMPMA	13,545.9	-	13,545.9
FRMMA	1,342.4	-	1,342.4
WEMA	9,711.5	-	9,711.5
FHPMA	660.3	-	660.3
COVID-19	1,366.9	-	1,366.9
	38,531.2	4,000.8	42,532.0

Liberty proposes recovering the revenue requirement through a surcharge on customer bills over a 36-month amortization via a new balancing account, the Memo Account Recovery Balancing Account ("MARBA"). Liberty will transfer the authorized amounts from each memorandum account to the MARBA and track the surcharges collected from customers in this account. At the end of the 36-month recovery period, Liberty will transfer any under-collection or over-collection to its Base Revenue Requirement Balancing Account for future recovery or refund.

F. Notice and Service of Application

Liberty has given, or will give, proper notice within the time limits prescribed in the Commission's Rules of Practice and Procedure. Liberty will provide electronic copies of this Application to representatives in the Energy Division and Cal Advocates.

Pursuant to Rule 3.2(b), a notice stating in general terms the proposed rate change will be mailed to the designated officials of the State of California, and the cities and counties affected by the rate increase proposed in this Application.

Pursuant to Rule 3.2(c), notice will be published in a newspaper of general circulation in each county in Liberty's service territory within which the rate changes would be effective.

Finally, pursuant to Rule 3.2(d), notice will be furnished to customers affected by the potential rate changes proposed in this Application by including such notice with the regular bills mailed to those customers and by electronically linking to such notice for customers that receive their bills electronically. Liberty shall review a draft of its proposed customer notice with the Commission's Public Advisor's Office.

G. Index of Exhibits and Appendices to this Application

Liberty's submission in support of this Application include the following, which are incorporated herein by this reference:

Appendices to this Application:

Appendix A: Financial Statements

Appendix B: Affordability Ratio Calculations

Exhibits to this Application:

Exhibit Liberty-01: Prepared Testimony in Support of Liberty Utilities (CalPeco Electric) LLC's Application for Authorization to Recover Costs Recorded to Various Memorandum Accounts.

H. Statement Regarding Type of Increase

Liberty's application seeks recovery of certain O&M expenses, and to add certain capital expenditures to rate. With respect to the capital expenditures, the requested rate base additions would earn a return on, as well as a return of capital. In that sense, Liberty's application request in this proceeding is not limited to passing through to customers "only increased costs to the corporation for the services or commodities furnished by it."

I. Service List

The official service list has not yet been established in this new proceeding. Liberty shall be serving this Application and supporting testimony on the service lists established by the Commission for

Liberty's Test Year 2022 General Rate Case Application (A.21-05-017).

V. CONCLUSION

Liberty respectfully requests that the Commission approve its request for recovery of costs recorded to the referenced memorandum account as outlined in this Application and supporting testimony and issue findings of fact and conclusions of law and issue order consistent therewith. Liberty additionally requests an expeditious review of this Application.

Respectfully submitted,

/s/ Victor T. Fu

Dated: October 31, 2022

Victor T. Fu
Joni A Templeton
Prospera Law, LLP
1901 Avenue of the Stars, Suite 480
Los Angeles, California 90067
Telephone: (424) 239-1890
E-mail: vfu@prosperalaw.com
jtempleton@prosperalaw.com

Attorneys for Liberty Utilities (CalPeco Electric) LLC

OFFICER VERIFICATION FORM

I am an officer of the applicant organization herein, and am authorized to make this verification on its behalf. The statements in the foregoing document are true of my own knowledge, except as to matters which are therein stated on information or belief, and as to those matters I believe them to be true.

I declare under penalty of perjury that the forgoing is true and correct.

Executed this 31st day of October 2022, at Downey, California.

Edward N. Jackson
President, California
Liberty

Appendix A

Liberty's Financial Statements

Consolidated Financial Statements of

Liberty Utilities (CalPeco Electric) LLC.

For the years ended December 31, 2017 and 2016

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

Algonquin Power & Utilities Corp.

We have audited the accompanying consolidated financial statements of **Liberty Utilities (CalPeco Electric) LLC**, which comprise the consolidated balance sheets as at December 31, 2017 and 2016, and the consolidated statements of comprehensive income, changes in member's interest and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with United States generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Liberty Utilities (CalPeco Electric) LLC** as at December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in conformity with United States generally accepted accounting principles.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants
Toronto, Canada
April 23, 2018

Liberty Utilities (Calpeco Electric) LLC
Consolidated Balance Sheets

(thousands of U.S. dollars)		December 31, 2017		December 31, 2016
ASSETS				
Utility plant				
Utility plant in service	$	355,150	$	232,209
Less accumulated depreciation		(28,817)		(20,370)
Total		326,333		211,839
Construction work-in-progress		30,652		43,998
Utility plant, net (note 5)		356,985		255,837
Goodwill		10,381		10,381
Regulatory assets (note 6)		12,277		11,659
Other assets		160		166
Current assets				
Cash and cash equivalents		2,992		262
Supplies and consumables inventory (note 1(g))		4,235		4,092
Accounts receivable, net (note 4)		10,910		11,246
Prepaid expenses and other		1,373		561
Current portion of regulatory assets (note 6)		11,637		8,204
		31,147		24,365
	$	410,950	$	302,408

See accompanying notes to consolidated financial statements

Liberty Utilities (Calpeco Electric) LLC
Consolidated Balance Sheets

(thousands of U.S dollars)	**December 31, 2017**	**December 31, 2016**
LIABILITIES AND MEMBER'S EQUITY		
Member's equity		
Member's capital (note 11)	$ 135,780	$ 66,077
Accumulated surplus	75,455	49,946
Accumulated other comprehensive loss	(841)	(633)
Total equity	210,394	115,390
Redeemable non-controlling interests (note 14)	32,252	7,969
Long-term debt (note 7)	69,572	69,474
Regulatory liabilities (note 6)	21,568	20,037
Pension and other post-employment benefits (note 8)	2,329	1,984
Advances in aid of construction (note 9)	16,395	15,526
Asset retirement obligation (note 3)	546	—
Current liabilities		
Accounts payable and accrued liabilities	12,146	9,904
Current portion of customer deposits	657	651
Current portion of regulatory liabilities (note 6)	5,635	5,906
Current portion of other post-employment benefits obligation (note 8)	23	23
Due to related parties (note 10)	39,433	55,544
	57,894	72,028
Commitments and contingencies (note 12)		
Subsequent events (note 16)		
	$ 410,950	$ 302,408

See accompanying notes to consolidated financial statements

Liberty Utilities (Calpeco Electric) LLC
Consolidated Statements of Comprehensive Income

(thousands of U.S. dollars)	Years ended December 31, 2017	2016
Revenue		
Residential	$ 40,891	$ 41,758
Commercial	37,262	39,631
Other	7,072	2,355
	85,225	83,744
Expenses		
Energy purchased	29,103	38,158
Operating costs	21,429	17,688
Taxes other than income taxes	1,776	3,064
Depreciation of utility plant	10,155	5,800
Other amortization	541	543
	63,004	65,253
Operating income	22,221	18,491
Interest expense	3,589	3,440
Other income	(722)	(831)
	2,867	2,609
Net earnings	$ 19,354	$ 15,882
Net effect of non-controlling interest (note 14)	(6,155)	438
Net earnings attributable to the member	25,509	15,444
Other comprehensive income (loss):		
Change in unrealized pension and other post-employment benefits (note 8)	(208)	49
Comprehensive income	$ 25,301	$ 15,493

See accompanying notes to consolidated financial statements

Liberty Utilities (Calpeco Electric) LLC
Consolidated Statement of Changes in Member's Interest

(thousands of U.S. dollars)	Liberty Utilities (Calpeco Electric) LLC				
	Member's capital	Accumulated surplus	Accumulated other comprehensive loss	Non-controlling interests	Total
Balance, December 31, 2015	$ 66,077	$ 34,502	$ (682)	$ —	$ 99,897
Net income	—	15,444	—	438	15,882
Redeemable non-controlling interests not included in member's equity (note 14)	—	—	—	(438)	(438)
Other comprehensive loss	—	—	49	—	49
Balance, December 31, 2016	$ 66,077	$ 49,946	$ (633)	$ —	$ 115,390
Net income	—	25,509	—	(6,155)	19,354
Equity contributions from member (note 11)	69,703	—	—	—	69,703
Redeemable non-controlling interests not included in member's equity (note 14)	—	—	—	6,155	6,155
Other comprehensive loss	—	—	(208)	—	(208)
Balance, December 31, 2017	**$ 135,780**	**$ 75,455**	**$ (841)**	**$ —**	**$ 210,394**

See accompanying notes to consolidated financial statements

Liberty Utilities (Calpeco Electric) LLC
Consolidated Statements of Cash Flow

(thousands of U.S. dollars)	**Years ended December 31,**	
	2017	**2016**
Cash provided by (used in):		
Operating Activities		
Net earnings	$ 19,354	$ 15,882
Items not affecting cash:		
Depreciation of utility plant	10,155	5,800
Cost of equity funds used for construction purposes	(428)	(765)
Other amortization	639	641
Pension and post-employment expense	139	153
Changes in non-cash operating items (note 13)	(24,908)	19,111
	4,951	40,822
Financing Activities		
Cash contributions from non-controlling interests, net of issuance costs (note 14)	31,105	7,535
Equity contributions from member (note 11)	69,703	—
Increase in other long-term liabilities	978	1,007
Decrease in other long-term liabilities	(102)	(455)
	101,684	8,087
Investing Activities		
Acquisition of operating entities (note 3)	(84,931)	—
Additions to utility plant	(18,981)	(48,732)
Decrease (increase) in other assets	7	(102)
	(103,905)	(48,834)
Increase in cash and cash equivalents	2,730	75
Cash and cash equivalents, beginning of year	262	187
Cash and cash equivalents, end of year	$ 2,992	$ 262

Supplemental disclosure of cash flow information:	**2017**	**2016**
Cash paid during the year for interest expense	$ 3,881	$ 3,733
Non-cash transactions: Utility plant in accruals	$ 4,611	$ 1,589

See accompanying notes to consolidated financial statements

Liberty Utilities (CalPeco Electric) LLC (the "Company") is a limited liability company organized on April 14, 2009 under the laws of California. The Company is in the business of providing regulated electric distribution service to approximately 47,000 customers in the Lake Tahoe region of California.

The Company is 100% owned by Liberty Utilities Co. ("Liberty Utilities").

1. Significant accounting policies

(a) Basis of preparation

The accompanying consolidated financial statements and notes have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP").

(b) Basis of consolidation

The accompanying consolidated financial statements of the Company include the accounts of the Company, and its wholly owned subsidiaries. Intercompany transactions and balances have been eliminated. Interests in subsidiaries owned by third parties are included in non-controlling interests (note 1(k)).

(c) Business combinations and goodwill

The Company accounts for acquisitions of entities or assets which meet the definition of a business as business combinations. Business combinations are accounted for using the acquisition method. Assets acquired and liabilities assumed are measured at their fair value at the acquisition date. When the set of activities does not represent a business, the transaction is accounted for as an asset acquisition and includes acquisitions costs. Goodwill represents the excess of the purchase price of an acquired business over the fair value of the net assets acquired. Goodwill is not included in the rate-base on which the utility is allowed to earn a return and is not amortized.

As at September 30 of each year, the Company assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit to which goodwill is attributed is less than its carrying amount. If it is more likely than not that a reporting unit's fair value is less than its carrying amount or if a quantitative assessment is elected, the Company calculates the fair value of the reporting unit. The carrying amount of the reporting unit's goodwill is considered not recoverable if the carrying amount of the reporting unit as a whole exceeds the reporting unit's fair value. An impairment charge is recorded for any excess of the carrying value of the goodwill over the implied fair value. Goodwill is tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

(d) Accounting for rate regulated operations

The Company is subject to rate regulation overseen by the California Public Utilities Commission ("CPUC"). The CPUC provides the final determination of the rates charged to customers. The Company's activities are accounted for under the principles of U.S. Financial Accounting Standards Board Accounting Standard Codification Topic 980, Regulated Operations ("ASC 980"). Under ASC 980, regulatory assets and liabilities that would not be recorded under U.S. GAAP for non-regulated entities are recorded to the extent that they represent probable future revenue or expenses associated with certain charges or credits that will be recovered from or refunded to customers through the rate making process. Included in note 6, "Regulatory matters", are details of regulatory assets and liabilities, and their current regulatory treatment.

In the event the Company determines that its net regulatory assets are not probable of recovery, it would no longer apply the principles of the current accounting guidance for rate-regulated enterprises and would be required to record an after-tax, non-cash charge (or credit) against earnings for any remaining regulatory assets (liabilities). The impact could be material to the Company's reported financial condition and results of operations.

The Company's accounts are maintained in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission ("FERC").

(in thousands of U.S. dollars)

1. Significant accounting policies (continued)

(e) Cash and cash equivalents

Cash and cash equivalents include all highly liquid instruments with an original maturity of three months or less.

(f) Accounts receivable

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The Company maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable portfolio. In establishing the required allowance, management considers historical losses adjusted to take into account current market conditions and customers' financial condition, the amount of receivables in dispute, and the receivables aging and current payment patterns. Account balances are charged against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance sheet credit exposure related to its customers.

(g) Supplies and consumables inventory

Supplies and consumables inventory (other than capital spares and rotatable spares, which are included in property, plant and equipment) are charged to inventory when purchased and then capitalized to plant or expensed, as appropriate, when installed, used or become obsolete. These items are stated at the lower of cost and replacement cost. Supplies and consumables inventory is included in other current assets.

(h) Utility plant

Utility plant amounts are recorded at cost. Project development costs, including expenditures for preliminary surveys, plans, investigations, environmental studies, regulatory applications and other costs incurred for the purpose of determining the feasibility of capital expansion projects, are capitalized either as utility plant or regulatory asset when it is determined that recovery of such costs through regulated revenue of the completed project is probable.

The costs of acquiring or constructing utility plant include the following: materials, labour, contractor and professional services, construction overhead directly attributable to the capital project (where applicable), and allowance for funds used during construction ("AFUDC").

AFUDC represents the cost of borrowed funds and a return on other funds (allowance for equity funds used during construction). Under ASC 980, an allowance for funds used during construction projects that are included in rate base is capitalized. This allowance is designed to enable a utility to capitalize financing costs during periods of construction of property subject to rate regulation. The interest capitalized that relates to debt reduces interest expense on the consolidated statements of comprehensive income. The AFUDC capitalized that relates to equity funds is recorded as other income on the consolidated statements of comprehensive income.

		2017		**2016**
AFUDC capitalized on regulated property				
Allowance for borrowed funds	**$**	**387**	$	461
Allowance for equity funds		**428**		765
Total	**$**	**815**	$	1,226

Improvements that increase or prolong the service life or capacity of an asset are capitalized. Maintenance and repair costs are expensed as incurred.

Contributions in aid of construction represent amounts contributed by customers, governments and developers to assist with the funding of some or all of the cost of utility plant. It also includes amounts initially recorded as advances in aid of construction (note 15(a)) but where the advance repayment period has expired. These contributions are recorded as a reduction in the cost of utility plant and are amortized at the rate of the related asset as a reduction to depreciation expense.

(in thousands of U.S. dollars)

1. Significant accounting policies (continued)

(h) Utility plant (continued)

The Company's depreciation is based on the estimated useful lives of the depreciable assets in each category and is determined using the straight-line method. The ranges of estimated useful lives and the weighted average useful lives are summarized below:

	Range of useful lives		Weighted average useful lives	
	2017	**2016**	**2017**	**2016**
Plant	**10 - 82**	10 - 78	**45**	50
Equipment, office furniture and improvements	**14 - 25**	14 - 25	**16**	16

In accordance with FERC approved accounting policies, when depreciable utility plant of the Company is replaced or retired, the original cost plus any removal costs incurred (net of salvage) are charged to accumulated depreciation with no gain or loss reflected in results of operations. Gains and losses will be charged to results of operations in the future through adjustments to depreciation expense.

(i) Impairment of long-lived assets

The Company reviews utility plant and intangible assets for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Recoverability of assets expected to be held and used is measured by comparing the carrying amount of an asset to undiscounted expected future cash flows. If the carrying amount exceeds the recoverable amount, the asset is written down to its fair value.

(j) Pension and other post-employment plans

The Company has established a defined contribution pension plan, a defined benefit pension plan, and an other post-employment benefit ("OPEB") plan for its employees. Employer contributions to the defined contribution pension plan is expensed as employees render service. The Company recognizes the funded status of its defined benefit pension and OPEB plans on the consolidated balance sheets. The Company's expense and liabilities are determined by actuarial valuations, using assumptions that are evaluated annually as of December 31, including discount rates, mortality, assumed rates of return, compensation increases, turnover rates and healthcare cost trend rates. The impact of modifications to those assumptions and modifications to prior services are recorded as actuarial gains and losses in accumulated other comprehensive income ("AOCI") and amortized to net periodic cost over future periods using the corridor method. The costs of the Company's pension for employees are expensed over the periods during which employees render service and are recognized as part of operating expenses in the consolidated statements of comprehensive income.

(k) Non-controlling interests

Non-controlling interests represent the portion of equity ownership in subsidiaries that is not attributable to the equity holders of the Company.

A subsidiary of the Company has non-controlling Class A equity investors ("Class A Interest") that are entitled to allocations of earnings, tax attributes and cash flows in accordance with contractual agreements. The LLC agreement has liquidation rights and priorities that are different from the underlying percentages ownership interests. In such situation, simply applying the percentage ownership interest to GAAP net income in order to determine earnings or losses would not accurately represent the income allocation and cash flow distributions that will ultimately be received by the investors. As such, the share of earnings attributable to the non-controlling interest holders in the subsidiary is calculated using the Hypothetical Liquidation at Book Value ("HLBV") method of accounting.

1. Significant accounting policies (continued)

(k) Non-controlling interests (continued)

The HLBV method uses a balance sheet approach. A calculation is prepared at each balance sheet date to determine the amount that Class A Equity Investors would receive if an equity investment entity were to liquidate all of its assets and distribute that cash to the investors based on the contractually defined liquidation priorities. The difference between the calculated liquidation distribution amounts at the beginning and the end of the reporting period is the Class A Equity Investors' share of the earnings or losses from the investment for that period. Due to certain mandatory liquidation provisions of the LLC agreement, this could result in a net loss to the Company's consolidated results in periods in which the Class A Equity Investors report net income.

Equity instruments subject to redemption upon the occurrence of uncertain events not solely within the Company control are classified as temporary equity on the consolidated balance sheets. The Company records temporary equity at issuance based on cash received less any transaction costs. As needed, the Company reevaluates the classification of its redeemable instruments, as well as the probability of redemption. If the redemption amount is probable or currently redeemable, the Company records the instruments at their redemption value. Increases or decreases in the carrying amount of a redeemable instrument are recorded within accumulated surplus. When the redemption feature lapses or other events cause the classification of an equity instrument as temporary equity to be no longer required, the existing carrying amount of the equity instrument is reclassified to permanent equity at the date of the event that caused the reclassification.

(l) Recognition of revenue

Revenue related to electricity sales and distribution is recorded when the electricity is delivered. At the end of each month, the electricity delivered to the customers from the date of their last meter read to the end of the month is estimated and the corresponding unbilled revenue is recorded. These estimates of unbilled revenue and sales are based on the ratio of billable days versus unbilled days, amount of electricity procured during that month, historical customer class usage patterns, line loss and current tariffs.

The Company's revenue is subject to a revenue decoupling mechanism approved by the CPUC which requires the Company to charge approved annual delivery revenue on a systematic basis over the fiscal year. As a result, the difference between delivery revenue calculated based on metered consumption and approved delivery revenue is recorded as a regulatory asset or liability to reflect future recovery or refund, respectively, from customers (note 6(d)).

Revenue is recorded net of sales taxes.

(m) Income taxes

The Company is a limited liability company and is a disregarded entity for income tax purposes. Accordingly, it is not subject to federal income taxes or state income taxes. The tax on the Company's net income is borne by the member through the allocation of taxable income. Net income for financial statement purposes may differ significantly from taxable income of the member because of differences between the tax basis and financial reporting basis of assets and liabilities and the taxable income allocation requirements under the operating agreement. The aggregate difference in the basis of the net assets for financial and tax reporting purposes cannot be readily determined because it is based on the information regarding the member's tax attributes.

(n) Financial instruments

Accounts receivable are measured at amortized cost. Long-term debt is measured at amortized cost using the effective interest method, adjusted for the amortization or accretion of premiums or discounts.

Transaction costs related to a recognized debt liability are presented in the consolidated balance sheets as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts and premiums. Deferred financing costs, premiums and discounts on long-term debt are amortized on a straight-line basis over the term of the financial liability as required by the CPUC.

The Company enters into power purchase contracts for load serving requirements. These contracts meet the exemption for normal purchase and normal sales and as such, are not required to be recorded at fair value as derivatives and are accounted for on an accrual basis. Counterparties are evaluated on an ongoing basis for non-performance risk to ensure it does not impact the conclusion with respect to this exemption.

1. Significant accounting policies (continued)

(o) Fair value measurements

The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Company determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.
- Level 2 Inputs: Other than quoted prices included in Level 1, inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

(p) Commitments and contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred

(q) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of these consolidated financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates. During the years presented, management has made a number of estimates and valuation assumptions, including the useful lives and recoverability of utility plant, goodwill; assessments of unbilled revenue; pension and OPEB obligations; timing effect of regulated assets and liabilities; and, the fair value of financial instruments. These estimates and valuation assumptions are based on present conditions and management's planned course of action, as well as assumptions about future business and economic conditions. Should the underlying valuation assumptions and estimates change, the recorded amounts could change by a material amount.

2. Recently issued accounting pronouncements

(a) Recently adopted accounting pronouncements

The FASB issued ASU 2016-17, Consolidation (Topic 810): Interests Held through Related Parties That Are under Common Control. This update amends the consolidation guidance on how a reporting entity that is the single decision maker of a VIE should treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining whether it is the primary beneficiary of that VIE. The adoption of this update in the first quarter of 2017 had no impact on the Company's unaudited interim consolidated financial statements.

The FASB issued ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory, to simplify the subsequent measurement of inventory by replacing the current lower of cost and market test with a lower of cost and net realizable value test. The adoption of this update in the first quarter of 2017 had no impact on the Company's unaudited interim consolidated financial statements.

2. Recently issued accounting pronouncements (continued)

(b) Recent accounting pronouncements not yet adopted

The FASB issued ASU 2017-07, Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-retirement Benefit Cost, to improve the reporting of defined benefit pension cost and post-retirement benefit cost ("net benefit cost") in the financial statements. This update requires the service cost component to be reported in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. The update will also only allow the service cost component to be eligible for capitalization when applicable. The Company will adopt this guidance effective January 1, 2018. Following the effective date of this ASU, the Company expects its regulated operations to only capitalize the service costs component and therefore no regulatory to U.S. GAAP reporting differences are anticipated. The Company intends to apply the practical expedient for retrospective application on the statement of operations.

The FASB issued ASU 2017-05, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. The update clarifies the scope of the standard as well as provides additional guidance on partial sales of nonfinancial assets. The update is effective for fiscal years and interim periods beginning after December 15, 2017. Early adoption is permitted however the update must be adopted at the same time as ASU 2014-09. No impact on the consolidated financial statements is expected from the adoption of this update.

The FASB issued ASU 2017-04, Business Combinations (Topic 350): Intangibles - Goodwill and Other (Topic 350) Simplifying the Test for Goodwill Impairment. The update is intended to simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. The standard is effective for fiscal years and interim periods beginning after December 15, 2019.

The FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The update is intended to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The standard is effective for fiscal years and interim periods beginning after December 15, 2017. The amendments in the Update should be applied prospectively. The Company will follow the pronouncements of this Update after the effective date.

The FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash to eliminate current diversity in practice in the classification and presentation of changes in restricted cash on the statement of cash flows. The standard is effective for fiscal years and interim periods beginning after December 15, 2017. The Company currently present changes in restricted cash as investing activities. The adoption of this standard will change the presentation of restricted cash on the consolidated statement of cash flows.

The FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments in order to eliminate current diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The standard is effective for fiscal years and interim periods beginning after December 15, 2017. Early adoption is permitted. No impact on the consolidated financial statements is expected from the adoption of this update.

2. Recently issued accounting pronouncements (continued)

(b) Recent accounting pronouncements not yet adopted (continued)

The FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses. The standard is effective for fiscal years and interim periods beginning after December 15, 2019. Early adoption for fiscal years and interim periods beginning after December 15, 2018 is permitted. The Company is currently in the process of evaluating the impact of adoption of this standard on its consolidated financial statements. The Company does not expect a significant impact on its consolidated financial statements as a result of the adoption of this Update.

The FASB issued ASU 2016-02, Leases (Topic 842) to increase transparency and comparability among organizations utilizing leases. This ASU requires lessees to recognize the assets and liabilities arising from all leases on the balance sheet, but the effect of leases in the statement of operations and the statement of cash flows is largely unchanged. The FASB issued an amendment to ASC Topic 842 which permits companies to elect an optional transition practical expedient to not evaluate existing land easements under the new standard if the land easements were not previously accounted for under existing lease guidance. The FASB also voted to amend ASC Topic 842 to allow companies to elect not to restate their comparative periods in the period of adoption when transitioning to the standard. The standard is effective for fiscal years and interim periods beginning after December 15, 2018. Early adoption is permitted.

The Company is in the process of evaluating the impact of adoption of this standard on its consolidated financial statements and disclosures. The Company held training sessions with the finance team and is currently in the process of creating an inventory of its lease contracts and analyzing the terms and conditions under the requirements of this new standard. The Company continues to monitor FASB amendments to ASC Topic 842.

The FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities to simplify the measurement, presentation, and disclosure of financial instruments. The standard is effective for fiscal years and interim periods beginning after December 15, 2017. Early adoption is permitted. The presentation of unrealized gains/losses from the Company's available-for-sale investments will change on the consolidated statements of comprehensive income. Certain disclosures with regards to financial liabilities will change based on the updated requirements.

The FASB issued a revenue recognition standard codified as ASC 606, Revenue from Contracts with Customers. This issued accounting standard provides accounting guidance for all revenue arising from contracts with customers and affects all entities that enter into contracts to provide goods or services to their customers unless the contracts are in the scope of other U.S. GAAP requirements, such as the leasing literature. The core principal of the accounting guidance is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASC 606 is expected to require significantly expanded disclosures regarding the qualitative and quantitative information of the Company's nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. This new revenue standard is required to be applied for fiscal years and interim periods beginning after December 15, 2017 using either a full retrospective approach for all periods presented in the period of adoption or a modified retrospective approach. The Company has not elected to early adopt.

The Company has completed its impact assessment. At this point, the Company expects the adoption of Topic 606 will have an immaterial impact on the consolidated financial statements and the pattern of revenue recognition. The Company also evaluated the disclosure requirements and determined that the disaggregation of revenue information required by the new standard will not have a significant impact on the Company’s information gathering processes and procedures as the revenue information required by the standard is consistent with historical revenue information gathered by the Company for financial reporting purposes. The Company intends to adopt the new revenue recognition standard using the modified retrospective method.

(in thousands of U.S. dollars)

3. Business acquisitions

Liberty Utilities (Luning Holdings) LLC (the "Luning Holdings") is owned by the Company. On February 15, 2017, Luning Holdings obtained control of the Luning Solar Facility upon achieving commercial operation. The Luning Solar Facility is a 50MWac solar generating facility located in Mineral County, Nevada acquired for a total purchase price of $110,856.

During 2016, a tax equity agreement was executed. The Class A partnership units are owned by a third-party tax equity investor who funded $7,826 as of December 31, 2016 and $31,212 on February 17, 2017. With its interest, the tax equity investor will receive the majority of the tax attributes associated with the Luning Solar project. During a six-month period in year 2022, the tax investor has the right to withdraw from Luning Holdings and require the Company to redeem its remaining interests for cash. As a result, the Company accounts for this interest as "Redeemable non-controlling interest" outside of permanent equity on the consolidated balance sheets (note 14). Redemption is not considered probable as of December 31, 2017.

The following table summarizes the allocation of the assets acquired and liabilities assumed at the acquisition date:

Working capital	$	152
Property, plant and equipment		110,856
Asset retirement obligation		(546)
Non-controlling interest, net of financing costs (note 14)		(38,633)
Total net assets acquired	$	71,829

The determination of the fair value of assets acquired and liabilities assumed is based upon management's estimates and certain assumptions.

4. Accounts receivable

Accounts receivable as of December 31, 2017 include unbilled revenue of $5,509 (December 31, 2016 - $6,516). Accounts receivable as of December 31, 2017 are presented net of allowance for doubtful accounts of $137 (December 31, 2016 - $140).

5. Utility plant

Utility plant of the Company consists of solar generation assets (note 3) and electricity distribution assets used to generate and distribute electricity within a specific geographic service territory to supply end users with electricity. These assets include solar panels, inverters, poles, towers and fixtures, low-voltage wires, transformers, overhead and underground conductors, street lighting, meters, metering equipment and other related equipment.

Construction work-in-progress as of December 31, 2016 included deposit of $23,291 related to the Luning Solar facility (notes 3 and 14).

		2017		2016
Land and land rights	**$**	**3,878**	$	3,878
Plant		**335,645**		213,770
Equipment, office furniture and improvements		**15,627**		14,561
		355,150		232,209
Accumulated amortization		**(28,817)**		(20,370)
		326,333		211,839
Construction work-in-progress		**30,652**		43,998
Net utility plant	**$**	**356,985**	$	255,837

6. Regulatory matters

The Company is subject to rate regulation by the CPUC, and the FERC in some instances. The CPUC has jurisdiction with respect to rate, service, accounting procedures, issuance of securities, acquisitions and other matters. The Company operates under cost-of-service regulation as administered by CPUC. The Company uses a test year in the establishment of its rates and pursuant to this method, the determination of the rate of return on approved rate base and deemed capital structure, together with all reasonable and prudent costs, establishes the revenue requirement upon which the Company’s customer rates are determined.

The Company is accounted for under the principles of ASC 980. Under ASC 980, regulatory assets and liabilities that would not be recorded under U.S. GAAP for non-regulated entities are recorded to the extent that they represent probable future revenue or expenses associated with certain charges or credits that will be recovered from or refunded to customers through the rate-setting process.

The Company is required to file a rate case with its regulator on a regular three year cycle. Rate cases seek to ensure that the Company has the opportunity to recover its operating costs and earn a fair and reasonable return on its capital investment as allowed by the regulatory authority under which the Company operates.

In December 2017, the CPUC approved a Final Order for the Company of a $2,175 revenue increase effective January 1, 2018.

On December 8, 2016, the CPUC approved a Final Order for the Company of a $8,318 annual revenue increase effective January 1, 2017 for services rendered on or after January 1, 2016.

Revenue decoupling and vegetation management

The Company's revenue is subject to a decoupling mechanism which decouple base revenue from fluctuations caused by weather and economic factors. The vegetation management memorandum account allows for the tracking and pass through of vegetation management expenses, one of the largest expenses of the utility.

Post Test Year Adjustment Mechanism (“PTAM”)

The PTAM allows the Company to update its rates annually by a cost inflation index. In addition, rates are allowed to be updated to recover the return on investment and associated depreciation of major capital projects.

Renewables Portfolio Standard

The Company is required to satisfy the current 20% California Renewables Portfolio Standard requirement. The 20% California Renewables Portfolio Standard is currently met through deliveries under a Power purchase agreement ("PPA") that is structured in a manner which satisfies the CPUC resource adequacy (“RA”) requirements, and is designed to enable the California Utility to comply with the associated RA reporting requirements, and from energy production at Luning Energy LLC (the "Luning Solar project").

(in thousands of U.S. dollars)

6. Regulatory matters (continued)

Regulatory assets and liabilities consist of the following:

	December 31, 2017	December 31, 2016
Regulatory assets		
Storm costs (a)	**$ 3,379**	$ —
Rate case costs (b)	**1,163**	1,543
Vegetation management (c)	**—**	761
Rate adjustment mechanism (d)	**15,424**	10,742
Other	**3,948**	6,817
Total regulatory assets	**$ 23,914**	$ 19,863
Less current regulatory assets	**(11,637)**	(8,204)
Non-current regulatory assets	**$ 12,277**	$ 11,659
Regulatory liabilities		
Cost of removal (e)	**$ 22,196**	$ 20,386
Energy cost adjustment clause (f)	**5,007**	5,557
Total regulatory liabilities	**$ 27,203**	$ 25,943
Less current regulatory liabilities	**(5,635)**	(5,906)
Non-current regulatory liabilities	**$ 21,568**	$ 20,037

(a) Storm costs

Incurred repair costs resulting from certain storms over or under amounts collected from customers, which are expected to be recovered or refunded through rates.

(b) Rate case costs

The costs to file, prosecute and defend rate case applications are referred to as rate case costs. These costs are capitalized and amortized over the period of rate recovery granted by CPUC. The Company does not earn a return on these amounts but receives recovery of these costs in rates over the periods prescribed by the regulator (three years).

(c) Vegetation management

The costs to maintain vegetation around the distribution lines are referred to as vegetation management. These costs are capitalized and amortized over the period of rate recovery granted by the CPUC. The Company does not earn a return on these amounts but receives recovery of these costs in rates over the periods prescribed by the regulator (three years).

(d) Rate adjustment mechanism

The Company is subject to a revenue decoupling mechanism approved by the regulator which requires charging approved annual delivery revenues on a systematic basis over the fiscal year. As a result, the difference between delivery revenue calculated based on metered consumption and approved delivery revenue is recorded as a regulatory asset or liability to reflect future recovery or refund, respectively, from customers.

6. Regulatory matters (continued)

(e) Cost of removal

The regulatory liability for cost of removal represents amounts that have been collected from rate payers for costs that are expected to be incurred in the future to retire utility plant.

(f) Energy cost adjustment clause ("ECAC")

ECAC is designed to recover the cost of electricity through rates charged to customers. Under deferred energy accounting, to the extent actual purchased power costs differ from purchased power costs recoverable through current rates, that difference is not recorded on the consolidated statements of comprehensive income but rather is deferred and recorded as a regulatory asset or liability on the consolidated balance sheets. These differences are reflected in adjustments to rates and recorded as an adjustment to cost of electricity in future periods, subject to regulatory review.

As recovery of regulatory assets is subject to regulatory approval, if there were any changes in regulatory positions that indicate recovery is not probable, the related cost would be charged to earnings in the period of such determination.

7. Long-term debt

The Company has $70,000 senior unsecured utility notes outstanding consisting of $45,000 bearing an interest rate of 5.19% and maturing on December 29, 2020, and $25,000 bearing an interest rate of 5.59% and maturing on December 29, 2025. The notes have interest only payments, payable semi-annually in arrears. The notes have certain financial covenants which must be maintained on a quarterly basis. The Company was in compliance with the covenants as of December 31, 2017.

As of December 31, 2017, the Company had accrued $nil in interest expense (2016 - $nil). Interest paid on the long-term debt in 2017 was $3,739 (2016 - $3,733).

8. Pension and other post-employment benefits

The Company provides defined contribution pension plans to substantially all of its employees. The Company's contributions for 2017 were $331 (2016 - $310).

The Company provides a defined benefit cash balance pension plan covering substantially all its employees, under which employees are credited with a percentage of base pay plus a prescribed interest rate credit. The Company also has an other post-employment benefit ("OPEB") plan providing health care and life insurance coverage to eligible retired employees. Eligibility is based on age and length of service requirements and, in most cases, retirees must cover a portion of the cost of their coverage.

(in thousands of U.S. dollars)

8. Pension and other post-employment benefits (continued)

(a) Net pension and OPEB obligation

The following table sets forth the projected benefit obligations, fair value of plan assets, and funded status of the Company's plans as of December 31:

	Pension benefits		OPEB	
	2017	**2016**	**2017**	**2016**
Change in projected benefit obligation				
Projected benefit obligation, beginning of year	**$ 2,774**	$ 2,431	**$ 1,381**	$ 1,280
Service cost	**441**	441	**106**	102
Interest cost	**109**	99	**62**	63
Actuarial loss (gain)	**141**	81	**236**	(64)
Benefits paid	**(121)**	(278)	**—**	—
Projected benefit obligation, end of year	**$ 3,344**	$ 2,774	**$ 1,785**	$ 1,381
Change in plan assets				
Fair value of plan assets, beginning of year	**2,148**	1,813	**—**	—
Actual return (loss) on plan assets	**258**	124	**—**	—
Employer contributions	**491**	489	**—**	—
Benefits paid	**(120)**	(278)	**—**	—
Fair value of plan assets, end of year	**$ 2,777**	$ 2,148	**$ —**	$ —
Unfunded status	**$ 567**	$ 626	**$ 1,785**	$ 1,381
Amounts recognized in the consolidated balance sheets consist of:				
Current liabilities	**—**	—	**(23)**	(23)
Non-current liabilities	**(567)**	(626)	**(1,762)**	(1,358)
Net amount recognized	**$ (567)**	$ (626)	**$ (1,785)**	$ (1,381)

The accumulated benefit obligation for the pension plans was $3,068 and $2,558 as of December 31, 2017 and 2016, respectively.

(in thousands of U.S. dollars)

8. Pension and other post-employment benefits (continued)

(a) Net pension and OPEB obligation (continued)

The amounts recognized in AOCI were as follows:

Change in AOCI (before tax)	Pension		OPEB	
	Actuarial losses (gains)	Past Service gains	Actuarial losses (gains)	Past Service gains
Balance, January 1, 2016	$ 696	$ (360)	$ 346	$ —
Additions to AOCI	52	—	(64)	—
Amortization in current period	(29)	17	(23)	—
Balance, December 31, 2016	$ 719	$ (343)	$ 259	$ —
Additions to AOCI	(8)	—	236	—
Amortization in current period	(29)	17	(10)	—
Balance, December 31, 2017	**$ 682**	**$ (326)**	**$ 485**	**$ —**
Expected amortization in 2018	$ 17	$ (17)	$ (20)	$ —

(b) Assumptions

Assumptions used to determine net benefit cost for 2017 and 2016 were as follows:

	Pension benefits		OPEB	
	2017	2016	2017	2016
Discount rate	**3.70%**	3.73%	**4.18%**	4.43%
Expected return on assets	**5.50%**	5.50%	**N/A**	N/A
Rate of compensation increase	**3.00%**	3.00%	**N/A**	N/A
Healthcare cost trend rate				
Before Age 65			**6.25%**	6.50%
Age 65 and after			**6.25%**	6.50%
Assumed Ultimate Medical Inflation Rate			**4.75%**	4.75%
Year in which Ultimate Rate is reached			**2023**	2023

(in thousands of U.S. dollars)

8. Pension and other post-employment benefits (continued)

(b) Assumptions (continued)

Assumptions used to determine benefit obligation for 2017 and 2016 were as follows:

	Pension benefits		OPEB	
	2017	**2016**	**2017**	**2016**
Discount rate	**3.36%**	3.70%	**3.64%**	4.18%
Rate of compensation increase	**3.00%**	3.00%	**N/A**	N/A
Healthcare cost trend rate				
Before Age 65			**6.25%**	6.25%
Age 65 and after			**6.25%**	6.25%
Assumed Ultimate Medical Inflation Rate			**4.75%**	4.75%
Year in which Ultimate Rate is reached			**2024**	2023

The mortality assumption for December 31, 2017 was updated to the projected generationally scale MP-2016, adjusted to reflect the ultimate improvement rates in the 2017 Social Security Administration intermediate assumptions.

In selecting an assumed discount rate, the Company uses a modeling process that involves selecting a portfolio of high-quality corporate debt issuances (AA- or better) whose cash flows (via coupons or maturities) match the timing and amount of the Company's expected future benefit payments. The Company considers the results of this modeling process, as well as overall rates of return on high-quality corporate bonds and changes in such rates over time, to determine its assumed discount rate.

The rate of return assumptions are based on projected long-term market returns for the various asset classes in which the plans are invested, weighted by the target asset allocations.

The effect of a one percent change in the assumed health care cost trend rate ("HCCTR") for 2017 is as follows:

		2017
Effect of a 1 percentage point increase in the HCCTR on:		
Year-end benefit obligation	$	183
Total service and interest cost		20
Effect of a 1 percentage point decrease in the HCCTR on:		
Year-end benefit obligation	$	(138)
Total service and interest cost		(16)

(in thousands of U.S. dollars)

8. Pension and other post-employment benefits (continued)

(c) Benefit costs

The following table lists the components of net benefit costs for the pension plans and OPEB recorded as part of operating expenses in the consolidated statements of comprehensive income.

	Pension benefits		OPEB	
	2017	**2016**	**2017**	**2016**
Service cost	**$ 441**	$ 441	**$ 107**	$ 102
Interest cost	**109**	99	**63**	63
Expected return on plan assets	**(111)**	(94)	**—**	—
Amortization of net actuarial loss	**29**	29	**10**	23
Amortization of prior service credits	**(17)**	(17)	**—**	—
Net benefit cost	**$ 451**	$ 458	**$ 180**	$ 188

(d) Plan assets

The Company's investment strategy for its pension and post-employment plan assets is to maintain a diversified portfolio of assets with the primary goal of meeting long-term cash requirements as they become due.

The Company's target asset allocation is 50% in equity securities and 50% in debt securities.

The fair values of investments as of December 31, 2017, by asset category, are as follows

Asset Class	Level 1	Percentage
Equity securities	$ 1,388	50%
Debt securities	$ 1,388	50%

As at December 31, 2017, the funds do not hold any material investments in the parent company of Liberty Utilities, Algonquin Power and Utilities Corp.

(e) Cashflows

The Company expects to contribute $517 to its pension plans and $23 to its post-employment benefit plans in 2018.

The expected benefit payments over the next ten years are as follows:

	2018	2019	2020	2021	2022	2023-2027
Pension plan	$ 733	$ 144	$ 237	$ 238	$ 198	$ 1,438
OPEB	23	37	61	62	65	437

9. Advances in aid of construction

The Company has various agreements with real estate development companies (the "developers") conducting business within the Company's utility service territories, whereby funds are advanced to the Company by the developers to assist with funding some or all of the costs of the development.

In many instances, developer advances can be subject to refund but the refund is non-interest bearing. Refunds of developer advances are made over a period of 10 years. Advances not refunded within the prescribed period are usually not required to be repaid. After the prescribed period has lapsed, any remaining unpaid balance is transferred to contributions in aid of construction and recorded as an offsetting amount to the cost of property, plant and equipment. No amounts were transferred from advances in aid of construction to contributions in aid of construction in 2017 and 2016.

(in thousands of U.S. dollars)

10. Due to related parties

Due to related parties represents advances for current operating costs and reimbursement for management and accounting services provided by entities related to Liberty Utilities as well as other third party costs incurred by entities related to Liberty Utilities on behalf of the Company. These amounts do not bear interest and have no fixed repayment terms. Total amounts allocated for 2017 were $2,277 (2016 - $2,238).

Periodically there are advances due to and from related parties. Such advances do not bear interest and are due on demand. As at December 31, 2017, the amounts payable to related parties total $39,433 (December 31, 2016 - $55,544).

11. Member's capital

The Company is a single member limited liability corporation. As of December 31, 2017, all outstanding equity membership units of the Company belong to Liberty Utilities. Liberty Utilities contributed $69,703 related to the acquisition of Luning Solar Facility (note 3).

12. Commitments and contingencies

(a) Contingencies

The Company is involved in various litigation arising out of the ordinary course and conduct of its business. Although such matters cannot be predicted with certainty, management does not consider the Company's exposure to such litigation to be material to these consolidated financial statements. Accruals for any contingencies related to these items, if any, are recorded in the consolidated financial statements at the time it is concluded that its occurrence is probable and the related liability is estimable.

(b) Commitments

The Company has outstanding purchase commitments for power purchases and operating leases. Detailed below are estimates of future commitments under these agreements:

	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter	Total
Power purchase	$ 27,275	$ 27,853	$ 28,913	$ 28,913	$ 28,913	$ —	$ 141,867
Capital projects	3,138	12,552	—	—	—	—	15,690
Operating leases	13	—	—	—	—	—	13
Total	$ 30,426	$ 40,405	$ 28,913	$ 28,913	$ 28,913	$ —	$ 157,570

The Company leases vehicles as part of its operations. The terms of these leases have varying maturity dates that continue up to 2018. The payments are fixed over the term of the lease.

The Company has a power purchase agreement to provide its full electric requirements at NV Energy's "system average costs" rates . The commitment amounts included in the table above are based on market prices as of December 31, 2017. However, the effects of purchased power unit cost adjustments are mitigated through a purchased power rate-adjustment mechanism.

(in thousands of U.S. dollars)

13. Non-cash operating items

The changes in non-cash operating items consist of the following:

	2017	2016
Accounts receivable	**$ 336**	$ (400)
Prepaid expenses	**(812)**	(113)
Supplies and consumables inventory	**(143)**	210
Accounts payable and accrued liabilities	**(1,446)**	(736)
Due to / from related parties	**(16,111)**	23,186
Net regulatory assets and liabilities	**(6,732)**	(3,036)
	$ (24,908)	$ 19,111

14. Redeemable non-controlling interest

Non-controlling interests in subsidiaries that are redeemable upon the occurrence of uncertain events not solely within the Company's control are classified as temporary equity on the consolidated balance sheets. The redeemable non-controlling interests in subsidiaries balance is determined using the hypothetical liquidation at book value method subsequent to initial recognition, however, if the redemption amount is probable or currently redeemable, the Company records the instruments at their redemption value. Redemption is not considered probable as of December 31, 2017.

Contributions from new Class A partnership investors of $31,212 was received for the Luning Solar Facility on February 17, 2017 (note 3).

Changes to redeemable non-controlling interest are as follows:

	2017	2016
Opening balance	**$ 7,969**	$ —
Contributions from redeemable non-controlling interests, net of issuance costs	**31,105**	7,535
Net income attributable to redeemable non-controlling interest	**(6,155)**	438
Dividends declared to redeemable non-controlling interest	**(667)**	(4)
Closing balance	**$ 32,252**	$ 7,969

15. Financial instruments

(a) Fair value of financial instruments

	December 31, 2017		December 31, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term debt	**$ 69,572**	**$ 77,015**	$ 69,474	$ 78,017

The Company has determined that the carrying value of its short-term financial assets and liabilities approximates fair value as of December 31, 2017 and December 31, 2016 due to the short-term maturity of these instruments.

Long-term debt (Level 2 inputs) are at fixed interest rates. The estimated fair value is calculated using a discounted cash flow method and current interest rates.

(in thousands of U.S. dollars)

15. Financial instruments (continued)

(a) Fair value of financial instruments (continued)

Advances in aid of construction has a carrying value of $16,395 as of December 31, 2017 (December 31, 2016 - $15,526). Portions of these non-interest bearing instruments are payable annually through 2027, including new customer connections, customer consumption levels, and future rate increase. However, amounts not paid by the contract expiration date become nonrefundable. Their relative fair values cannot be accurately estimated because future refund payments depend on several variables. The fair value of these amounts would be less than their carrying value due to the non-interest bearing feature.

Fair value estimates are made at a specific point in time, using available information about the financial instrument. These estimates are subjective in nature and often cannot be determined with precision.

The Company's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There was no transfer into or out of Level 1, Level 2 or Level 3 during the years ended December 31, 2017 or 2016.

(b) Risk management

In the normal course of business, the Company is exposed to financial risks that potentially impact its operating results. The Company employs risk management strategies with a view of mitigating these risks to the extent possible on a cost effective basis.

This note provides disclosures relating to the nature and extent of the Company's exposure to risks arising from financial instruments, including credit risk and liquidity risk, and how the Company manages those risks.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's financial instruments that are exposed to concentrations of credit risk are primarily cash and cash equivalents and accounts receivable. The Company limits its exposure to credit risk with respect to cash equivalents by ensuring available cash is deposited with its senior lenders all of which have a credit rating of A or better.

Credit risk related to the accounts receivable balance of $10,910 is spread over thousands of customers. The Company has processes in place to monitor and evaluate this risk on an ongoing basis including background credit checks and security deposits from new customers. In addition, the regulator allows for a reasonable bad debt expense to be incorporated in the rates and therefore recovered from rate payers.

As of December 31, 2017, the Company's maximum exposure to credit risk for these financial instruments was as follows:

		2017
Cash and cash equivalents	$	2,992
Accounts receivable		11,047
Allowance for doubtful accounts		(137)
	$	13,902

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, to the extent possible, that it will always have sufficient liquidity to meet liabilities when due.

(in thousands of U.S. dollars)

15. Financial instruments (continued)

(b) Risk management (continued)

Liquidity risk (continued)

The Company's liabilities mature as follows:

	Due less than 1 year	Due 2-3 years	Due 4-5 years	Due after 5 years	Total
Long-term debt obligations	$ —	$ 45,000	$ —	$ 25,000	$ 70,000
Advances in aid of construction	—	—	—	16,395	16,395
Purchase obligations	51,579	—	—	—	51,579
Interest on long-term debt	3,733	7,466	2,795	4,193	18,187
Other obligations	657	—	—	—	657
Total obligations	$ 55,969	$ 52,466	$ 2,795	$ 45,588	$ 156,818

16. Subsequent events

The Company has evaluated subsequent events from the balance sheet date through April 23, 2018, the date at which the financial statements were available to be issued, and determined that there are no other items to be disclosed.

Consolidated Financial Statements of

Liberty Utilities (CalPeco Electric) LLC

For the years ended December 31, 2018 and 2017

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Algonquin Power and Utilities

Opinion

We have audited the consolidated financial statements of Liberty Utilities (CalPeco Electric) LLC (the "Company"), which comprise the consolidated balance sheets as at December 31, 2018 and 2017, and the consolidated statements of comprehensive income, member's equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and 2017, and its consolidated results of its operations and its consolidated cash flows for the years then ended in accordance with United States generally accepted accounting principles.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with United States generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst + Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
April 24, 2019

Liberty Utilities (CalPeco Electric) LLC
Consolidated Balance Sheets

(thousands of U.S. dollars)	December 31, 2018	December 31, 2017
ASSETS		
Utility plant		
Utility plant in service	$ 377,692	$ 355,150
Less: accumulated depreciation	(38,006)	(28,817)
Total	339,686	326,333
Construction work-in-progress	33,995	30,652
Utility plant, net (note 5)	373,681	356,985
Goodwill	10,381	10,381
Regulatory assets (note 6)	22,703	12,277
Other assets	211	160
Current assets		
Cash and cash equivalents	3,125	2,992
Supplies and consumables inventory (note 1(g))	5,304	4,235
Accounts receivable, net (note 4)	11,957	10,910
Prepaid expenses and other	2,185	1,373
Regulatory assets (note 6)	6,817	11,637
	29,388	31,147
	$ 436,364	$ 410,950

See accompanying notes to consolidated financial statements

Liberty Utilities (CalPeco Electric) LLC
Consolidated Balance Sheets

(thousands of U.S dollars)	December 31, 2018	December 31, 2017
LIABILITIES AND MEMBER'S EQUITY		
Member's equity		
Member's capital (note 11)	$ 135,780	$ 135,780
Accumulated surplus (note 1(m))	86,941	63,879
Accumulated other comprehensive income (loss)	21	(841)
Total equity	222,742	198,818
Redeemable non-controlling interests (note 14)	28,220	32,252
Long-term debt (note 7)	69,670	69,572
Regulatory liabilities (notes 1(m) and 6)	34,513	33,144
Pension and other post-employment benefits (note 8)	1,650	2,329
Advances in aid of construction (note 9)	17,525	16,395
Asset retirement obligation (note 3)	575	546
Current liabilities		
Accounts payable and accrued liabilities	13,789	12,146
Customer deposits	665	657
Regulatory liabilities (note 6)	5,747	5,635
Other post-employment benefits obligation (note 8)	—	23
Due to related parties (note 10)	41,268	39,433
	61,469	57,894
Commitments and contingencies (note 12)		
Subsequent events (note 17)		
	$ 436,364	$ 410,950

See accompanying notes to consolidated financial statements

Liberty Utilities (CalPeco Electric) LLC
Consolidated Statements of Comprehensive Income

(thousands of U.S. dollars)	Years ended December 31, 2018	2017
Revenue		
Residential	$ 39,190	$ 40,891
Commercial	38,968	37,262
Other	5,711	7,072
	83,869	85,225
Expenses		
Energy purchased	25,994	29,103
Operating costs	20,941	32,922
Taxes other than income taxes	3,473	1,776
Depreciation of utility plant	10,744	10,155
Other amortization	541	541
	61,693	74,497
Operating income	22,176	10,728
Interest expense	3,385	3,589
Pension and post-employment non-service costs (note 8)	100	83
Other income	(1,130)	(722)
	2,355	2,950
Net earnings	$ 19,821	$ 7,778
Net effect of non-controlling interest (note 14)	(3,241)	(6,155)
Net earnings attributable to the member	23,062	13,933
Other comprehensive income (loss):		
Change in unrealized pension and other post-employment benefits (note 8)	862	(208)
Comprehensive income	$ 23,924	$ 13,725

See accompanying notes to consolidated financial statements

Liberty Utilities (CalPeco Electric) LLC
Consolidated Statements of Changes in Member's Equity

	Liberty Utilities (CalPeco Electric) LLC				
(thousands of U.S. dollars)	**Member's capital**	**Accumulated surplus**	**Accumulated other comprehensive (loss) income**	**Non-controlling interests**	**Total**
Balance, December 31, 2016	$ 66,077	$ 49,946	$ (633)	$ —	$ 115,390
Net earnings (note 1(m))	—	13,933	—	(6,155)	7,778
Equity contributions from member (note 11)	69,703	—	—	—	69,703
Redeemable non-controlling interests not included in member's equity (note 14)	—	—	—	6,155	6,155
Other comprehensive loss	—	—	(208)	—	(208)
Balance, December 31, 2017	**$ 135,780**	**$ 63,879**	**$ (841)**	**$ —**	**$ 198,818**
Net earnings	—	23,062	—	(3,241)	19,821
Redeemable non-controlling interests not included in member's equity (note 14)	—	—	—	3,241	3,241
Other comprehensive income	—	—	862	—	862
Balance, December 31, 2018	**$ 135,780**	**$ 86,941**	**$ 21**	**$ —**	**$ 222,742**

See accompanying notes to consolidated financial statements

Liberty Utilities (CalPeco Electric) LLC
Consolidated Statements of Cash Flows

(thousands of U.S. dollars)

	Years ended December 31, 2018	2017
Cash provided by (used in):		
Operating Activities		
Net earnings	$ 19,821	$ 7,778
Items not affecting cash:		
Depreciation of utility plant	10,744	10,155
Cost of equity funds used for construction purposes	(669)	(428)
Other amortization	669	639
Pension and post-employment contributions in excess of expense	159	139
Changes in non-cash operating items (note 13)	(2,492)	(13,326)
	28,232	4,957
Financing Activities		
Contributions from non-controlling interests, net of issuance costs (note 14)	—	31,105
Equity contributions from member (note 11)	—	69,703
Distributions to non-controlling interests	(1,264)	—
Increase in other long-term liabilities	1,150	978
Decrease in other long-term liabilities	(22)	(108)
	(136)	101,678
Investing Activities		
Acquisition of operating entities (note 3)	—	(84,931)
Additions to utility plant	(27,857)	(18,981)
Decrease (increase) in other assets	(106)	7
	(27,963)	(103,905)
Increase in cash and cash equivalents	133	2,730
Cash and cash equivalents, beginning of year	2,992	262
Cash and cash equivalents, end of year	$ 3,125	$ 2,992

Supplemental disclosure of cash flow information:	**2018**	**2017**
Cash paid during the year for interest expense	$ 3,739	$ 3,881
Non-cash transactions: Utility plant in accruals	$ 1,921	$ 4,611

See accompanying notes to consolidated financial statements

Liberty Utilities (CalPeco Electric) LLC (the "Company") is a limited liability company organized on April 14, 2009 under the laws of California. The Company is in the business of providing regulated electric distribution service to approximately 49,000 customers in the Lake Tahoe region of California.

The Company is 100% owned by Liberty Utilities Co. ("Liberty Utilities").

1. Significant accounting policies

(a) Basis of preparation

The accompanying consolidated financial statements and notes have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP").

(b) Basis of consolidation

The accompanying consolidated financial statements of the Company include the accounts of the Company and its wholly owned subsidiaries. Intercompany transactions and balances have been eliminated. Interests in subsidiaries owned by third parties are included in non-controlling interests (note 1(k)).

(c) Business combinations and goodwill

The Company accounts for acquisitions of entities or assets that meet the definition of a business as business combinations. Business combinations are accounted for using the acquisition method. Assets acquired and liabilities assumed are measured at their fair value at the acquisition date. Acquisition costs are expensed in the period incurred. When the set of activities does not represent a business, the transaction is accounted for as an asset acquisition and includes acquisition costs. Goodwill represents the excess of the purchase price of an acquired business over the fair value of the net assets acquired. Goodwill is not included in the rate-base on which the utility is allowed to earn a return and is not amortized.

As at September 30 of each year, the Company assesses qualitative and quantitative factors to determine whether it is more likely than not that the fair value of a reporting unit to which goodwill is attributed is less than its carrying amount. If it is more likely than not that a reporting unit's fair value is less than its carrying amount or if a quantitative assessment is elected, the Company calculates the fair value of the reporting unit. The carrying amount of the reporting unit's goodwill is considered not recoverable if the carrying amount of the reporting unit as a whole exceeds the reporting unit's fair value. An impairment charge is recorded for any excess of the carrying value of the goodwill over the implied fair value. Goodwill is tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

(d) Accounting for rate-regulated operations

The regulated utility operating companies owned by the Company are subject to rate regulation generally overseen by the public utility commission of the states in which they operate (the "Regulator"). The Regulator provides the final determination of the rates charged to customers. The Company's activities are accounted for under the principles of U.S. Financial Accounting Standards Board ("FASB") ASC Topic 980, *Regulated Operations (*"ASC 980"). Under ASC 980, regulatory assets and liabilities are recorded to the extent that they represent probable future revenue or expenses associated with certain charges or credits that will be recovered from or refunded to customers through the rate-making process. Included in note 6, "Regulatory matters" are details of regulatory assets and liabilities, and their current regulatory treatment.

In the event the Company determines that its net regulatory assets are not probable of recovery, it would no longer apply the principles of the current accounting guidance for rate-regulated enterprises and would be required to record an after-tax, non-cash charge or credit against earnings for any remaining regulatory assets or liabilities. The impact could be material to the Company's reported financial condition and results of operations.

The Company's accounts are maintained in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission ("FERC").

(e) Cash and cash equivalents

Cash and cash equivalents include all highly liquid instruments with an original maturity of three months or less.

(in thousands of U.S. dollars)

1. Significant accounting policies (continued)

(f) Accounts receivable

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The Company maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable portfolio. In establishing the required allowance, management considers historical losses adjusted to take into account current market conditions and customers' financial condition, the amount of receivables in dispute, and the receivables aging and current payment patterns. Account balances are charged against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance sheet credit exposure related to its customers.

(g) Supplies and consumables inventory

Supplies and consumables inventory (other than capital spares and rotatable spares, which are included in utility plant) are charged to inventory when purchased and then capitalized to plant or expensed, as appropriate, when installed, used or become obsolete. These items are stated at the lower of cost and net realizable value. Through rate orders and the regulatory environment, capitalized construction jobs are recovered through rate base and repair and maintenance expenses are recovered through a cost of service calculation. Accordingly, the cost usually reflects the net realizable value.

(h) Utility plant

Utility plant, consisting of regulated generation and transmission assets, electrical, gas, water and wastewater distribution assets, equipment and land, are recorded at cost. Project development costs including expenditures for preliminary surveys, plans, investigations, environmental studies, regulatory applications and other costs incurred for the purpose of determining the feasibility of capital expansion projects, are capitalized either as plant or regulatory asset when it is determined that recovery of such costs through regulated revenue of the completed project is probable.

The costs of acquiring or constructing property, plant and equipment include the following: materials, labour, contractor and professional services, construction overhead directly attributable to the capital project (where applicable) and allowance for funds used during construction ("AFUDC") for regulated property. Where possible, individual components are recorded and depreciated separately in the books and records of the Company. Plant and equipment under capital leases are initially recorded at cost determined as the present value of minimum lease payments.

AFUDC represents the cost of borrowed funds and a return on other funds. Under ASC 980, an allowance for funds used during construction projects that are included in rate base is capitalized. This allowance is designed to enable a utility to capitalize financing costs during periods of construction of property subject to rate regulation. The AFUDC capitalized that relates to equity funds is recorded as other income on the consolidated statements of comprehensive income.

	2018	2017
AFUDC capitalized on regulated property:		
Allowance for borrowed funds	**$ 605**	$ 387
Allowance for equity funds	**669**	428
Total	**$ 1,274**	$ 815

Improvements that increase or prolong the service life or capacity of an asset are capitalized. Maintenance and repair costs are expensed as incurred.

Contributions in aid of construction represent amounts contributed by customers, governments and developers to assist with the funding of some or all of the cost of utility capital assets. It also includes amounts initially recorded as advances in aid of construction (note 15(a)) but where the advance repayment period has expired. These contributions are recorded as a reduction in the cost of utility assets and are amortized at the rate of the related asset as a reduction to depreciation expense.

(in thousands of U.S. dollars)

1. Significant accounting policies (continued)

(h) Utility plant (continued)

The Company's depreciation is based on the estimated useful lives of the depreciable assets in each category and is determined using the straight-line method. The ranges of estimated useful lives and the weighted average useful lives are summarized below:

	Range of useful lives		Weighted average useful lives	
	2018	**2017**	**2018**	**2017**
Plant	**10–78**	10–82	**50**	45
Equipment, office furniture and improvements	**14–25**	14–25	**16**	16

In accordance with regulator-approved accounting policies, when depreciable property, plant and equipment are replaced or retired, the original cost plus any removal costs incurred (net of salvage) are charged to accumulated depreciation with no gain or loss reflected in results of operations. Gains and losses will be charged to results of operations in the future through adjustments to depreciation expense.

(i) Impairment of long-lived assets

The Company reviews utility plant and intangible assets for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Recoverability of assets expected to be held and used is measured by comparing the carrying amount of an asset to undiscounted expected future cash flows. If the carrying amount exceeds the recoverable amount, the asset is written down to its fair value.

(j) Pension and other post-employment plans

The Company has established defined contribution pension plans, defined benefit pension plans, and other post-employment benefit ("OPEB") plans for its various employee groups. Employer contributions to the defined contribution pension plans are expensed as employees render service. The Company recognizes the funded status of its defined benefit pension plans and OPEB plans on the consolidated balance sheets. The Company's expense and liabilities are determined by actuarial valuations, using assumptions that are evaluated annually as of December 31, including discount rates, mortality, assumed rates of return, compensation increases, turnover rates and healthcare cost trend rates. The impact of modifications to those assumptions and modifications to prior services are recorded as actuarial gains and losses in accumulated other comprehensive income (loss) ("AOCI") and amortized to net periodic cost over future periods using the corridor method. When settlements of the Company's pension plans occur, the Company recognizes associated gains or losses immediately in earnings if the cost of all settlements during the year is greater than the sum of the service cost and interest cost components of the pension plan for the year. The amount recognized is a pro rata portion of the gains and losses in AOCI equal to the percentage reduction in the projected benefit obligation as a result of the settlement. The costs of the Company's pension for employees are expensed over the periods during which employees render service and are recognized as part of administrative expenses in the consolidated statements of comprehensive income.

The components of net periodic benefit cost other than the service cost component are included in pension and post-employment non-service costs in the consolidated statements of comprehensive income.

(k) Non-controlling interests

Non-controlling interests represent the portion of equity ownership in subsidiaries that is not attributable to the equity holders of the Company. Non-controlling interests are initially recorded at fair value and subsequently adjusted for the proportionate share of earnings and other comprehensive income (loss) ("OCI") attributable to the non-controlling interests and any dividends or distributions paid to the non-controlling interests.

If a transaction results in the acquisition of all, or part, of a non-controlling interest in a consolidated subsidiary, the acquisition of the non-controlling interest is accounted for as an equity transaction. No gain or loss is recognized in net earnings or comprehensive income as a result of changes in the non-controlling interest, unless a change results in the loss of control by the Company.

1. Significant accounting policies (continued)

(k) Non-controlling interests (continued)

A subsidiary of the Company has non-controlling Class A equity investors ("Class A Interest") that are entitled to allocations of earnings, tax attributes and cash flows in accordance with contractual agreements. The LLC agreement has liquidation rights and priorities that are different from the underlying percentages ownership interests. In such situation, simply applying the percentage ownership interest to GAAP net income in order to determine earnings or losses would not accurately represent the income allocation and cash flow distributions that will ultimately be received by the investors. As such, the share of earnings attributable to the non-controlling interest holders in the subsidiary is calculated using the Hypothetical Liquidation at Book Value ("HLBV") method of accounting (note 14).

The HLBV method uses a balance sheet approach. A calculation is prepared at each balance sheet date to determine the amount that Class A Equity Investors would receive if an equity investment entity were to liquidate all of its assets and distribute that cash to the investors based on the contractually defined liquidation priorities. The difference between the calculated liquidation distribution amounts at the beginning and the end of the reporting period is the Class A Equity Investors' share of the earnings or losses from the investment for that period. Due to certain mandatory liquidation provisions of the LLC agreement, this could result in a net loss to the Company's consolidated results in periods in which the Class A Equity Investors report net income.The calculation varies in its complexity depending on the capital structure and the tax considerations of the investments.

(l) Revenue Recognition

The Company accounts for revenue in accordance with ASC Topic 606, Revenue from Contracts with Customers, which was adopted on January 1, 2018 using the modified retrospective method, applied to contracts that are not completed at the date of initial application. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with the Company's historical accounting under Topic 605. The adoption of the new standard has not resulted in any adjustment to the opening retained earnings.

Revenues are recognized when control of the promised goods or services is transferred to the Company's customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services.

Revenues related to utility electricity distribution are recognized over time as the energy is delivered. At the end of each month, the electricity delivered to the customers from the date of their last meter read to the end of the month is estimated and the corresponding unbilled revenue is recorded. These estimates of unbilled revenue and sales are based on the ratio of billable days versus unbilled days, amount of electricity procured during that month, historical customer class usage patterns, weather, line loss, and current tariffs. Unbilled receivables are typically billed within the next month. Some customers elect to pay their bill on an equal monthly plan. As a result, in some months cash is received in advance of the delivery of electricity. Deferred revenue is recorded for that amount. The amount of revenue recognized in the period from the balance of deferred revenue is not significant.

The majority of the Company's contracts have a single performance obligation that represents a promise to transfer to the customer a series of distinct goods that are substantially the same and that have the same pattern of transfer to the customer. The Company's performance obligation is satisfied over time as electricity is delivered.

On occasion, utility is permitted to implement new rates that have not been formally approved by the egulatory commission, which are subject to refund. The Company recognizes revenue based on the interim rate and if needed, establishes a reserve for amounts that could be refunded based on experience for the jurisdiction in which the rates were implemented.

The Company's revenue is subject to alternative revenue programs approved by its Regulator, which require to charge approved annual delivery revenue on a systematic basis over the fiscal year. As a result, the difference between delivery revenue calculated based on metered consumption and approved delivery revenue is disclosed as alternative revenue and is recorded as a regulatory asset or liability to reflect future recovery or refund, respectively, from customers (note 4). The amount subsequently billed to customers is recorded as a recovery of the regulatory asset. The Company's revenues include $8,539 related to alternative revenue programs for the year ended December 31, 2018.

(in thousands of U.S. dollars)

1. Significant accounting policies (continued)

(m) Income taxes

The Company is a limited liability company and is a disregarded entity for income tax purposes. Accordingly, it is not subject to federal income taxes or state income taxes. The tax on the Company's net earnings is borne by the member through the allocation of taxable income. Net earnings for financial statement purposes may differ significantly from taxable income of the member because of differences between the tax basis and financial reporting basis of assets and liabilities and the taxable income allocation requirements under the operating agreement. The aggregate difference in the basis of the net assets for financial and tax reporting purposes cannot be readily determined because it is based on the information regarding the member's tax attribute.

The Tax Cut and Jobs Act

The Tax Cut and Jobs Act ("the Tax Act") was enacted on December 22, 2017. Among other provisions, the Tax Act reduces the federal corporate income tax rate from 35% to 21%. The Company is not subject to federal income taxes or state income taxes. The tax on the Company's net earnings is borne by the member through the allocation of taxable income. The consolidated financial statements of Liberty Utilities, the Company's tax member, include a reduction in deferred tax liabilities of $11,576 related to differences between the tax basis and financial reporting basis of assets and liabilities of the Company. The Company recorded a corresponding increase in regulatory liabilities since it is probable that this amount will be refunded to customers of the Company. The regulatory liability was recorded and retrospectively applied to 2017. The following table describes the adjustments to the comparative 2017 consolidated financial statements:

	December 31, 2017	Adjustment	Adjusted December 31, 2017
Regulatory liabilities	$ 27,203	$ 11,576	$ 38,779
Accumulated surplus	$ 75,455	$ (11,576)	$ 63,879
Net earnings attributable to the member	$ 25,509	$ (11,576)	$ 13,933

(n) Financial instruments and derivatives

Accounts receivable and notes receivable are measured at amortized cost. Long-term debt is measured at amortized cost using the effective interest method, adjusted for the amortization or accretion of premiums or discounts.

Transaction costs related to a recognized debt liability are presented in the consolidated balance sheets as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts and premiums. Deferred financing costs, premiums and discounts on long-term debt are amortized on a straight-line basis over the term of the financial liability as required by the CPUC.

The Company, enters into power purchase contracts for load serving requirements. These contracts meet the exemption for normal purchase and normal sales and as such, are not required to be recorded at fair value as derivatives and are accounted for on an accrual basis. Counterparties are evaluated on an ongoing basis for non-performance risk to ensure it does not impact the conclusion with respect to this exemption.

1. Significant accounting policies (continued)

(o) Fair value measurements

The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Company determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 Inputs: unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.
- Level 2 Inputs: other than quoted prices included in Level 1, inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 Inputs: unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

(p) Commitments and contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

(q) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of these consolidated financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates. During the years presented, management has made a number of estimates and valuation assumptions, including the useful lives and recoverability of plants, intangible assets and goodwill; the recoverability of notes receivable and long-term investments; the measurement of deferred taxes and the recoverability of deferred tax assets; assessments of unbilled revenue; pension and OPEB obligations; timing effect of regulated assets and liabilities; contingencies related to environmental matters; the fair value of assets and liabilities acquired in a business combination; and, the fair value of financial instruments. These estimates and valuation assumptions are based on present conditions and management's planned course of action, as well as assumptions about future business and economic conditions. Should the underlying valuation assumptions and estimates change, the recorded amounts could change by a material amount.

2. Recently issued accounting pronouncements

(a) Recently adopted accounting pronouncements

The FASB issued ASU 2018–14, *Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715–20): Disclosure Framework – Changes to the Disclosure Requirements for the Defined Benefit Plans* as part of the disclosure framework project. This update removed certain disclosure requirements regarding AOCI expected to be recognized in income, related party transactions, and certain sensitivity analyses with respect to health care cost trends. This update also added disclosure requirements around the weighted–average interest crediting rates for cash balance plans and explanations for significant gains or losses in the reporting period. The early adoptions of this ASU did not have a significant impact on the Company's consolidated financial statements.

The FASB issued ASU 2018–13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement* as part of the disclosure framework project. This update removed certain disclosure requirements from Topic 820 including the amount of and reasons for transfers between Level 1 and Level 2 measurements, the policy for timing of transfers between levels, and the valuation processes for Level 3 measurements. This update also clarified disclosure requirements relating to measurement uncertainty, and added disclosure requirements for Level 3 measurements, specifically around the changes in unrealized gains and losses included in OCI and the range and weighted average of significant unobservable inputs. The early adoption of this ASU did not have a significant impact on the Company's consolidated financial statements.

The FASB issued ASU 2018–09, *Codification Improvements* to clarify the codification and correct unintended application of guidance that is not expected to have a significant impact on current accounting practice. The adoption of this ASU had no impact on the Company's consolidated financial statements.

The FASB issued ASU 2018–03, *Technical Corrections and Improvements to Financial Instruments – Overall (Subtopic 825–10): Recognition and Measurement of Financial Assets and Financial Liabilities* to clarify the codification and to correct unintended application of the guidance. The Company adopted this pronouncement concurrently with the adoption of ASU 2016–01. The adoption of this update had no impact on the Company's consolidated financial statements.

The FASB issued ASU 2018–02, *Income Statement–Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income ("AOCI")* to allow a reclassification from AOCI to retained earnings for stranded tax effects resulting from the Tax Act.

The FASB issued ASU 2017–07, *Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post–retirement Benefit Cost*, to improve the reporting of defined benefit pension cost and post–retirement benefit cost ("net benefit cost") in the consolidated financial statements. This update requires the service cost component to be reported in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. The update also only allows the service cost component to be eligible for capitalization when applicable. The Company adopted this guidance effective January 1, 2018. The Company's regulated operations only capitalize the service costs component and therefore no regulatory to U.S. GAAP reporting differences exist. The Company applied the practical expedient for retrospective application on the consolidated statements of comprehensive income (note 8).

The FASB issued ASU 2017–05, *Other Income—Gains and Losses from the Derecognition of Non–financial Assets (Subtopic 610–20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*. The update clarifies the scope of the standard and provides additional guidance on partial sales of non–financial assets. The adoption of this update had no impact on the Company's consolidated financial statements.

The FASB issued ASU 2017–01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*. The update is intended to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The Company follows the pronouncements of this update as of January 1, 2018.

2. Recently issued accounting pronouncements (continued)

(a) Recently adopted accounting pronouncements (continued)

The FASB issued ASU 2016–18, *Statement of Cash Flows (Topic 230): Restricted Cash* to eliminate current diversity in practice in the classification and presentation of changes in restricted cash on the consolidated statements of cash flows. Prior to the adoption of this update, the Company presented changes in restricted cash as investing activities on the consolidated statements of cash flows.

The FASB issued ASU 2016–16, *Income Taxes (Topic 740): Intra–Entity Transfers of Assets Other Than Inventory.* The new standard requires the recognition of current and deferred income taxes for an intra–entity transfer of an asset other than inventory. The adoption of this update had no impact on the Company's consolidated financial statements.

The FASB issued ASU 2016–15, *Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments* in order to eliminate current diversity in practice in how certain cash receipts and cash payments are presented and classified in the consolidated statements of cash flows. The adoption of this update had no impact on the Company's consolidated financial statements.

The FASB issued ASU 2016–01, *Financial Instruments – Overall (Subtopic 825–10): Recognition and Measurement of Financial Assets and Financial Liabilities* to simplify the measurement, presentation, and disclosure of financial instruments. The adoption of this update had no significant impact on the Company's consolidated financial statements.

(b) Recently issued accounting guidance not yet adopted

The FASB issued ASU 2018–19: *Codification Improvements to Topic 326, Financial Instruments – Credit Losses* as part of its project to correct unintended application of accounting standards. The amendments clarify that receivables arising from operating leases are not within the scope of ASC 326–20. Instead, impairment of receivables arising from operating leases should be accounted for in accordance with Topic 842, *Leases*. The amendments in this update are effective the same date as update 2016–13, which is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is currently assessing the impact of this update.

The FASB issued ASU 2018–18, *Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606* to reduce diversity in practice on how entities account for transactions on the basis of different views of the economics of a collaborative arrangement. The update clarifies that the arrangement should be accounted for under ASC 606 when a participant is a customer in the context of a unit of account, adds unit of account guidance in ASC 808 that is consistent with ASC 606, and precludes the recognition of revenue from a collaborative arrangement with ASC 606 revenue if the participant is not directly related to sales to third parties. The amendments in this update are effective for fiscal years beginning after December 15, 2019, and interim periods within those years. Early adoption is permitted. The Company is currently assessing the impact of this update.

The FASB issued ASU 2018–15, *Intangibles–Goodwill and Other–Internal–Use Software (Subtopic 350–40*): *Customers Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract* to provide additional guidance to address diversity in practice. This update aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal–use software. Therefore, an entity will follow the guidance in Subtopic 350–40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. In addition, the capitalized implementation costs are required to be expensed over the term of the hosting arrangement. This update is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted in any interim period. The amendments can either be applied retrospectively or prospectively to all implementation costs incurred after the date of adoption. The Company is currently assessing the impacts of this update.

The FASB issued ASU 2017–04, *Business Combinations (Topic 350): Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. The update is intended to simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. The standard is effective for fiscal years and interim periods beginning after December 15, 2019.

2. Recently issued accounting pronouncements (continued)

(b) Recently issued accounting guidance not yet adopted (continued)

The FASB issued ASU 2016–13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* to provide financial statement users with more decision–useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this update replace the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses. The standard is effective for fiscal years and interim periods beginning after December 15, 2019. Early adoption for fiscal years and interim periods beginning after December 15, 2018 is permitted. The Company is currently in the process of evaluating the impact of adoption of this standard on its consolidated financial statements. The Company does not expect a significant impact on its consolidated financial statements as a result of the adoption of this update.

The FASB issued ASU 2016–02, *Leases (Topic 842)* to increase transparency and comparability among organizations utilizing leases. This ASU requires lessees to recognize the assets and liabilities arising from all leases on the balance sheet, but the effect of leases in the statement of operations and the statement of cash flows is largely unchanged. The FASB issued an amendment to ASC Topic 842 that permits companies to elect an optional transition practical expedient to not evaluate existing land easements under the new standard if the land easements were not previously accounted for under existing lease guidance. The FASB issued a further update to ASC Topic 842 in ASU 2018–11 to allow companies to elect not to restate their comparative periods in the period of adoption when transitioning to the standard. The FASB has also issued further codification and narrow–scope improvements to ASC Topic 842 to correct and clarify specific aspects of the guidance. The standard is effective for fiscal years and interim periods beginning after December 15, 2018.

The Company is in the process of finalizing its assessment of the financial, operational, and business processes impacts of the new lease accounting standard. At this point, the Company expects that the adoption of Topic 842 will not have a material impact on the consolidated financial statements. The Company intends to implement new processes and procedures for the identification, analysis, and measurement of new lease contracts on a prospective basis. A new software solution is being implemented to assist with contract management, information tracking, and measurement as it relates to the new standard. The Company intends to elect the following practical expedients as part of its adoption:

1. "Package of three" practical expedient that permits the Company not to reassess the scope, classification and initial direct costs of its expired and existing leases;
2. Land easements practical expedient that permits the Company not to reassess the accounting for land easements previously not accounted for under ASC 840; and
3. Hindsight practical expedient that allows the Company to use hindsight in determining the lease term for existing contracts.

In addition, the Company will make an accounting policy election to not recognize a lease liability or right–of–use asset on its consolidated balance sheets for short–term leases (lease term less than 12 months).

The Company intends to adopt the lease accounting standard retrospectively at the beginning of the period of adoption through a cumulative–effect adjustment.

(in thousands of U.S. dollars)

3. Business acquisitions

Liberty Utilities (Luning Holdings) LLC (the "Luning Holdings") is owned by the Company. The 50MWac solar generating facility is located in Mineral County, Nevada. During 2016, a tax equity agreement was executed. The Class A partnership units are owned by a third-party tax equity investor who funded $7,826 as of December 31, 2016 and $31,212 on February 17, 2017. With its interest, the tax equity investor will receive the majority of the tax attributes associated with the Luning Solar project. During a six-month period in year 2022, the tax investor has the right to withdraw from Luning Holdings and require the Company to redeem its remaining interests for cash. As a result, the Company accounts for this interest as "Redeemable non-controlling interest" outside of permanent equity on the consolidated balance sheets (note 14). Redemption is not considered probable as of December 31, 2018.

On February 15, 2017, as the Luning Solar Facility achieved commercial operation, Luning Holdings obtained control for a total purchase price of $110,856.

The following table summarizes the allocation of the assets acquired and liabilities assumed at the acquisition date:

Working capital	$	152
Property, plant and equipment		110,856
Asset retirement obligation		(546)
Non-controlling interest (tax equity)		(38,633)
Total net assets acquired	$	71,829

The determination of the fair value of assets acquired and liabilities assumed is based upon management's estimates and certain assumptions.

4. Accounts receivable

Accounts receivable as of December 31, 2018 include unbilled revenue of $5,961(2017 - $5,509). Accounts receivable as of December 31, 2018 are presented net of allowance for doubtful accounts of $163 (2017 - $137).

5. Utility plant

Utility plant of the Company consists of solar generation assets (note 3) and electricity distribution assets used to generate and distribute electricity within a specific geographic service territory to supply end users with electricity. These assets include solar panels, inverters, poles, towers and fixtures, low-voltage wires, transformers, overhead and underground conductors, street lighting, meters, metering equipment and other related equipment.

		2018		2017
Land and land rights	**$**	**3,878**	$	3,878
Plant		**358,136**		335,645
Equipment, office furniture and improvements		**15,678**		15,627
		377,692		355,150
Accumulated depreciation		**(38,006)**		(28,817)
		339,686		326,333
Construction work-in-progress		**33,995**		30,652
Net utility plant	**$**	**373,681**	$	356,985

6. Regulatory matters

The Company is subject to rate regulation by the CPUC, and the FERC in some instances. The CPUC has jurisdiction with respect to rate, service, accounting procedures, issuance of securities, acquisitions and other matters. The Company operates under cost-of-service regulation as administered by the CPUC. The Company uses a test year in the establishment of its rates and pursuant to this method, the determination of the rate of return on approved rate base and deemed capital structure, together with all reasonable and prudent costs, establishes the revenue requirement upon which the Company's customer rates are determined.

The Company is accounted for under the principles of ASC 980. Under ASC 980, regulatory assets and liabilities that would not be recorded under U.S. GAAP for non-regulated entities are recorded to the extent that they represent probable future revenue or expenses associated with certain charges or credits that will be recovered from or refunded to customers through the rate-setting process.

The Company is required to file a rate case with its regulator on a regular three- year cycle. Rate cases seek to ensure that the Company has the opportunity to recover its operating costs and earn a fair and reasonable return on its capital investment as allowed by the regulatory authority under which the Company operates.

In December 2017, the CPUC approved a Final Order for the Company of a $2,175 revenue increase effective January 1, 2018.

Revenue decoupling and vegetation management

The Company's revenue is subject to a decoupling mechanism that decouples base revenue from fluctuations caused by weather and economic factors.

Post Test Year Adjustment Mechanism ("PTAM")

The PTAM allows the Company to update its rates annually by a cost inflation index. In addition, rates are allowed to be updated to recover the return on investment and associated depreciation of major capital projects.

Renewables Portfolio Standard

The Company is required to satisfy the current 20% California Renewables Portfolio Standard requirement. The 20% California Renewables Portfolio Standard is currently met through deliveries under a power purchase agreement ("PPA") that is structured in a manner which satisfies the CPUC resource adequacy ("RA") requirements, and is designed to enable the California Utility to comply with the associated RA reporting requirements, and from energy production at Luning Energy LLC (the "Luning Solar project").

(in thousands of U.S. dollars)

6. Regulatory matters (continued)

Regulatory assets and liabilities consist of the following:

		2018		2017
Regulatory assets				
Storm costs (a)	**$**	**3,379**	$	3,379
Rate review costs (b)		**839**		1,163
Rate adjustment mechanism (c)		**19,341**		15,424
Other		**5,961**		3,948
Total regulatory assets	**$**	**29,520**	$	23,914
Less: current regulatory assets		**(6,817)**		(11,637)
Non-current regulatory assets	**$**	**22,703**	$	12,277
Regulatory liabilities				
Cost of removal (d)	**$**	**23,333**	$	21,941
Energy cost adjustment clause (e)		**3,377**		5,007
Income taxes (f) (note 1(m))		**11,576**		11,576
Other		**1,974**		255
Total regulatory liabilities	**$**	**40,260**	$	38,779
Less: current regulatory liabilities		**(5,747)**		(5,635)
Non-current regulatory liabilities	**$**	**34,513**	$	33,144

(a) Storm costs

Incurred repair costs resulting from certain storms over or under amounts collected from customers, which are expected to be recovered or refunded through rates.

(b) Rate review costs

The costs to file, prosecute and defend rate review applications are referred to as rate review costs. These costs are capitalized and amortized over the period of rate recovery granted by the CPUC. The Company does not earn a return on these amounts but receives recovery of these costs in rates over the periods prescribed by the Regulator (three years).

(c) Rate adjustment mechanism

The Company is subject to a revenue decoupling mechanism approved by the Regulator, which requires charging approved annual delivery revenues on a systematic basis over the fiscal year. As a result, the difference between delivery revenue calculated based on metered consumption and approved delivery revenue is recorded as a regulatory asset or liability to reflect future recovery or refund, respectively, from customers.

6. Regulatory matters (continued)

(d) Cost of removal

The regulatory liability for cost of removal represents amounts that have been collected from rate payers for costs that are expected to be incurred in the future to retire utility plant.

(e) Energy cost adjustment clause ("ECAC")

ECAC is designed to recover the cost of electricity through rates charged to customers. Under deferred energy accounting, to the extent actual purchased power costs differ from purchased power costs recoverable through current rates, that difference is not recorded on the consolidated statements of comprehensive income but rather is deferred and recorded as a regulatory asset or liability on the consolidated balance sheets. These differences are reflected in adjustments to rates and recorded as an adjustment to cost of electricity in future periods, subject to regulatory review.

(f) Income taxes

As a result of the Tax Act being enacted in 2017, CPUC is contemplating the rate-making implications of the reduction of federal tax rates from the legacy 35% tax rate and the new 21% federal statutory income tax rate effective January 2018. An increase to regulatory liability was recorded for excess deferred taxes of the members normally reflected in the revenue requirement and now probable of being refunded to customers of $11,576 (note 1(m)). The Company is working with CPUC to identify the most appropriate way to address the impact of the Tax Act on cost of service based rates. As at December 31, 2018, there was no impact on revenues on account of ordered or probable orders related to the Tax Act.

As recovery of regulatory assets is subject to regulatory approval, if there were any changes in regulatory positions that indicate recovery is not probable, the related cost would be charged to earnings in the period of such determination.

7. Long-term debt

The Company has $70,000 senior unsecured utility notes outstanding consisting of $45,000 bearing an interest rate of 5.19% and maturing on December 29, 2020, and $25,000 bearing an interest rate of 5.59% and maturing on December 29, 2025. The notes have interest only payments, payable semi-annually in arrears. The notes have certain financial covenants which must be maintained on a quarterly basis. The Company was in compliance with the covenants as of December 31, 2018.

As of December 31, 2018, the Company had accrued $nil in interest expense (2017 - $nil). Interest paid on the long-term debt in 2018 was $3,733 (2017 - $3,739).

8. Pension and other post-employment benefits

The Company provides defined contribution pension plans to substantially all of its employees. The Company's contributions for 2018 were $307 (2017 - $331).

The Company provides a defined benefit cash balance pension plan covering substantially all its employees, under which employees are credited with a percentage of base pay plus a prescribed interest rate credit. The Company also has an OPEB plan providing health care and life insurance coverage to eligible retired employees. Eligibility is based on age and length of service requirements and, in most cases, retirees must cover a portion of the cost of their coverage.

(in thousands of U.S. dollars)

8. Pension and other post-employment benefits (continued)

(a) Net pension and OPEB obligation

The following table sets forth the projected benefit obligations, fair value of plan assets, and funded status of the Company's plans as of December 31:

	Pension benefits		OPEB	
	2018	**2017**	**2018**	**2017**
Change in projected benefit obligation				
Projected benefit obligation, beginning of year	**$ 3,344**	$ 2,774	**$ 1,785**	$ 1,381
Service cost	**546**	441	**123**	106
Interest cost	**129**	109	**68**	62
Actuarial loss (gain)	**(92)**	141	**(970)**	236
Benefits paid	**(43)**	(121)	**—**	—
Projected benefit obligation, end of year	**$ 3,884**	$ 3,344	**$ 1,006**	$ 1,785
Change in plan assets				
Fair value of plan assets, beginning of year	**2,777**	2,148	**—**	—
Actual return (loss) on plan assets	**(104)**	258	**—**	—
Employer contributions	**610**	491	**—**	—
Benefits paid	**(43)**	(120)	**—**	—
Fair value of plan assets, end of year	**$ 3,240**	$ 2,777	**$ —**	$ —
Unfunded status	**$ 644**	$ 567	**$ 1,006**	$ 1,785
Amounts recognized in the consolidated balance sheets consist of:				
Current liabilities	**—**	—	**—**	(23)
Non-current liabilities	**(644)**	(567)	**(1,006)**	(1,762)
Net amount recognized	**$ (644)**	$ (567)	**$ (1,006)**	$ (1,785)

The accumulated benefit obligation for the pension plans was $3,456 and $3,068 as of December 31, 2018 and 2017, respectively.

(in thousands of U.S. dollars)

8. Pension and other post-employment benefits (continued)

(a) Net pension and OPEB obligation (continued)

The amounts recognized in AOCI were as follows:

Change in AOCI (before tax)	Pension		OPEB	
	Actuarial losses (gains)	Past service gains	Actuarial losses (gains)	Past Service gains
Balance, January 1, 2017	$ 719	$ (343)	$ 259	$ —
Additions to AOCI	(8)	—	236	—
Amortization in current period	(29)	17	(10)	—
Balance, December 31, 2017	$ 682	$ (326)	$ 485	$ —
Additions to AOCI	157	—	(970)	—
Amortization in current period	(42)	17	(24)	—
Balance, December 31, 2018	**$ 797**	**$ (309)**	**$ (509)**	**$ —**

(b) Assumptions

Assumptions used to determine net benefit cost for 2018 and 2017 were as follows:

	Pension benefits		OPEB	
	2018	2017	2018	2017
Discount rate	**3.36%**	3.70%	**3.64%**	4.18%
Expected return on assets	**5.50%**	5.50%	**N/A**	N/A
Rate of compensation increase	**3.00%**	3.00%	**N/A**	N/A
Health care cost trend rate				
Before age 65			**6.25%**	6.25%
Age 65 and after			**6.25%**	6.25%
Assumed Ultimate Medical Inflation Rate			**4.75%**	4.75%
Year in which Ultimate Rate is reached			**2024**	2023

(in thousands of U.S. dollars)

8. Pension and other post-employment benefits (continued)

(b) Assumptions (continued)

Assumptions used to determine benefit obligation for 2018 and 2017 were as follows:

	Pension benefits		OPEB	
	2018	**2017**	**2018**	**2017**
Discount rate	**3.99%**	3.36%	**4.27%**	3.64%
Rate of compensation increase	**4.00%**	3.00%	**N/A**	N/A
Health care cost trend rate				
Before age 65			**6.25%**	6.25%
Age 65 and after			**6.25%**	6.25%
Assumed Ultimate Medical Inflation Rate			**4.75%**	4.75%
Year in which Ultimate Rate is reached			**2031**	2024

The mortality assumption for December 31, 2018 was updated to the projected generationally scale MP-2016, adjusted to reflect the ultimate improvement rates in the 2018 Social Security Administration intermediate assumptions.

In selecting an assumed discount rate, the Company uses a modeling process that involves selecting a portfolio of high-quality corporate debt issuances (AA- or better) whose cash flows (via coupons or maturities) match the timing and amount of the Company's expected future benefit payments. The Company considers the results of this modeling process, as well as overall rates of return on high-quality corporate bonds and changes in such rates over time, to determine its assumed discount rate.

The rate of return assumptions are based on projected long-term market returns for the various asset classes in which the plans are invested, weighted by the target asset allocations.

(c) Benefit costs

The following table lists the components of net benefit cost for the pension plans and OPEB recorded as part of operating expenses in the consolidated statements of comprehensive income.

	Pension benefits		OPEB	
	2018	**2017**	**2018**	**2017**
Service cost	**$ 546**	$ 441	**$ 123**	$ 107
Interest cost	**129**	109	**68**	63
Expected return on plan assets	**(145)**	(111)	**—**	—
Amortization of net actuarial loss	**41**	29	**24**	10
Amortization of prior service credits	**(17)**	(17)	**—**	—
Net benefit cost	**$ 554**	$ 451	**$ 215**	$ 180

(in thousands of U.S. dollars)

8. Pension and other post-employment benefits (continued)

(d) Plan assets

The Company's investment strategy for its pension and post-employment plan assets is to maintain a diversified portfolio of assets with the primary goal of meeting long-term cash requirements as they become due.

The Company's target asset allocation is 50% in equity securities and 50% in debt securities.

The fair values of investments as of December 31, 2018, by asset category, are as follows

Asset class	Level 1	Percentage
Equity securities	$ 1,587	49%
Debt securities	$ 1,652	51%

As at December 31, 2018, the funds do not hold any material investments in the parent company of Liberty Utilities, Algonquin Power and Utilities Corp.

(e) Cash flows

The Company expects to contribute $688 to its pension plans and $17 to its post-employment benefit plans in 2019.

The expected benefit payments over the next 10 years are as follows:

	2019	2020	2021	2022	2023	2024–2028
Pension plan	$ 723	$ 383	$ 368	$ 358	$ 377	$ 2,011
OPEB	17	25	33	39	46	315

9. Advances in aid of construction

The Company has various agreements with real estate development companies (the "developers") conducting business within the Company's utility service territories, whereby funds are advanced to the Company by the developers to assist with funding some or all of the costs of the development.

In many instances, developer advances can be subject to refund but the refund is non-interest bearing. Refunds of developer advances are made over a period of 10 years. Advances not refunded within the prescribed period are usually not required to be repaid. After the prescribed period has lapsed, any remaining unpaid balance is transferred to contributions in aid of construction and recorded as an offsetting amount to the cost of property, plant and equipment. No amounts were transferred from advances in aid of construction to contributions in aid of construction in 2018 and 2017.

10. Related party transactions

Due to related parties represents advances for current operating costs and reimbursement for management and accounting services provided by entities related to Liberty Utilities as well as other third-party costs incurred by entities related to Liberty Utilities on behalf of the Company. These amounts do not bear interest and have no fixed repayment terms. Total amounts allocated for the year ended December 31, 2018 were $3,416 (2017 - $2,277).

Periodically there are advances due to and from related parties. Such advances do not bear interest and are due on demand. As at December 31, 2018, the amounts payable to related parties total $41,075 (2017 -$39,433).

11. Member's capital

The Company is a single member limited liability corporation. As of December 31, 2018, all outstanding equity membership units of the Company belong to Liberty Utilities. During the year ended December 31, 2017, Liberty Utilities contributed $69,703 related to the acquisition of Luning Solar Facility.

(in thousands of U.S. dollars)

12. Commitments and contingencies

(a) Contingencies

The Company is involved in various litigation arising out of the ordinary course and conduct of its business. Although such matters cannot be predicted with certainty, management does not consider the Company's exposure to such litigation to be material to these consolidated financial statements. Accruals for any contingencies related to these items, if any, are recorded in the consolidated financial statements at the time it is concluded that its occurrence is probable and the related liability is estimable.

(b) Commitments

The Company has outstanding purchase commitments for power purchases and operating leases. Detailed below are estimates of future commitments under these agreements:

	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter	Total
Power purchase	$ 10,927	$ —	$ —	$ —	$ —	$ —	$ 10,927
Capital projects	15,170	783	196	—	—	—	16,149
Operating leases	62	49	49	16	—	—	176
Total	$ 26,159	$ 832	$ 245	$ 16	$ —	$ —	$ 27,252

The Company has a PPA to provide its full electric requirements at NV Energy's "system average costs" rates. The commitment amounts included in the table above are based on market prices as of December 31, 2018. However, the effects of purchased power unit cost adjustments are mitigated through a purchased power rate-adjustment mechanism.

13. Non-cash operating items

The changes in non-cash operating items consist of the following:

	2018	2017
Accounts receivable	**$ (1,054)**	$ 336
Prepaid expenses and other	**(811)**	(812)
Supplies and consumables inventory	**(1,068)**	(143)
Accounts payable and accrued liabilities	**1,891**	(1,440)
Due to/from related parties	**4,617**	(16,111)
Net regulatory assets and liabilities	**(6,067)**	4,844
	$ (2,492)	$ (13,326)

(in thousands of U.S. dollars)

14. Redeemable non-controlling interest

Non-controlling interests in subsidiaries that are redeemable upon the occurrence of uncertain events not solely within the Company's control are classified as temporary equity on the consolidated balance sheets. The redeemable non-controlling interests in subsidiaries balance is determined using the HLBV method subsequent to initial recognition, however, if the redemption amount is probable or currently redeemable, the Company records the instruments at their redemption value. Redemption is not considered probable as of December 31, 2018.

Changes to redeemable non-controlling interest are as follows:

	2018	2017
Opening balance	**$ 32,252**	$ 7,969
Contributions from redeemable non-controlling interests, net of issuance costs	**—**	31,105
Net earnings attributable to redeemable non-controlling interest	**(3,241)**	(6,155)
Dividends declared to redeemable non-controlling interest	**(791)**	(667)
Closing balance	**$ 28,220**	$ 32,252

15. Financial instruments

(a) Fair value of financial instruments

	2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term debt	**$ 69,670**	**$ 73,775**	$ 69,572	$ 77,015

The Company has determined that the carrying value of its short-term financial assets and liabilities approximates fair value as of December 31, 2018 and 2017 due to the short-term maturity of these instruments.

Long-term debt (Level 2 inputs) are at fixed interest rates. The estimated fair value is calculated using a discounted cash flow method and current interest rates.

Advances in aid of construction has a carrying value of $17,525 as of December 31, 2018 (2017 - $16,395). Portions of these non-interest bearing instruments are payable annually through 2027, including new customer connections, customer consumption levels, and future rate increase. However, amounts not paid by the contract expiration date become nonrefundable. Their relative fair values cannot be accurately estimated because future refund payments depend on several variables. The fair value of these amounts would be less than their carrying value due to the non-interest bearing feature.

Fair value estimates are made at a specific point in time, using available information about the financial instrument. These estimates are subjective in nature and often cannot be determined with precision.

The Company's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There was no transfer into or out of Level 1, Level 2 or Level 3 during the year ended December 31, 2018 or 2017.

(b) Risk management

In the normal course of business, the Company is exposed to financial risks that potentially impact its operating results. The Company employs risk management strategies with a view of mitigating these risks to the extent possible on a cost effective basis.

This note provides disclosures relating to the nature and extent of the Company's exposure to risks arising from financial instruments, including credit risk and liquidity risk, and how the Company manages those risks.

(in thousands of U.S. dollars)

15. Financial instruments (continued)

(b) Risk management (continued)

Credit risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's financial instruments that are exposed to concentrations of credit risk are primarily cash and cash equivalents and accounts receivable. The Company limits its exposure to credit risk with respect to cash equivalents by ensuring available cash is deposited with its senior lenders all of which have a credit rating of A or better.

Credit risk related to the accounts receivable balance of $11,957 is spread over thousands of customers. The Company has processes in place to monitor and evaluate this risk on an ongoing basis including background credit checks and security deposits from new customers. In addition, the Regulator allows for a reasonable bad debt expense to be incorporated in the rates and therefore recovered from rate payers.

As of December 31, 2018, the Company's maximum exposure to credit risk for these financial instruments was as follows:

		2018
Cash and cash equivalents	$	**3,125**
Accounts receivable		**12,120**
Allowance for doubtful accounts		**(163)**
	$	**15,082**

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, to the extent possible, that it will always have sufficient liquidity to meet liabilities when due.

The Company's liabilities mature as follows:

	Due less than 1 year	Due 2–3 years	Due 4–5 years	Due after 5 years	Total
Long-term debt obligations	$ —	$ 45,000	$ —	$ 25,000	$ 70,000
Advances in aid of construction	—	—	—	17,525	17,525
Purchase obligations	55,059	—	—	—	55,059
Interest on long-term debt	3,733	5,131	2,795	2,795	14,454
Other obligations	665	—	—	—	665
Total obligations	$ 59,457	$ 50,131	$ 2,795	$ 45,320	$ 157,703

16. Comparative figures

Certain of the comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.

17. Subsequent events

The Company has evaluated subsequent events from the consolidated balance sheet date through April 24, 2019, the date at which the consolidated financial statements were available to be issued, and determined that there are no other items to be disclosed.

Consolidated Financial Statements of

Liberty Utilities (CalPeco Electric) LLC

For the years ended December 31, 2019 and 2018

Independent auditor's report

To the Board of Directors of Algonquin Power and Utilities Corp.

Opinion

We have audited the consolidated financial statements of **Liberty Utilities (CalPeco Electric) LLC** [the "Company"], which comprise the consolidated balance sheets as at December 31, 2019 and 2018, and the consolidated statements of comprehensive income, member's equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019 and 2018, and the consolidated results of its operations and its consolidated cash flows for the years then ended in accordance with United States generally accepted accounting principles.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with United States generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
April 24, 2020

Liberty Utilities (CalPeco Electric) LLC
Consolidated Statements of Comprehensive Income

(thousands of U.S. dollars)	Years ended December 31,	
	2019	**2018**
Revenue		
Residential	**$ 38,572**	$ 39,190
Commercial	**37,680**	38,968
Other	**6,374**	5,711
	82,626	83,869
Expenses		
Energy purchased	**24,557**	25,994
Operating costs	**23,768**	20,941
Taxes other than income taxes	**4,415**	3,473
Depreciation of utility plant	**11,998**	10,744
Other amortization	**83**	541
	64,821	61,693
Operating income	**17,805**	22,176
Interest expense	**4,891**	3,385
Pension and post-employment non-service costs (note 8)	**43**	100
Other income	**(915)**	(1,130)
	4,019	2,355
Net earnings	**$ 13,786**	$ 19,821
Net effect of non-controlling interest (note 14)	**(5,770)**	(3,241)
Net earnings attributable to the member	**19,556**	23,062
Other comprehensive income (loss):		
Change in unrealized pension and other post-employment benefits (note 8)	**(89)**	862
Comprehensive income	**$ 19,467**	$ 23,924

See accompanying notes to consolidated financial statements

Liberty Utilities (CalPeco Electric) LLC
Consolidated Balance Sheets

(thousands of U.S. dollars)		December 31, 2019		December 31, 2018
ASSETS				
Utility plant				
Utility plant in service	**$**	**410,221**	$	377,692
Less: accumulated depreciation		**(48,453)**		(38,006)
Total		**361,768**		339,686
Construction work-in-progress		**48,399**		33,995
Utility plant, net (note 4)		**410,167**		373,681
Goodwill		**10,381**		10,381
Regulatory assets (note 5)		**26,951**		22,703
Other assets		**407**		211
Current assets				
Cash and cash equivalents		**5,218**		3,125
Supplies and consumables inventory (note 1(g))		**5,458**		5,304
Accounts receivable, net (note 3)		**11,796**		11,957
Prepaid expenses and other		**1,935**		2,185
Regulatory assets (note 5)		**7,354**		6,817
		31,761		29,388
	$	**479,667**	$	436,364

See accompanying notes to consolidated financial statements

Liberty Utilities (CalPeco Electric) LLC
Consolidated Balance Sheets

(thousands of U.S dollars)	December 31, 2019	December 31, 2018
LIABILITIES AND MEMBER'S EQUITY		
Member's equity		
Member's capital (note 11)	**$ 135,780**	$ 135,780
Accumulated surplus	**106,497**	86,941
Accumulated other comprehensive income (loss)	**(68)**	21
Total member's equity	**242,209**	222,742
Redeemable non-controlling interests (note 14)	**25,047**	28,220
Long-term debt (note 7)	**69,769**	69,670
Regulatory liabilities (notes 1(m) and 6)	**35,912**	34,513
Pension and other post-employment benefits (note 8)	**1,677**	1,650
Advances in aid of construction (note 9)	**18,746**	17,525
Asset retirement obligation	**645**	575
Lease liabilities	**51**	—
Current liabilities		
Accounts payable and accrued liabilities	**28,873**	13,789
Customer deposits	**710**	665
Regulatory liabilities (note 6)	**1,390**	5,747
Other post-employment benefits obligation (note 8)	**22**	—
Lease liabilities	**51**	—
Due to related parties (note 10)	**54,565**	41,268
	85,611	61,469
Commitments and contingencies (note 12)		
Subsequent events (note 16)		
	$ 479,667	$ 436,364

See accompanying notes to consolidated financial statements

Liberty Utilities (CalPeco Electric) LLC
Consolidated Statements of Changes in Member's Equity

	Liberty Utilities (CalPeco Electric) LLC				
(thousands of U.S. dollars)	Member's capital	Accumulated surplus	Accumulated other comprehensive (loss) income	Non-controlling interests	Total
Balance, December 31, 2017	$ 135,780	$ 63,879	$ (841)	$ —	$ 198,818
Net earnings	—	23,062	—	(3,241)	19,821
Redeemable non-controlling interests not included in member's equity (note 14)	—	—	—	3,241	3,241
Other comprehensive income	—	—	862	—	862
Balance, December 31, 2018	$ 135,780	$ 86,941	$ 21	$ —	$ 222,742
Net earnings	**—**	**19,556**	**—**	**(5,770)**	**13,786**
Redeemable non-controlling interests not included in member's equity (note 14)	**—**	**—**	**—**	**5,770**	**5,770**
Other comprehensive loss	**—**	**—**	**(89)**	**—**	**(89)**
Balance, December 31, 2019	**$ 135,780**	**$ 106,497**	**$ (68)**	**$ —**	**$ 242,209**

See accompanying notes to consolidated financial statements

Liberty Utilities (CalPeco Electric) LLC
Consolidated Statements of Cash Flows

(thousands of U.S. dollars)	Years ended December 31, 2019	2018
Cash provided by (used in):		
Operating Activities		
Net earnings	$ 13,786	$ 19,821
Items not affecting cash:		
Depreciation of utility plant	11,998	10,744
Cost of equity funds used for construction purposes	(342)	(669)
Other amortization	98	669
Pension and post-employment contributions in excess of expense	(40)	159
Changes in non-cash operating items (note 13)	1,854	(2,492)
	27,354	28,232
Financing Activities		
Contributions from non-controlling interests (note 14)	3,403	—
Distributions to non-controlling interests	(609)	(1,264)
Increase in advances in aid of construction	1,237	1,150
Increase in lease liabilities	102	—
Decrease in advances in aid of construction	(17)	(22)
	4,116	(136)
Investing Activities		
Additions to utility plant	(28,997)	(27,857)
Increase in other assets	(380)	(106)
	(29,377)	(27,963)
Increase in cash and cash equivalents	2,093	133
Cash and cash equivalents, beginning of year	3,125	2,992
Cash and cash equivalents, end of year	$ 5,218	$ 3,125

Supplemental disclosure of cash flow information:	**2019**	**2018**
Cash paid during the year for interest expense	$ 3,733	$ 3,739
Non-cash transactions: Utility plant in accruals	$ 17,090	$ 1,921

See accompanying notes to consolidated financial statements

Liberty Utilities (CalPeco Electric) LLC (the "Company") is a limited liability company organized on April 14, 2009 under the laws of California. The Company is in the business of providing regulated electric distribution service to approximately 50,000 customers in the Lake Tahoe region of California.

The Company is 100% owned by Liberty Utilities Co. ("Liberty Utilities").

1. Significant accounting policies

(a) Basis of preparation

The accompanying consolidated financial statements and notes have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP").

(b) Basis of consolidation

The accompanying consolidated financial statements of the Company include the accounts of the Company and its wholly owned subsidiaries, Liberty Utilities (Luning Holdings) LLC and Liberty Utilities (Turquoise Holdings) LLC. Intercompany transactions and balances have been eliminated. Interests in subsidiaries owned by third parties are included in non-controlling interests (note 1(k)).

(c) Business combinations and goodwill

The Company accounts for acquisitions of entities or assets that meet the definition of a business as business combinations. Business combinations are accounted for using the acquisition method. Assets acquired and liabilities assumed are measured at their fair value at the acquisition date. Acquisition costs are expensed in the period incurred. When the set of activities does not represent a business, the transaction is accounted for as an asset acquisition and includes acquisition costs. Goodwill represents the excess of the purchase price of an acquired business over the fair value of the net assets acquired. Goodwill is not included in the rate-base on which the utility is allowed to earn a return and is not amortized.

As at September 30 of each year, the Company assesses qualitative and quantitative factors to determine whether it is more likely than not that the fair value of a reporting unit to which goodwill is attributed is less than its carrying amount. If it is more likely than not that a reporting unit's fair value is less than its carrying amount or if a quantitative assessment is elected, the Company calculates the fair value of the reporting unit. The carrying amount of the reporting unit's goodwill is considered not recoverable if the carrying amount of the reporting unit as a whole exceeds the reporting unit's fair value. An impairment charge is recorded for any excess of the carrying value of the goodwill over the implied fair value. Goodwill is tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

(d) Accounting for rate-regulated operations

The regulated utility operating companies owned by the Company are subject to rate regulation generally overseen by the public utility commission of the states in which they operate (the "Regulator"). The Regulator provides the final determination of the rates charged to customers. The Company's activities are accounted for under the principles of U.S. Financial Accounting Standards Board ("FASB") ASC Topic 980, *Regulated Operations (*ASC 980). Under ASC 980, regulatory assets and liabilities are recorded to the extent that they represent probable future revenue or expenses associated with certain charges or credits that will be recovered from or refunded to customers through the rate-making process. Included in note 5, "Regulatory matters" are details of regulatory assets and liabilities, and their current regulatory treatment.

In the event the Company determines that its net regulatory assets are not probable of recovery, it would no longer apply the principles of the current accounting guidance for rate-regulated enterprises and would be required to record an after-tax, non-cash charge or credit against earnings for any remaining regulatory assets or liabilities. The impact could be material to the Company's reported financial condition and results of operations.

The Company's accounts are maintained in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission ("FERC").

(e) Cash and cash equivalents

Cash and cash equivalents include all highly liquid instruments with an original maturity of three months or less.

1. Significant accounting policies (continued)

(f) Accounts receivable

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The Company maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable portfolio. In establishing the required allowance, management considers historical losses adjusted to take into account current market conditions and customers' financial condition, the amount of receivables in dispute, and the receivables aging and current payment patterns. Account balances are charged against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance sheet credit exposure related to its customers.

(g) Supplies and consumables inventory

Supplies and consumables inventory (other than capital spares and rotatable spares, which are included in utility plant) are charged to inventory when purchased and then capitalized to plant or expensed, as appropriate, when installed, used or become obsolete. These items are stated at the lower of cost and net realizable value. Through rate orders and the regulatory environment, capitalized construction jobs are recovered through rate base and repair and maintenance expenses are recovered through a cost of service calculation. Accordingly, the cost usually reflects the net realizable value.

(h) Utility plant

Utility plant, consisting of regulated generation and transmission assets, electrical, gas, water and wastewater distribution assets, equipment and land, are recorded at cost. Project development costs including expenditures for preliminary surveys, plans, investigations, environmental studies, regulatory applications and other costs incurred for the purpose of determining the feasibility of capital expansion projects, are capitalized either as plant or regulatory asset when it is determined that recovery of such costs through regulated revenue of the completed project is probable.

The costs of acquiring or constructing property, plant and equipment include the following: materials, labour, contractor and professional services, construction overhead directly attributable to the capital project (where applicable) and allowance for funds used during construction ("AFUDC") for regulated property. Where possible, individual components are recorded and depreciated separately in the books and records of the Company. Plant and equipment under capital leases are initially recorded at cost determined as the present value of minimum lease payments.

AFUDC represents the cost of borrowed funds and a return on other funds. Under ASC 980, an allowance for funds used during construction projects that are included in rate base is capitalized. This allowance is designed to enable a utility to capitalize financing costs during periods of construction of property subject to rate regulation. The AFUDC capitalized that relates to equity funds is recorded as other income on the consolidated statements of comprehensive income.

	2019	2018
AFUDC capitalized on regulated property:		
Allowance for borrowed funds	**$ 309**	$ 605
Allowance for equity funds	**342**	669
Total	**$ 651**	$ 1,274

Improvements that increase or prolong the service life or capacity of an asset are capitalized. Maintenance and repair costs are expensed as incurred.

Contributions in aid of construction represent amounts contributed by customers, governments and developers to assist with the funding of some or all of the cost of utility capital assets. It also includes amounts initially recorded as advances in aid of construction (note 9) but where the advance repayment period has expired. These contributions are recorded as a reduction in the cost of utility assets and are amortized at the rate of the related asset as a reduction to depreciation expense.

(in thousands of U.S. dollars)

1. Significant accounting policies (continued)

(h) Utility plant (continued)

The Company's depreciation is based on the estimated useful lives of the depreciable assets in each category and is determined using the straight-line method. The ranges of estimated useful lives and the weighted average useful lives are summarized below:

	Range of useful lives		Weighted average useful lives	
	2019	**2018**	**2019**	**2018**
Plant	**10–78**	10–78	**45**	50
Equipment, office furniture and improvements	**14–30**	14–25	**16**	16

In accordance with regulator-approved accounting policies, when depreciable property, plant and equipment are replaced or retired, the original cost plus any removal costs incurred (net of salvage) are charged to accumulated depreciation with no gain or loss reflected in results of operations. Gains and losses will be charged to results of operations in the future through adjustments to depreciation expense.

(i) Impairment of long-lived assets

The Company reviews utility plant and intangible assets for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Recoverability of assets expected to be held and used is measured by comparing the carrying amount of an asset to undiscounted expected future cash flows. If the carrying amount exceeds the recoverable amount, the asset is written down to its fair value.

(j) Pension and other post-employment plans

The Company has established defined contribution pension plans, defined benefit pension plans, and other post-employment benefit ("OPEB") plans for its various employee groups. Employer contributions to the defined contribution pension plans are expensed as employees render service. The Company recognizes the funded status of its defined benefit pension plans and OPEB plans on the consolidated balance sheets. The Company's expense and liabilities are determined by actuarial valuations, using assumptions that are evaluated annually as of December 31, including discount rates, mortality, assumed rates of return, compensation increases, turnover rates and healthcare cost trend rates. The impact of modifications to those assumptions and modifications to prior services are recorded as actuarial gains and losses in accumulated other comprehensive income (loss) ("AOCI") and amortized to net periodic cost over future periods using the corridor method. When settlements of the Company's pension plans occur, the Company recognizes associated gains or losses immediately in earnings if the cost of all settlements during the year is greater than the sum of the service cost and interest cost components of the pension plan for the year. The amount recognized is a pro rata portion of the gains and losses in AOCI equal to the percentage reduction in the projected benefit obligation as a result of the settlement. The costs of the Company's pension for employees are expensed over the periods during which employees render service and are recognized as part of administrative expenses in the consolidated statements of comprehensive income.

The components of net periodic benefit cost other than the service cost component are included in pension and post-employment non-service costs in the consolidated statements of comprehensive income.

(k) Leases

The Company adopted the FASB Leases Topic 842 ("ASC 842") in the first quarter of 2019 using a modified retrospective approach.

The Company leases office equipment for use in its day-to-day operations. The Company has options to extend the lease term of many of its lease agreements, with renewal periods ranging from one to five years. As at the consolidated balance sheets date, the Company is not reasonably certain that these renewal options will be exercised.

(in thousands of U.S. dollars)

1. Significant accounting policies (continued)

(k) Leases (continued)

The Company enters into easement agreements for the operation of its utilities. For all easements that existed or were expired as of January 1, 2019, the practical expedient was taken to not change the legacy accounting for these easement contracts. For new easement contracts entered into subsequent to January 1, 2019, the Company will consider whether they contain a lease.The implementation of ASC 842 did not have an impact on the Company's existing financing leases. New right-of-use assets and lease liabilities of $149 were recognized for the Company's operating leases as at January 1, 2019. The weighted-average discount rate used for the measurement of these new assets and liabilities was 3.38% and the weighted-average remaining lease term is 2.48 years. Lease costs incurred and cash paid for financing and operating leases during the year ended December 31, 2019 were not material.

The right-of-use assets are included in property, plant and equipment on the consolidated balance sheets.

The Company's operating leases payments for the next five years and thereafter is as follows:

Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter	Total
$ 53	$ 49	$ 2	$ —	$ —	$ —	$ 104

(l) Non-controlling interests

Non-controlling interests represent the portion of equity ownership in subsidiaries that is not attributable to the equity holders of the Company. Non-controlling interests are initially recorded at fair value and subsequently adjusted for the proportionate share of earnings and other comprehensive income (loss) ("OCI") attributable to the non-controlling interests and any dividends or distributions paid to the non-controlling interests.

If a transaction results in the acquisition of all, or part, of a non-controlling interest in a consolidated subsidiary, the acquisition of the non-controlling interest is accounted for as an equity transaction. No gain or loss is recognized in net earnings or comprehensive income as a result of changes in the non-controlling interest, unless a change results in the loss of control by the Company.

A subsidiary of the Company has non-controlling Class A equity investors ("Class A Interest") that are entitled to allocations of earnings, tax attributes and cash flows in accordance with contractual agreements. The LLC agreement has liquidation rights and priorities that are different from the underlying percentages ownership interests. In such situation, simply applying the percentage ownership interest to GAAP net income in order to determine earnings or losses would not accurately represent the income allocation and cash flow distributions that will ultimately be received by the investors. As such, the share of earnings attributable to the non-controlling interest holders in the subsidiary is calculated using the Hypothetical Liquidation at Book Value ("HLBV") method of accounting (note 13).

The HLBV method uses a balance sheet approach. A calculation is prepared at each balance sheet date to determine the amount that Class A Equity Investors would receive if an equity investment entity were to liquidate all of its assets and distribute that cash to the investors based on the contractually defined liquidation priorities. The difference between the calculated liquidation distribution amounts at the beginning and the end of the reporting period is the Class A Equity Investors' share of the earnings or losses from the investment for that period. Due to certain mandatory liquidation provisions of the LLC agreement, this could result in a net loss to the Company's consolidated results in periods in which the Class A Equity Investors report net income.The calculation varies in its complexity depending on the capital structure and the tax considerations of the investments.

1. Significant accounting policies (continued)

(m) Revenue Recognition

The Company accounts for revenue in accordance with ASC Topic 606, Revenue from Contracts with Customers, which was adopted on January 1, 2018 using the modified retrospective method, applied to contracts that are not completed at the date of initial application. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with the Company's historical accounting under Topic 605. The adoption of the new standard has not resulted in any adjustment to the opening retained earnings.

Revenues are recognized when control of the promised goods or services is transferred to the Company's customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services.

Revenues related to utility electricity distribution are recognized over time as the energy is delivered. At the end of each month, the electricity delivered to the customers from the date of their last meter read to the end of the month is estimated and the corresponding unbilled revenue is recorded. These estimates of unbilled revenue and sales are based on the ratio of billable days versus unbilled days, amount of electricity procured during that month, historical customer class usage patterns, weather, line loss, and current tariffs. Unbilled receivables are typically billed within the next month. Some customers elect to pay their bill on an equal monthly plan. As a result, in some months cash is received in advance of the delivery of electricity. Deferred revenue is recorded for that amount. The amount of revenue recognized in the period from the balance of deferred revenue is not significant.

The majority of the Company's contracts have a single performance obligation that represents a promise to transfer to the customer a series of distinct goods that are substantially the same and that have the same pattern of transfer to the customer. The Company's performance obligation is satisfied over time as electricity is delivered.

On occasion, utility is permitted to implement new rates that have not been formally approved by the regulatory commission, which are subject to refund. The Company recognizes revenue based on the interim rate and if needed, establishes a reserve for amounts that could be refunded based on experience for the jurisdiction in which the rates were implemented.

The Company's revenue is subject to alternative revenue programs approved by its Regulator, which require to charge approved annual delivery revenue on a systematic basis over the fiscal year. As a result, the difference between delivery revenue calculated based on metered consumption and approved delivery revenue is disclosed as alternative revenue and is recorded as a regulatory asset or liability to reflect future recovery or refund, respectively, from customers (note 3). The amount subsequently billed to customers is recorded as a recovery of the regulatory asset. The Company's revenues include $8,149 related to alternative revenue programs for the year ended December 31, 2019.

(n) Income taxes

The Company is a limited liability company and is a disregarded entity for income tax purposes. Accordingly, it is not subject to federal income taxes or state income taxes. The tax on the Company's net earnings is borne by the member through the allocation of taxable income. Net earnings for financial statement purposes may differ significantly from taxable income of the member because of differences between the tax basis and financial reporting basis of assets and liabilities and the taxable income allocation requirements under the operating agreement. The aggregate difference in the basis of the net assets for financial and tax reporting purposes cannot be readily determined because it is based on the information regarding the member's tax attribute.

1. Significant accounting policies (continued)

(o) Financial instruments and derivatives

Accounts receivable and notes receivable are measured at amortized cost. Long-term debt is measured at amortized cost using the effective interest method, adjusted for the amortization or accretion of premiums or discounts.

Transaction costs related to a recognized debt liability are presented in the consolidated balance sheets as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts and premiums. Deferred financing costs, premiums and discounts on long-term debt are amortized on a straight-line basis over the term of the financial liability as required by the CPUC.

The Company, enters into power purchase contracts for load serving requirements. These contracts meet the exemption for normal purchase and normal sales and as such, are not required to be recorded at fair value as derivatives and are accounted for on an accrual basis. Counterparties are evaluated on an ongoing basis for non-performance risk to ensure it does not impact the conclusion with respect to this exemption.

(p) Fair value measurements

The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Company determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 Inputs: unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.
- Level 2 Inputs: other than quoted prices included in Level 1, inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 Inputs: unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

(q) Commitments and contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

(r) Use of estimates

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of these consolidated financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates. During the years presented, management has made a number of estimates and valuation assumptions, including the useful lives and recoverability of utility plants, intangible assets and goodwill; assessments of unbilled revenue; pension and OPEB obligations; timing effect of regulated assets and liabilities; and the fair value of assets and liabilities acquired in an asset acquisition. These estimates and valuation assumptions are based on present conditions and management's planned course of action, as well as assumptions about future business and economic conditions. Should the underlying valuation assumptions and estimates change, the recorded amounts could change by a material amount.

2. Recently issued accounting pronouncements

(a) Recently adopted accounting pronouncements

The FASB issued accounting standards update ("ASU") 2018-15, *Intangibles — Goodwill and Other Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract,* to provide additional guidance to address diversity in practice. This update aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The Company adopted this update prospectively as at the beginning of the third quarter. There were no significant impacts to the consolidated financial statements as a result of the adoption of this update.

The FASB issued ASU 2016-02, *Leases (Topic 842)* to increase transparency and comparability among organizations utilizing leases. This ASU requires lessees to recognize the assets and liabilities arising from all leases on the balance sheet, but the effect of leases in the statement of operations and the statement of cash flows is largely unchanged. The FASB also issued subsequent amendments to ASC 842 that provide further practical expedients as well as codification clarifications and improvements. The adoption of this new lease standard in 2019 using a modified retrospective approach resulted in an adjustment of $149 to right-of-use assets and operating lease liabilities included in other long-term liabilities on the consolidated balance sheets, with no restatement of the comparative period.

The Company implemented new processes and procedures for the identification, analysis, and measurement of new lease contracts. A new software solution was implemented to assist with contract management, information tracking, and measurement as it relates to the new standard. The Company elected the following practical expedients as part of its adoption:

1. "Package of three" practical expedient that permits the Company not to reassess the scope, classification and initial direct costs of its expired and existing leases;
2. Land easements practical expedient that permits the Company not to reassess the accounting for land easements previously not accounted for under Leases ASC 840; and
3. Hindsight practical expedient that allows the Company to use hindsight in determining the lease term for existing contracts.

In addition, the Company made an accounting policy election to not recognize a lease liability or right-of-use asset on its consolidated balance sheets for short-term leases (lease term less than 12 months).

(b) Recently issued accounting guidance not yet adopted

The FASB issued ASU 2020-01, *Investments - Equity Securities (Topic 321)*, *Investments — Equity Method and Joint Ventures (Topic 323)*, and *Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323, and Topic 815,* to reduce diversity in practice and increase comparability of accounting for certain transactions. The amendments clarify when to consider observable price changes for the measurement of certain equity securities without a readily determinable fair value. They also clarify the scope of forward contracts and purchased options on these certain securities. The amendments in this update are effective for fiscal years beginning after December 15, 2020, and interim periods within those years. Early adoption is permitted, including early adoption in any interim period. The Company currently does not have any transactions that would be within the scope of this update but will continue to assess the impact of this update in the future.

The FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* as part of its initiative to reduce complexity in the accounting standards. The amendments remove certain exceptions to the general principles in Topic 740 and improve consistent application for other areas of Topic 740 by clarifying and amending existing guidance. The amendments in this update are effective for fiscal years beginning after December 15, 2020, and interim periods within those years. Early adoption is permitted, but all amendments must be early adopted simultaneously. The Company is currently assessing the impact of this update.

2. Recently issued accounting pronouncements (continued)

(b) Recently issued accounting guidance not yet adopted (continued)

The FASB issued ASU 2018-18, *Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606* to reduce diversity in practice on how entities account for transactions on the basis of different views of the economics of a collaborative arrangement. The update clarifies that the arrangement should be accounted for under ASC 606 when a participant is a customer in the context of a unit of account, adds unit of account guidance in ASC 808 that is consistent with ASC 606, and precludes the recognition of revenue from a collaborative arrangement with ASC 606 revenue if the participant is not directly related to sales to third parties. The amendments in this update are effective for fiscal years beginning after December 15, 2019, and interim periods within those years. The Company does not expect a significant impact on its consolidated financial statements as a result of the adoption of this update.

The FASB issued ASU 2018-17, *Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities,* to improve general purpose financial reporting. The update clarifies that indirect interests held through related parties in common control arrangements should be considered on a proportional basis for determining whether fees paid to decision makers and service providers are variable interests. The amendments in the update are effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. The amendments are required to be applied retrospectively with a cumulative-effect adjustment to retained earnings. The Company does not expect a significant impact on its consolidated financial statements as a result of the adoption of this update.

The FASB issued ASU 2017-04, *Business Combinations (Topic 350): Intangibles — Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. The update is intended to simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. The standard is effective for fiscal years and interim periods beginning after December 15, 2019. The Company does not expect a significant impact on its consolidated financial statements as a result of the adoption of this update.

The FASB issued ASU 2016-13, *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this update replace the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses. The standard is effective for fiscal years and interim periods beginning after December 15, 2019. The FASB issued codification improvements to ASC Topic 326 in ASU 2018-19 to provide guidance on scoping of operating lease assets and further specific clarifications and corrections in ASU 2019-04 and ASU 2019-11. The FASB issued further updates to Topic 326 in ASU 2019-05 and ASU 2020-02 to provide transition relief that allows companies to irrevocably elect the fair value option for certain instruments held at amortized cost, and to provide certain updates to the SEC paragraphs of the topic. The Company is finalizing its analysis on the impact of adoption of this standard on its consolidated financial statements. The Company does not expect a significant impact on its consolidated financial statements as a result of the adoption of this update.

(in thousands of U.S. dollars)

3. Business acquisitions

(a) Acquisition of Turquoise Solar Facility

Liberty Utilities (Turquoise Holdings) LLC (“Turquoise Holdings”) is owned by Liberty Utilities (Calpeco Electric) LLC ("Calpeco Electric System"). The 10 MWac solar generating facility is located in Washoe County, Nevada ("Turquoise Solar Facility"). On May 24, 2019, a tax equity agreement was executed. The Class A partnership units are owned by a third-party tax equity investor who funded $1,403 on the execution date and $2,000 on December 31, 2019. The final instalments are expected to be made in 2020. With its interest, the tax equity investor will receive the majority of the tax attributes associated with the Turquoise Solar Facility. Because the Class A tax equity investor has the right to withdraw from Turquoise Holdings and require the Company to redeem its remaining interests for cash, the Company accounts for this interest as “Redeemable non-controlling interest” outside of permanent equity on the consolidated balance sheets (note 17). Redemption is not considered probable as of December 31, 2019.

On December 31, 2019, as the Turquoise Solar Facility was placed in service, Turquoise Holdings obtained control of the property, plant and equipment for a total purchase price of $20,830.

4. Accounts receivable

Accounts receivable as of December 31, 2019 include unbilled revenue of $5,659 (2018 - $5,961). Accounts receivable as of December 31, 2019 are presented net of allowance for doubtful accounts of $182 (2018 - $163).

5 . Utility plant

Utility plant of the Company consists of solar generation assets and electricity distribution assets used to generate and distribute electricity within a specific geographic service territory to supply end users with electricity. These assets include solar panels, inverters, poles, towers and fixtures, low-voltage wires, transformers, overhead and underground conductors, street lighting, meters, metering equipment and other related equipment.

	2019	2018
Land and land rights	**$ 3,878**	$ 3,878
Plant	**383,042**	358,136
Equipment, office furniture and improvements	**23,301**	15,678
	410,221	377,692
Accumulated depreciation	**(48,453)**	(38,006)
	361,768	339,686
Construction work-in-progress	**48,399**	33,995
Net utility plant	**$ 410,167**	$ 373,681

6. Regulatory matters

The Company is subject to rate regulation by the California Public Utilities Commission ("CPUC"), and the FERC in some instances. The CPUC has jurisdiction with respect to rate, service, accounting procedures, issuance of securities, acquisitions and other matters. The Company operates under cost-of-service regulation as administered by the CPUC. The Company uses a test year in the establishment of its rates and pursuant to this method, the determination of the rate of return on approved rate base and deemed capital structure, together with all reasonable and prudent costs, establishes the revenue requirement upon which the Company’s customer rates are determined.

The Company is accounted for under the principles of ASC 980. Under ASC 980, regulatory assets and liabilities that would not be recorded under U.S. GAAP for non-regulated entities are recorded to the extent that they represent probable future revenue or expenses associated with certain charges or credits that will be recovered from or refunded to customers through the rate-setting process.

The Company is required to file a rate case with its regulator on a regular three- year cycle. Rate cases seek to ensure that the Company has the opportunity to recover its operating costs and earn a fair and reasonable return on its capital investment as allowed by the regulatory authority under which the Company operates.

In December 2017, the CPUC approved a final order for the Company of a $2,175 revenue increase effective January 1, 2018.

(in thousands of U.S. dollars)

6. Regulatory matters (continued)

Revenue decoupling and vegetation management

The Company's revenue is subject to a decoupling mechanism that decouples base revenue from fluctuations caused by weather and economic factors.

Post Test Year Adjustment Mechanism ("PTAM")

The PTAM allows the Company to update its rates annually by a cost inflation index. In addition, rates are allowed to be updated to recover the return on investment and associated depreciation of major capital projects.

Renewables Portfolio Standard

The Company is required to satisfy the current 20% California Renewables Portfolio Standard requirement. The 25% California Renewables Portfolio Standard is currently met through deliveries under a power purchase agreement that is structured in a manner which satisfies the CPUC resource adequacy ("RA") requirements, and is designed to enable the California Utility to comply with the associated RA reporting requirements, and from energy production at Luning Energy LLC (the "Luning Solar project") and Turquoise Liberty ProjectCo LLC (the "Turquoise Solar project").

Regulatory assets and liabilities consist of the following:

	2019	2018
Regulatory assets		
Storm costs (a)	**$ 3,570**	$ 3,379
Rate review costs (b)	**678**	839
Rate adjustment mechanism (c)	**24,243**	19,341
Energy cost adjustment clause (e)	**498**	—
Other	**5,316**	5,961
Total regulatory assets	**$ 34,305**	$ 29,520
Less: current regulatory assets	**(7,354)**	(6,817)
Non-current regulatory assets	**$ 26,951**	$ 22,703
Regulatory liabilities		
Cost of removal (d)	**$ 24,757**	$ 23,333
Energy cost adjustment clause (e)	**—**	3,377
Income taxes (f) (note 1(n))	**11,576**	11,576
Other	**969**	1,974
Total regulatory liabilities	**$ 37,302**	$ 40,260
Less: current regulatory liabilities	**(1,390)**	(5,747)
Non-current regulatory liabilities	**$ 35,912**	$ 34,513

6. Regulatory matters (continued)

(a) Storm costs

Incurred repair costs resulting from certain storms over or under amounts collected from customers, which are expected to be recovered or refunded through rates.

(b) Rate review costs

The costs to file, prosecute and defend rate review applications are referred to as rate review costs. These costs are capitalized and amortized over the period of rate recovery granted by the CPUC. The Company does not earn a return on these amounts but receives recovery of these costs in rates over the periods prescribed by the Regulator (three years).

(c) Rate adjustment mechanism

The Company is subject to a revenue decoupling mechanism approved by the Regulator, which requires charging approved annual delivery revenues on a systematic basis over the fiscal year. As a result, the difference between delivery revenue calculated based on metered consumption and approved delivery revenue is recorded as a regulatory asset or liability to reflect future recovery or refund, respectively, from customers.

(d) Cost of removal

The regulatory liability for cost of removal represents amounts that have been collected from rate payers for costs that are expected to be incurred in the future to retire utility plant.

(e) Energy cost adjustment clause ("ECAC")

ECAC is designed to recover the cost of electricity through rates charged to customers. Under deferred energy accounting, to the extent actual purchased power costs differ from purchased power costs recoverable through current rates, that difference is not recorded on the consolidated statements of comprehensive income but rather is deferred and recorded as a regulatory asset or liability on the consolidated balance sheets. These differences are reflected in adjustments to rates and recorded as an adjustment to cost of electricity in future periods, subject to regulatory review.

(f) Income taxes

As a result of the *Tax Act* being enacted in 2017, CPUC is contemplating the rate-making implications of the reduction of federal tax rates from the legacy 35% tax rate and the new 21% federal statutory income tax rate effective January 2018. An increase to regulatory liability was recorded for excess deferred taxes of the members normally reflected in the revenue requirement and now probable of being refunded to customers of $11,576 (note 1(n)). The Company is working with CPUC to identify the most appropriate way to address the impact of the *Tax Act* on cost of service based rates. As at December 31, 2019, there was no impact on revenues on account of ordered or probable orders related to the *Tax Act*.

As recovery of regulatory assets is subject to regulatory approval, if there were any changes in regulatory positions that indicate recovery is not probable, the related cost would be charged to earnings in the period of such determination.

7. Long-term debt

The Company has $70,000 senior unsecured utility notes outstanding consisting of $45,000 bearing an interest rate of 5.19% and maturing on December 29, 2020, and $25,000 bearing an interest rate of 5.59% and maturing on December 29, 2025. The notes have interest only payments, payable semi-annually in arrears. The notes have certain financial covenants, which must be maintained on a quarterly basis. The Company was in compliance with the covenants as of December 31, 2019.

As of December 31, 2019, the Company had accrued $nil in interest expense (2018 - $nil). Interest paid on the long-term debt in 2019 was $3,733 (2018 - $3,733).

(in thousands of U.S. dollars)

8. Pension and other post-employment benefits

The Company provides defined contribution pension plans to substantially all of its employees. The Company's contributions for 2019 were $369 (2018 - $307).

The Company provides a defined benefit cash balance pension plan covering substantially all its employees, under which employees are credited with a percentage of base pay plus a prescribed interest rate credit. The Company also has an OPEB plan providing health care and life insurance coverage to eligible retired employees. Eligibility is based on age and length of service requirements and, in most cases, retirees must cover a portion of the cost of their coverage.

(a) Net pension and OPEB obligation

The following table sets forth the projected benefit obligations, fair value of plan assets, and funded status of the Company's plans as of December 31:

	Pension benefits		OPEB	
	2019	**2018**	**2019**	**2018**
Change in projected benefit obligation				
Projected benefit obligation, beginning of year	**$ 3,884**	$ 3,344	**$ 1,006**	$ 1,785
Service cost	**529**	546	**49**	123
Interest cost	**167**	129	**47**	68
Actuarial loss (gain)	**303**	(92)	**231**	(970)
Benefits paid	**(171)**	(43)	**—**	—
Projected benefit obligation, end of year	**$ 4,712**	$ 3,884	**$ 1,333**	$ 1,006
Change in plan assets				
Fair value of plan assets, beginning of year	**3,240**	2,777	**—**	—
Actual return (loss) on plan assets	**627**	(104)	**—**	—
Employer contributions	**650**	610	**—**	—
Benefits paid	**(171)**	(43)	**—**	—
Fair value of plan assets, end of year	**$ 4,346**	$ 3,240	**$ —**	**$ —**
Unfunded status	**$ 366**	$ 644	**$ 1,333**	$ 1,006
Amounts recognized in the consolidated balance sheets consist of:				
Current liabilities	**—**	—	**(22)**	—
Non-current liabilities	**(366)**	(644)	**(1,311)**	(1,006)
Net amount recognized	**$ (366)**	$ (644)	**$ (1,333)**	$ (1,006)

The accumulated benefit obligation for the pension plans was $4,229 and $3,456 as of December 31, 2019 and 2018, respectively.

(in thousands of U.S. dollars)

8. Pension and other post-employment benefits (continued)

(a) Net pension and OPEB obligation (continued)

The amounts recognized in AOCI were as follows:

Change in AOCI (before tax)	Pension		OPEB	
	Actuarial losses (gains)	Past service gains	Actuarial losses (gains)	Past service gains
Balance, January 1, 2018	$ 519	$ (163)	$ 485	$ —
Additions to AOCI	157	—	(970)	—
Amortization in current period	(42)	17	(24)	—
Balance, December 31, 2018	$ 634	$ (146)	$ (509)	$ —
Additions to AOCI	(164)	—	231	—
Amortization in current period	(30)	17	35	—
Balance, December 31, 2019	**$ 440**	**$ (129)**	**$ (243)**	**$ —**

(b) Assumptions

Assumptions used to determine net benefit cost for 2019 and 2018 were as follows:

	Pension benefits		OPEB	
	2019	2018	2019	2018
Discount rate	**3.99%**	3.36%	**4.27%**	3.64%
Expected return on assets	**5.50%**	5.50%	**N/A**	N/A
Rate of compensation increase	**4.01%**	3.00%	**N/A**	N/A
Health care cost trend rate				
Before age 65			**6.25%**	6.25%
Age 65 and after			**6.125%**	6.25%
Assumed Ultimate Medical Inflation Rate			**4.75%**	4.75%
Year in which Ultimate Rate is reached			**2031**	2024

(in thousands of U.S. dollars)

8. Pension and other post-employment benefits (continued)

(b) Assumptions (continued)

Assumptions used to determine benefit obligation for 2019 and 2018 were as follows:

	Pension benefits		OPEB	
	2019	**2018**	**2019**	**2018**
Discount rate	**3.01%**	3.99%	**3.31%**	4.27%
Rate of compensation increase	**4.00%**	4.00%	**N/A**	N/A
Health care cost trend rate				
Before age 65			**6.125%**	6.25%
Age 65 and after			**6.125%**	6.25%
Assumed Ultimate Medical Inflation Rate			**4.75%**	4.75%
Year in which Ultimate Rate is reached			**2031**	2031

The mortality assumption for December 31, 2019 was updated to Pri-2012 mortality table and to the projected generationally scale MP-2019, adjusted to reflect the ultimate improvement rates in the 2019 Social Security Administration intermediate assumptions.

In selecting an assumed discount rate, the Company uses a modeling process that involves selecting a portfolio of high-quality corporate debt issuances (AA- or better) whose cash flows (via coupons or maturities) match the timing and amount of the Company's expected future benefit payments. The Company considers the results of this modeling process, as well as overall rates of return on high-quality corporate bonds and changes in such rates over time, to determine its assumed discount rate.

The rate of return assumptions are based on projected long-term market returns for the various asset classes in which the plans are invested, weighted by the target asset allocations.

(c) Benefit costs

The following table lists the components of net benefit cost for the pension plans and OPEB recorded as part of operating expenses in the consolidated statements of comprehensive income.

	Pension benefits		OPEB	
	2019	**2018**	**2019**	**2018**
Service cost	**$ 529**	$ 546	**$ 49**	$ 123
Non-service costs				
Interest cost	**167**	129	**47**	68
Expected return on plan assets	**(149)**	(145)	**—**	—
Amortization of net actuarial loss (gain)	**30**	41	**(35)**	24
Amortization of prior service credits	**(17)**	(17)	**—**	—
	31	8	**12**	92
Net benefit cost	**$ 560**	$ 554	**$ 61**	$ 215

(in thousands of U.S. dollars)

8. Pension and other post-employment benefits (continued)

(d) Plan assets

The Company's investment strategy for its pension and post-employment plan assets is to maintain a diversified portfolio of assets with the primary goal of meeting long-term cash requirements as they become due.

The Company's target asset allocation is 50% in equity securities and 50% in debt securities.

The fair values of investments as of December 31, 2019, by asset category, are as follows

Asset class	Level 1	Percentage
Equity securities	$ 2,130	49%
Debt securities	1,955	45%
Other	261	6%
	$ 4,346	100%

As at December 31, 2019, the funds do not hold any material investments in the parent company of Liberty Utilities, Algonquin Power and Utilities Corp.

(e) Cash flows

The Company expects to contribute $692 to its pension plans and $22 to its post-employment benefit plans in 2020.

The expected benefit payments over the next 10 years are as follows:

	2020	2021	2022	2023	2024	2025–2029
Pension plan	$ 896	$ 417	$ 370	$ 407	$ 425	$ 2,199
OPEB	22	32	39	47	54	344

9. Advances in aid of construction

The Company has various agreements with real estate development companies (the "developers") conducting business within the Company's utility service territories, whereby funds are advanced to the Company by the developers to assist with funding some or all of the costs of the development.

In many instances, developer advances can be subject to refund but the refund is non-interest bearing. Refunds of developer advances are made over a period of 10 years. Advances not refunded within the prescribed period are usually not required to be repaid. After the prescribed period has lapsed, any remaining unpaid balance is transferred to contributions in aid of construction and recorded as an offsetting amount to the cost of property, plant and equipment. No amounts were transferred from advances in aid of construction to contributions in aid of construction in 2019 and 2018.

10. Related party transactions

Due to related parties represents advances for current operating costs and reimbursement for management and accounting services provided by entities related to Liberty Utilities as well as other third-party costs incurred by entities related to Liberty Utilities on behalf of the Company. These amounts do not bear interest and have no fixed repayment terms. Total amounts allocated for the year ended December 31, 2019 were $4,285 (2018 - $3,416).

Periodically there are advances due to and from related parties. Such advances do not bear interest and are due on demand. As at December 31, 2019, the amounts payable to related parties total $54,565 (2018 - $41,075).

(in thousands of U.S. dollars)

11. Member's capital

The Company is a single member limited liability corporation. As of December 31, 2019, all outstanding equity membership units of the Company belong to Liberty Utilities.

12. Commitments and contingencies

(a) Contingencies

The Company is involved in various litigation arising out of the ordinary course and conduct of its business. Although such matters cannot be predicted with certainty, management does not consider the Company's exposure to such litigation to be material to these consolidated financial statements. Accruals for any contingencies related to these items, if any, are recorded in the consolidated financial statements at the time it is concluded that its occurrence is probable and the related liability is estimable.

(b) Commitments

The Company has outstanding purchase commitments for capital projects. Detailed below are estimates of future commitments under these agreements:

	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter	Total
Capital projects	$ 783	$ 196	$ —	$ —	$ —	$ —	$ 979

13. Non-cash operating items

The changes in non-cash operating items consist of the following:

	2019	2018
Accounts receivable	**$ 344**	$ (1,054)
Prepaid expenses and other	**250**	(811)
Supplies and consumables inventory	**(154)**	(1,068)
Accounts payable and accrued liabilities	**(147)**	1,891
Due to related parties	**13,298**	4,617
Net regulatory assets and liabilities	**(11,807)**	(6,067)
Asset retirement obligation	**70**	—
	$ 1,854	$ (2,492)

14. Redeemable non-controlling interests

Non-controlling interests in subsidiaries that are redeemable upon the occurrence of uncertain events not solely within the Company's control are classified as temporary equity on the consolidated balance sheets. The redeemable non-controlling interests in subsidiaries' balance are determined using the HLBV method subsequent to initial recognition, however, if the redemption amount is probable or currently redeemable, the Company records the instruments at their redemption value. Redemption is not considered probable as of December 31, 2019.

	2019	2018
Opening balance	**$ 28,220**	$ 32,252
Contributions from redeemable non-controlling interests	**3,403**	—
Net earnings attributable to redeemable non-controlling interest	**(5,770)**	(3,241)
Dividends declared to redeemable non-controlling interest	**(806)**	(791)
Closing balance	**$ 25,047**	$ 28,220

(in thousands of U.S. dollars)

15. Financial instruments

(a) Fair value of financial instruments

	2019		2018	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Long-term debt	**$ 69,769**	**$ 75,497**	$ 69,670	$ 73,775

The Company has determined that the carrying value of its short-term financial assets and liabilities approximates fair value as of December 31, 2019 and 2017 due to the short-term maturity of these instruments.

Long-term debt (Level 2 inputs) are at fixed interest rates. The estimated fair value is calculated using a discounted cash flow method and current interest rates.

Advances in aid of construction has a carrying value of $18,746 as of December 31, 2019 (2018 - $17,525). Portions of these non-interest bearing instruments are payable annually through 2027, including new customer connections, customer consumption levels, and future rate increase. However, amounts not paid by the contract expiration date become nonrefundable. Their relative fair values cannot be accurately estimated because future refund payments depend on several variables. The fair value of these amounts would be less than their carrying value due to the non-interest bearing feature.

Fair value estimates are made at a specific point in time, using available information about the financial instrument. These estimates are subjective in nature and often cannot be determined with precision.

The Company's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There was no transfer into or out of Level 1, Level 2 or Level 3 during the year ended December 31, 2019 or 2018.

(b) Risk management

In the normal course of business, the Company is exposed to financial risks that potentially impact its operating results. The Company employs risk management strategies with a view of mitigating these risks to the extent possible on a cost effective basis.

This note provides disclosures relating to the nature and extent of the Company's exposure to risks arising from financial instruments, including credit risk and liquidity risk, and how the Company manages those risks.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's financial instruments that are exposed to concentrations of credit risk are primarily cash and cash equivalents and accounts receivable. The Company limits its exposure to credit risk with respect to cash equivalents by ensuring available cash is deposited with its senior lenders, all of which have a credit rating of A or better.

Credit risk related to the accounts receivable balance of $11,796 is spread over thousands of customers. The Company has processes in place to monitor and evaluate this risk on an ongoing basis including background credit checks and security deposits from new customers. In addition, the Regulator allows for a reasonable bad debt expense to be incorporated in the rates and therefore recovered from rate payers.

As of December 31, 2019, the Company's maximum exposure to credit risk for these financial instruments was as follows:

		2019
Cash and cash equivalents	**$**	**5,218**
Accounts receivable		**11,978**
Allowance for doubtful accounts		**(182)**
	$	**17,014**

(in thousands of U.S. dollars)

15. Financial instruments (continued)

(b) Risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, to the extent possible, that it will always have sufficient liquidity to meet liabilities when due.

The Company's liabilities mature as follows:

	Due less than 1 year	Due 2–3 years	Due 4–5 years	Due after 5 years	Total
Long-term debt obligations	$ 45,000	$ —	$ —	$ 25,000	$ 70,000
Advances in aid of construction	—	—	—	18,746	18,746
Purchase obligations	83,438	—	—	—	83,438
Interest on long-term debt	3,733	2,795	2,795	1,398	10,721
Other obligations	710	—	—	—	710
Total obligations	$ 132,881	$ 2,795	$ 2,795	$ 45,144	$ 183,615

16. Subsequent events

The ongoing outbreak of the novel strain of coronavirus has caused significant volatility and weakness in the global economy. At this time, it is not possible to reliably estimate the impact on each project and the Company’s financial results.

The Company has evaluated subsequent events from the consolidated balance sheets date through April 24, 2020, the date at which the consolidated financial statements were available to be issued, and determined that there are no other items to be disclosed.

Consolidated Financial Statements of

Liberty Utilities (CalPeco Electric) LLC

For the years ended December 31, 2020 and 2019

Building a better
working world

Ernst & Young LLP
Chartered Professional Accountants
Ernst & Young Tower
100 Adelaide St W, P.O. Box 1
Toronto ON, M5H 0B3

Tel: +1 416 943 3000
Fax: +1 416 943 3767
www.ey.com/ca

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Algonquin Power & Utilities Corp.

Opinion

We have audited the consolidated financial statements of Liberty Utilities (CalPeco Electric) LLC (the "Company"), which comprise the consolidated balance sheets as at December 31, 2020, and the consolidated statement of comprehensive income, consolidated statement of shareholders' equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2020, and the consolidated results of its operations and its consolidated cash flows for the year then ended in accordance with United States generally accepted accounting principles.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with United States generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Building a better
working world

Ernst & Young LLP
Chartered Professional Accountants
Ernst & Young Tower
100 Adelaide St W, P.O. Box 1
Toronto ON, M5H 0B3

Tel: +1 416 943 3000
Fax: +1 416 943 3767
www.ey.com/ca

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario
May 14, 2021

Liberty Utilities (Calpeco Electric) LLC
Consolidated Statements of Comprehensive Income

(thousands of U.S. dollars)	Years ended December 31, 2020	2019
Revenue		
Residential	**$ 41,386**	$ 38,572
Commercial	**39,163**	37,680
Other	**18,019**	6,374
	98,568	82,626
Expenses		
Energy purchased	**27,069**	24,557
Operating costs	**26,582**	23,768
Taxes other than income taxes	**4,450**	4,415
Depreciation of utility plant	**13,977**	11,998
Other amortization	**38**	83
	72,116	64,821
Operating income	**26,452**	17,805
Interest expense	**4,227**	4,891
Pension and post-employment non-service costs (note 6)	**20**	43
Other income	**(7,621)**	(915)
Loss on disposal	**27**	—
	(3,347)	4,019
Net earnings	**$ 29,799**	$ 13,786
Net effect of non-controlling interest (note 13)	**(6,955)**	(5,770)
Net earnings attributable to the member	**36,754**	19,556
Other comprehensive income:		
Change in unrealized pension and other post-employment benefits (note 6)	**(717)**	(89)
Comprehensive income	**$ 36,037**	$ 19,467

See accompanying notes to consolidated financial statements

Liberty Utilities (Calpeco Electric) LLC
Consolidated Balance Sheets

(thousands of U.S. dollars)	**December 31, 2020**	December 31, 2019
ASSETS		
Utility plant		
Utility plant in service	**$ 484,990**	$ 410,221
Less: accumulated depreciation	**(60,833)**	(48,453)
	424,157	361,768
Construction work-in-progress	**17,278**	48,399
Utility plant, net (note 4)	**441,435**	410,167
Goodwill	**10,381**	10,381
Regulatory assets (note 5)	**51,866**	26,951
Other assets	**356**	407
Current assets		
Cash and cash equivalents	**3,794**	5,218
Supplies and consumables inventory	**5,309**	5,458
Accounts receivable, net (note 3)	**13,857**	11,796
Prepaid expenses and other	**3,454**	1,935
Regulatory assets (note 5)	**15,184**	7,354
	41,598	31,761
	$ 545,636	$ 479,667

See accompanying notes to consolidated financial statements

Liberty Utilities (Calpeco Electric) LLC
Consolidated Balance Sheets

(thousands of U.S dollars)	December 31, 2020	December 31, 2019
LIABILITIES AND MEMBER'S EQUITY		
Member's equity		
Member's capital (note 10)	**$ 135,780**	$ 135,780
Accumulated surplus	**143,251**	106,497
Accumulated other comprehensive loss	**(785)**	(68)
Total equity	**278,246**	242,209
Redeemable non-controlling interests (note 13)	**20,857**	25,047
Long-term debt (note 7)	**24,861**	69,769
Regulatory liabilities (note 5)	**33,858**	35,912
Pension and other post-employment benefits obligation (note 6)	**2,386**	1,677
Advances in aid of construction (note 9)	**19,498**	18,746
Asset retirement obligation	**683**	645
Lease liabilities	**2**	51
Current liabilities		
Accounts payable and accrued liabilities	**22,205**	28,873
Customer deposits	**527**	710
Regulatory liabilities (note 5)	**2,260**	1,390
Lease liabilities	**48**	51
Other post-employment benefit obligation (note 6)	**29**	22
Due to related parties (note 8)	**140,176**	54,565
	165,245	85,611
Commitments and contingencies (note 11)		
Subsequent events (note 15)		
	$ 545,636	$ 479,667

See accompanying notes to consolidated financial statements

Liberty Utilities (Calpeco Electric) LLC
Consolidated Statement of Changes in Member's Interest

(thousands of U.S. dollars)	Member's capital	Accumulated surplus	Accumulated other comprehensive loss	Non-controlling interests	Total
	Liberty Utilities (Calpeco Electric) LLC				
Balance, December 31, 2018	$ 135,780	$ 86,941	$ 21	$ —	$ 222,742
Net earnings (loss)	—	19,556	—	(5,770)	13,786
Redeemable non-controlling interests not included in member's equity (note 13)	—	—	—	5,770	5,770
Other comprehensive income	—	—	(89)	—	(89)
Balance, December 31, 2019	**$ 135,780**	**$ 106,497**	**$ (68)**	**$ —**	**$ 242,209**
Net earnings (loss)		36,754	—	(6,955)	29,799
Redeemable non-controlling interests not included in member's equity (note 13)	—			6,955	6,955
Other comprehensive loss	—	—	(717)	—	(717)
Balance, December 31, 2020	**$ 135,780**	**$ 143,251**	**$ (785)**	**$ —**	**$ 278,246**

See accompanying notes to consolidated financial statements

Liberty Utilities (Calpeco Electric) LLC
Consolidated Statements of Cash Flow

(thousands of U.S. dollars)

	Years ended December 31, 2020	2019
Cash provided by (used in):		
Operating Activities		
Net earnings	**$ 29,799**	$ 13,786
Items not affecting cash:		
Depreciation of utility plant	**13,977**	11,998
Cost of equity funds used for construction purposes	**(176)**	(342)
Other amortization	**38**	98
Pension and post-employment contributions in excess of expense	**—**	(40)
Other non-cash income	**(7,266)**	—
Changes in non-cash operating items (note 12)	**58,663**	1,854
	95,035	27,354
Financing Activities		
Decrease in long term debt	**(45,000)**	—
Contributions from non-controlling interests (note 13)	**3,717**	3,403
Distributions to non-controlling interests (note 13)	**(1,090)**	(609)
Increase in advances in aid of construction	**752**	1,237
Decrease in advances in aid of construction	**—**	(17)
Increase in operating lease liabilities	**—**	102
Decrease in operating lease liabilities	**(48)**	—
	(41,669)	4,116
Investing Activities		
Additions to utility plant	**(54,841)**	(28,997)
Decrease in other assets	**51**	(380)
	(54,790)	(29,377)
Increase (Decrease) in cash and cash equivalents	**(1,424)**	2,093
Cash and cash equivalents, beginning of period	**5,218**	3,125
Cash and cash equivalents, end of period	**$ 3,794**	$ 5,218

Supplemental disclosure of cash flow information:	**2020**	**2019**
Cash paid during the year for interest expense	**$ 3,733**	$ 3,733
Non-cash transactions: Utility plant in accruals	**$ 7,698**	$ 17,090

See accompanying notes to consolidated financial statements

Liberty Utilities (CalPeco Electric) LLC (the "Company") is a limited liability company organized on April 14, 2009 under the laws of California. The Company is in the business of providing regulated electric distribution service to approximately 50,000 customers in the Lake Tahoe region of California.

The Company is 100% owned by Liberty Utilities Co. ("Liberty Utilities").

1. Significant accounting policies

(a) Basis of preparation

The accompanying consolidated financial statements and notes have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP").

(b) Basis of consolidation

The accompanying consolidated financial statements of the Company include the accounts of the Company and its wholly owned subsidiaries, Liberty Utilities (Luning Holdings) LLC and Liberty Utilities (Turquoise Holdings) LLC. Intercompany transactions and balances have been eliminated. Interests in subsidiaries owned by third parties are included in non-controlling interests (note 1(m)).

(c) Business combinations and goodwill

The Company accounts for acquisitions of entities or assets that meet the definition of a business as business combinations. Business combinations are accounted for using the acquisition method. Assets acquired and liabilities assumed are measured at their fair value at the acquisition date. Acquisition costs are expensed in the period incurred. When the set of activities does not represent a business, the transaction is accounted for as an asset acquisition and includes acquisition costs. Goodwill represents the excess of the purchase price of an acquired business over the fair value of the net assets acquired. Goodwill is not included in the rate-base on which the utility is allowed to earn a return and is not amortized.

As at September 30 of each year, the Company assesses qualitative and quantitative factors to determine whether it is more likely than not that the fair value of a reporting unit to which goodwill is attributed is less than its carrying amount. If it is more likely than not that a reporting unit's fair value is less than its carrying amount or if a quantitative assessment is elected, the Company calculates the fair value of the reporting unit. If the carrying amount of the reporting unit as a whole exceeds the reporting unit's fair value, an impairment charge is recorded in an amount of that excess, limited to the total amount of goodwill allocated to that reporting unit. Goodwill is tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

(d) Accounting for rate-regulated operations

The Company is subject to rate regulation overseen by the public utility commission in California (the "Regulator"). The Regulator provides the final determination of the rates charged to customers. The company is accounted for under the principles of U.S. Financial Accounting Standards Board ("FASB") ASC Topic 980, Regulated Operations ("ASC 980"). Under ASC 980, regulatory assets and liabilities are recorded to the extent that they represent probable future revenue or expenses associated with certain charges or credits that will be recovered from or refunded to customers through the rate making process. Included in note 4, "Regulatory matters" are details of regulatory assets and liabilities, and their current regulatory treatment.

In the event the Company determines that its net regulatory assets are not probable of recovery, it would no longer apply the principles of the current accounting guidance for rate regulated enterprises and would be required to record an after-tax, non-cash charge or credit against earnings for any remaining regulatory assets or liabilities. The impact could be material to the Company's reported financial condition and results of operations.

The Company's accounts are maintained in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission ("FERC").

1. Significant accounting policies (continued)

(e) Cash and cash equivalents

Cash and cash equivalents include all highly liquid instruments with an original maturity of three months or less.

(f) Accounts receivable

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The Company maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable portfolio. In establishing the required allowance, management considers historical losses adjusted to take into account current market conditions and customers' financial condition, the amount of receivables in dispute, future economic conditions and outlook, and the receivables aging and current payment patterns. Account balances are charged against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance sheet credit exposure related to its customers.

(g) Supplies and consumables inventory

Supplies and consumables inventory (other than capital spares and rotatable spares, which are included in utility plant) are charged to inventory when purchased and then capitalized to plant or expensed, as appropriate, when installed, used or upon becoming obsolete. These items are stated at the lower of cost and net realizable value. Through rate orders and the regulatory environment, capitalized construction jobs are recovered through rate base and repair and maintenance expenses are recovered through a cost of service calculation. Accordingly, the cost usually reflects the net realizable value.

(h) Utility plant

Utility plant of the Company consists of solar generation assets and electricity distribution assets used to generate and distribute electricity within a specific geographic service territory to supply end users with electricity. These assets include solar panels, inverters, poles, towers and fixtures, low-voltage wires, transformers, overhead and underground conductors, street lighting, meters, metering equipment and other related equipment.

The costs of acquiring or constructing plant include the following: materials, labor, contractor and professional services, construction overhead directly attributable to the capital project (where applicable) and allowance for funds used during construction ("AFUDC"). Where possible, individual components are recorded and depreciated separately in the books and records of the Company. Plant under finance leases are initially recorded at cost determined as the present value of lease payments to be made over the lease term.

AFUDC represents the cost of borrowed funds and a return on other funds. Under ASC 980, an allowance for funds used during construction projects that are included in rate base is capitalized. This allowance is designed to enable a utility to capitalize financing costs during periods of construction of property subject to rate regulation. The AFUDC capitalized that relates to equity funds is recorded as other income on the consolidated statements of comprehensive income.

	2020	2019
AFUDC capitalized on regulated property:		
Allowance for borrowed funds	**$ 160**	$ 309
Allowance for equity funds	**176**	342
	$ 336	$ 651

Improvements that increase or prolong the service life or capacity of an asset are capitalized. Maintenance and repair costs are expensed as incurred.

(in thousands of U.S. dollars)

1. Significant accounting policies (continued)

(h) Utility plant (continued)

Contributions in aid of construction represent amounts contributed by customers, governments and developers to assist with the funding of some or all of the cost of utility capital assets. They also includes amounts initially recorded as advances in aid of construction (note 8) but where the advance repayment period has expired. These contributions are recorded as a reduction in the cost of utility assets and are amortized at the rate of the related asset as a reduction to depreciation expense.

The Company's depreciation is based on the estimated useful lives of the depreciable assets in each category and is determined using the straight-line method. The ranges of estimated useful lives and the weighted average useful lives are summarized below:

	Range of useful lives		Weighted average useful lives	
	2020	**2019**	**2020**	**2019**
Plant	**10–78**	10–78	**50**	45
Equipment, office furniture and improvements	**14–30**	14-30	**16**	16

In accordance with regulator-approved accounting policies, when depreciable plant is replaced or retired, the original cost plus any removal costs incurred (net of salvage) are charged to accumulated depreciation with no gain or loss reflected in results of operations. Gains and losses will be charged to results of operations in the future through adjustments to depreciation expense.

(i) Impairment of long-lived assets

The Company reviews utility plant and intangible assets for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Recoverability of assets expected to be held and used is measured by comparing the carrying amount of an asset to undiscounted expected future cash flows. If the carrying amount exceeds the recoverable amount, the asset is written down to its fair value.

(j) Pension and other post-employment plans

The Company has established defined contribution pension plans, defined benefit pension plans, and other post-employment benefit ("OPEB") plans for its various employee groups. Employer contributions to the defined contribution pension plans are expensed as employees render service. The Company recognizes the funded status of its defined benefit pension plans and OPEB plans on the consolidated balance sheets. The Company's expense and liabilities are determined by actuarial valuations, using assumptions that are evaluated annually as of December 31, including discount rates, mortality, assumed rates of return, compensation increases, turnover rates and healthcare cost trend rates. The impact of modifications to those assumptions and modifications to prior services are recorded as actuarial gains and losses in accumulated other comprehensive income (loss) ("AOCI") and amortized to net periodic cost over future periods using the corridor method. When settlements of the Company's pension plans occur, the Company recognizes associated gains or losses immediately in earnings if the cost of all settlements during the year is greater than the sum of the service cost and interest cost components of the pension plan for the year. The amount recognized is a pro rata portion of the gains and losses in AOCI equal to the percentage reduction in the projected benefit obligation as a result of the settlement. The costs of the Company's pension for employees are expensed over the periods during which employees render service and are recognized as part of operating costs in the consolidated statements of comprehensive income.

The components of net periodic benefit cost other than the service cost component are included in pension and other post-employment non-service costs in the consolidated statements of comprehensive income.

1. Significant accounting policies (continued)

(k) Leases

The Company accounts for leases in accordance with ASC Topic 842, *Leases* ("ASC 842").

The Company leases office equipment for use in its day-to-day operations. The Company has options to extend the lease term of many of its lease agreements, with renewal periods ranging from one to five years. As at the consolidated balance sheet date, the Company is not reasonably certain that these renewal options will be exercised.

The right-of-use assets are included in plant while lease liabilities are included in operating leases on the consolidated balance sheets. The discount rates used in the measurement of the Company's right-of-use assets and liabilities are the discount rates at the date of lease inception. The Company's lease balances as at December 31, 2020 and its expected lease payments for the next five years and thereafter are not significant.

(l) Non-controlling interests

Non-controlling interests represent the portion of equity ownership in subsidiaries that is not attributable to the equity holders of the Company. Non-controlling interests are initially recorded at fair value and subsequently adjusted for the proportionate share of earnings and other comprehensive income (loss) ("OCI") attributable to the non-controlling interests and any dividends or distributions paid to the non-controlling interests.

Two subsidiaries of the Company have non-controlling Class A equity investors ("Class A Interest") which are entitled to allocations of earnings, tax attributes and cash flows in accordance with contractual agreements. The partnership agreements have liquidation rights and priorities that are different from the underlying percentage ownership interests. In such situation, simply applying the percentage ownership interest to U.S. GAAP net income in order to determine earnings or losses would not accurately represent the income allocation and cash flow distributions that will ultimately be received by the investors. As such, the share of earnings attributable to the non-controlling interest holders in these entities is calculated using the Hypothetical Liquidation at Book Value ("HLBV") method of accounting (note 12).

The HLBV method uses a balance sheet approach. A calculation is prepared at each balance sheet date to determine the amount that Class A Equity Investors would receive if an equity investment entity were to liquidate all of its assets and distribute that cash to the investors based on the contractually defined liquidation priorities. The difference between the calculated liquidation distribution amounts at the beginning and the end of the reporting period is the Class A Equity Investors' share of the earnings or losses from the investment for that period.

Equity instruments subject to redemption upon the occurrence of uncertain events not solely within the Company's control are classified as temporary equity and presented as redeemable non-controlling interests on the consolidated balance sheets (note 12). The Company records temporary equity at issuance based on cash received less any transaction costs. As needed, the Company reevaluates the classification of its redeemable instruments, as well as the probability of redemption. If the redemption amount is probable or currently redeemable, the Company records the instruments at their redemption value. Increases or decreases in the carrying amount of a redeemable instrument are recorded within deficit. When the redemption feature lapses or other events cause the classification of an equity instrument as temporary equity to be no longer required, the existing carrying amount of the equity instrument is reclassified to permanent equity at the date of the event that caused the reclassification.

1. Significant accounting policies (continued)

(m) Revenue Recognition

Revenue are recognized when control of the promised goods or services is transferred to the Company's customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services.

Revenue related to utility electricity distribution is recognized over time as the energy is delivered. At the end of each month, the electricity delivered to the customers from the date of their last meter read to the end of the month is estimated and the corresponding unbilled revenue is recorded. These estimates of unbilled revenue and sales are based on the ratio of billable days versus unbilled days, amount of electricity procured during that month, historical customer class usage patterns, weather, line loss, and current tariffs. Unbilled receivables are typically billed within the next month. Some customers elect to pay their bill on an equal monthly plan. As a result, in some months cash is received in advance of the delivery of electricity. Deferred revenue is recorded for that amount. The amount of revenue recognized in the period from the balance of deferred revenue is not significant.

On occasion, the utility is permitted to implement new rates that have not been formally approved by the regulatory commission, which are subject to refund. The Company recognizes revenue based on the interim rate and if needed, establishes a reserve for amounts that could be refunded based on experience for the jurisdiction in which the rates were implemented.

The Company's revenue is subject to alternative revenue programs approved by its Regulator, which require to charge approved annual delivery revenue on a systematic basis over the fiscal year. As a result, the difference between delivery revenue calculated based on metered consumption and approved delivery revenue is disclosed as alternative revenue and is recorded as a regulatory asset or liability to reflect future recovery or refund, respectively, from customers (note 3). The amount subsequently billed to customers is recorded as a recovery of the regulatory asset. The Company's revenues include $14,028 (2019 - $8,149) related to alternative revenue programs for the year ended December 31, 2020.

(n) Income taxes

The Company is a limited liability company and is a disregarded entity for income tax purposes. Accordingly, it is not subject to federal income taxes or state income taxes. The tax on the Company's net earnings is borne by the member through the allocation of taxable income. Net earnings for financial statement purposes may differ significantly from taxable income of the member because of differences between the tax basis and financial reporting basis of assets and liabilities and the taxable income allocation requirements under the operating agreement. The aggregate difference in the basis of the net assets for financial and tax reporting purposes cannot be readily determined because it is based on the information regarding the member's tax attribute.

(o) Financial instruments and derivatives

Accounts receivable and notes receivable are measured at amortized cost. Long-term debt is measured at amortized cost using the effective interest method, adjusted for the amortization or accretion of premiums or discounts.

Transaction costs related to a recognized debt liability are presented in the consolidated balance sheets as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts and premiums. Deferred financing costs, premiums and discounts on long-term debt are amortized on a straight-line basis over the term of the financial liability as required by the Regulator.

The Company, enters into power purchase contracts for load serving requirements. These contracts meet the exemption for normal purchase and normal sales and as such, are not required to be recorded at fair value as derivatives and are accounted for on an accrual basis. Counterparties are evaluated on an ongoing basis for non-performance risk to ensure it does not impact the conclusion with respect to this exemption.

1. Significant accounting policies (continued)

(p) Fair value measurements

The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Company determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 Inputs: unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.
- Level 2 Inputs: other than quoted prices included in level 1, inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 Inputs: unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

(q) Commitments and contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

(r) Use of estimates

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of these consolidated financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates. During the years presented, management has made a number of estimates and valuation assumptions, including the useful lives and recoverability of utility plant and goodwill; assessments of unbilled revenue; pension and OPEB obligations; timing effect of regulated assets and liabilities; and the fair value of assets and liabilities acquired in an asset acquisition. These estimates and valuation assumptions are based on present conditions and management's planned course of action, as well as assumptions about future business and economic conditions. Should the underlying valuation assumptions and estimates change, the recorded amounts could change by a material amount.

(s) COVID-19 Pandemic

The ongoing outbreak of the novel strain of coronavirus ("COVID-19") has resulted in business suspensions and shutdowns that have changed consumption patterns of residential, commercial and industrial customers across all three modalities of utility services, including decreased consumption among certain commercial and industrial customers.

The Company's business, financial condition, cash flows and results of operations are subject to actual and potential future impacts resulting from COVID-19, the full extent of which is not currently known. The extent of the future impact of the COVID-19 pandemic on the Company will depend on, among other things, the duration of the pandemic, the extent of the related public health response measures taken in response to the pandemic and the Company's efforts to mitigate the impact on its operations. The Company has made estimates of the impact of COVID-19 within its consolidated financial statements and there may be changes to those estimates in future periods.

2. Recently issued accounting pronouncements

(a) The FASB issued accounting standards update ("ASU") 2018-08 Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606 to reduce diversity in practice on how entities account for transactions on the basis of different views of the economics of a collaborative arrangement. The adoption of this update did not have an impact on the consolidated financial statements.

The FASB issued ASU 2018-17, Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities to improve general purpose financial reporting. The update clarifies that indirect interests held through related parties in common control arrangements should be considered on a proportional basis for determining whether fees paid to decision makers and service providers are variable interests. The adoption of this update did not have an impact on the consolidated financial statements.

The FASB issued ASU 2017-04, Business Combinations (Topic 350): Intangibles — Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The update is intended to simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measured a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. Under the amendments in this update, the impairment loss will be measured as the amount by which the carrying amount of the reporting unit exceeds the reporting unit's fair value. The Company will follow the pronouncements prospectively for goodwill impairment testing.

The FASB issued ASU 2016-13, Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The adoption of this topic did not have a significant impact on the consolidated financial statements.

(b) Recently issued accounting guidance not yet adopted

The FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting,* which provides optional expedients and exceptions to ease the potential burden in accounting for reference rate reform. The amendments apply to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of the reference rate reform. The amendments in this Update are effective for all entities as of March 12, 2020 through December 31, 2022. The FASB issued an update to Topic 848 in ASU 2021-01 to clarify that the scope of Topic 848 includes derivatives affected by the discounting transition. The Company is currently assessing the impact of the reference rate reform and this update.

3. Accounts receivable

Accounts receivable as of December 31, 2020 include unbilled revenue of $5,954 (December 31, 2019 - $5,659). Accounts receivable as of December 31, 2020 are presented net of allowance for doubtful accounts of $295 (December 31, 2019 - $182).

(in thousands of U.S. dollars)

4. Utility plant

Utility plant of the Company consists of solar generation assets and electricity distribution assets used to generate and distribute electricity within a specific geographic service territory to supply end users with electricity. These assets include solar panels, inverters, poles, towers and fixtures, low-voltage wires, transformers, overhead and underground conductors, street lighting, meters, metering equipment and other related equipment.

	2020	2019
Land and land rights	$ **3,878**	$ 3,878
Plant	**457,440**	383,042
Equipment, office furniture and improvements	**23,672**	23,301
	484,990	410,221
Accumulated depreciation	**(60,833)**	(48,453)
	424,157	361,768
Construction work-in-progress	**17,278**	48,399
Net utility plant	$ **441,435**	$ 410,167

5. Regulatory matters

The Company is subject to rate regulation by the California Public Utilities Commission ("CPUC"), and the FERC in some instances. The CPUC has jurisdiction with respect to rate, service, accounting procedures, issuance of securities, acquisitions and other matters. The Company operates under cost-of-service regulation as administered by the CPUC. The Company uses a test year in the establishment of its rates and pursuant to this method, the determination of the rate of return on approved rate base and deemed capital structure, together with all reasonable and prudent costs, establishes the revenue requirement upon which the Company’s customer rates are determined.

The Company is accounted for under the principles of ASC 980. Under ASC 980, regulatory assets and liabilities that would not be recorded under U.S. GAAP for non-regulated entities are recorded to the extent that they represent probable future revenue or expenses associated with certain charges or credits that will be recovered from or refunded to customers through the rate-setting process.

The Company is required to file a rate case with its regulator on a regular three- year cycle. Rate cases seek to ensure that the Company has the opportunity to recover its operating costs and earn a fair and reasonable return on its capital investment as allowed by the regulatory authority under which the Company operates.

Revenue decoupling and vegetation management

The Company's revenue is subject to a decoupling mechanism that decouples base revenue from fluctuations caused by weather and economic factors.

Post Test Year Adjustment Mechanism (“PTAM”)

The PTAM allows the Company to update its rates annually by a cost inflation index. In addition, rates are allowed to be updated to recover the return on investment and associated depreciation of major capital projects.

Renewables Portfolio Standard

The Company is required to satisfy the current 33% California Renewables Portfolio Standard requirement. The 33% California Renewables Portfolio Standard is currently met through deliveries under a power purchase agreement that is structured in a manner which satisfies the CPUC resource adequacy (“RA”) requirements, and is designed to enable the California Utility to comply with the associated RA reporting requirements, and from energy production at Luning Energy LLC (the "Luning Solar project") and Turquoise Liberty ProjectCo LLC (the "Turquoise Solar project").

(in thousands of U.S. dollars)

5. Regulatory matters (continued)

Regulatory assets and liabilities consist of the following:

		December 31, 2020		December 31, 2019
Regulatory assets				
Rate adjustment mechanism (a)	**$**	**38,298**	$	24,243
Wildfire mitigation and vegetation management (b)		**21,468**		4,280
Storm costs (c)		**668**		3,570
Rate review costs (d)		**1,291**		678
Energy cost adjustment clause (e)		**2,111**		498
Other		**3,214**		1,036
Total regulatory assets	**$**	**67,050**	$	34,305
Less: current regulatory assets		**(15,184)**		(7,354)
Non-current regulatory assets	**$**	**51,866**	$	26,951
Regulatory liabilities				
Cost of removal (f)	**$**	**25,930**	$	24,757
Income taxes (g)		**4,312**		11,576
Other		**5,876**		969
Total regulatory liabilities	**$**	**36,118**	$	37,302
Less: current regulatory liabilities		**(2,260)**		(1,390)
Non-current regulatory liabilities	**$**	**33,858**	$	35,912

(a) Rate adjustment mechanism

The Company is subject to a revenue decoupling mechanism approved by the Regulator, which requires charging approved annual delivery revenues on a systematic basis over the fiscal year. As a result, the difference between delivery revenue calculated based on metered consumption and approved delivery revenue is recorded as a regulatory asset or liability to reflect future recovery or refund, respectively, from customers.

(b) Wildfire mitigation and vegetation management

The regulatory asset for vegetation management includes wildfire insurance in the Company's California operations as well as spending related to dead trees program, to prevent future forest fires and general vegetation management.

(c) Storm costs

Incurred repair costs resulting from certain storms over or under amounts collected from customers, which are expected to be recovered or refunded through rates.

(d) Rate review costs

The costs to file, prosecute and defend rate review applications are referred to as rate review costs. These costs are capitalized and amortized over the period of rate recovery granted by the CPUC. The Company does not earn a return on these amounts but receives recovery of these costs in rates over the periods prescribed by the Regulator (three years).

5. Regulatory matters (continued)

(e) Energy cost adjustment clause ("ECAC")

ECAC is designed to recover the cost of electricity through rates charged to customers. Under deferred energy accounting, to the extent actual purchased power costs differ from purchased power costs recoverable through current rates, that difference is not recorded on the consolidated statements of comprehensive income but rather is deferred and recorded as a regulatory asset or liability on the consolidated balance sheets. These differences are reflected in adjustments to rates and recorded as an adjustment to cost of electricity in future periods, subject to regulatory review.

(f) Cost of removal

The regulatory liability for cost of removal represents amounts that have been collected from rate payers for costs that are expected to be incurred in the future to retire utility plant.

(g) Income taxes

As a result of the *Tax Act* being enacted in 2017, CPUC is contemplating the rate-making implications of the reduction of federal tax rates from the legacy 35% tax rate and the new 21% federal statutory income tax rate effective January 2018. The regulatory liability reflects the excess deferred taxes of the members normally reflected in the revenue requirement and probable of being refunded to customers. The Company is working with CPUC to identify the most appropriate way to address the impact of the *Tax Act* on cost of service based rates.

As recovery of regulatory assets is subject to regulatory approval, if there were any changes in regulatory positions that indicate recovery is not probable, the related cost would be charged to earnings in the period of such determination.

6. Pension and other post-employment benefits obligation

The Company provides defined contribution pension plans to substantially all of its employees. The Company's contributions for 2020 were $372 (2019 - $369).

The Company provides a defined benefit cash balance pension plan covering substantially all its employees, under which employees are credited with a percentage of base pay plus a prescribed interest rate credit. The Company also has an OPEB plan providing health care and life insurance coverage to eligible retired employees. Eligibility is based on age and length of service requirements and, in most cases, retirees must cover a portion of the cost of their coverage.

(in thousands of U.S. dollars)

6. Pension and other post-employment benefits obligation (continued)

(a) Net pension and OPEB obligation

The following table sets forth the projected benefit obligations, fair value of plan assets, and funded status of the Company's plans as of December 31:

	Pension benefits		OPEB	
	2020	**2019**	**2020**	**2019**
Change in projected benefit obligation				
Projected benefit obligation, beginning of year	**$ 4,712**	$ 3,884	**$ 1,333**	$ 1,006
Service cost	**663**	529	**60**	49
Interest cost	**164**	167	**48**	47
Actuarial loss	**737**	303	**343**	231
Benefits paid	**(242)**	(171)	**—**	—
Projected benefit obligation, end of year	**$ 6,034**	$ 4,712	**$ 1,784**	$ 1,333
Change in plan assets				
Fair value of plan assets, beginning of year	**4,346**	3,240	**—**	—
Actual return on plan assets	**554**	627	**—**	—
Employer contributions	**744**	650	**—**	—
Benefits paid	**(242)**	(171)	**—**	—
Fair value of plan assets, end of year	**$ 5,402**	$ 4,346	**$ —**	$ —
Unfunded status	**$ 632**	$ 366	**$ 1,784**	$ 1,333
Amounts recognized in the consolidated balance sheets consist of:				
Current liabilities	**—**	—	**(29)**	(22)
Non-current liabilities	**(632)**	(366)	**(1,754)**	(1,311)
Net amount recognized	**$ (632)**	$ (366)	**$ (1,783)**	$ (1,333)

The accumulated benefit obligation for the pension plans was $5,263 and $4,229 as of December 31, 2020 and 2019, respectively.

(in thousands of U.S. dollars)

6. Pension and other post-employment benefits (continued)

(b) Pension and OPEB actuarial changes

The amounts recognized in AOCI were as follows:

Change in AOCI (before tax)	Pension		OPEB	
	Actuarial losses (gains)	Past service gains	Actuarial losses (gains)	Past service gains
Balance, January 1, 2019	$ 634	$ (146)	$ (509)	$ —
Additions to AOCI	(164)	—	231	—
Amortization in current period	(30)	17	35	—
Balance, December 31, 2019	$ 440	$ (129)	$ (243)	$ —
Additions to AOCI	396	—	342	—
Amortization in current period	(41)	17	4	—
Balance, December 31, 2020	**$ 795**	**$ (112)**	**$ 103**	**$ —**

(c) Assumptions

Assumptions used to determine net benefit cost for 2020 and 2019 were as follows:

	Pension benefits		OPEB	
	2020	2019	2020	2019
Discount rate	**3.01 %**	3.99 %	**3.31 %**	4.27 %
Expected return on assets	**5.50 %**	5.50 %	**N/A**	N/A
Rate of compensation increase	**4.00 %**	4.01 %	**N/A**	N/A
Health care cost trend rate				
Before age 65			**6.13 %**	6.25 %
Age 65 and after			**6.13 %**	6.13 %
Assumed Ultimate Medical Inflation Rate			**4.75 %**	4.75 %
Year in which Ultimate Rate is reached			**2031**	2031

(in thousands of U.S. dollars)

6. Pension and other post-employment benefits (continued)

(c) Assumptions (continued)

Assumptions used to determine benefit obligation for 2020 and 2019 were as follows:

	Pension benefits		OPEB	
	2020	**2019**	**2020**	**2019**
Discount rate	**2.12%**	3.01%	**2.59%**	3.31%
Rate of compensation increase	**4.00%**	4.00%	**N/A**	N/A
Health care cost trend rate				
Before age 65			**6.000%**	6.13%
Age 65 and after			**6.000%**	6.13%
Assumed Ultimate Medical Inflation Rate			**4.75%**	4.75%
Year in which Ultimate Rate is reached			**2031**	2031

The mortality assumption for December 31, 2020 uses the Pri-2012 mortality table and the projected generationally scale MP-2020, adjusted to reflect the ultimate improvement rates contained in the 2020 Social Security Administration Intermediate assumptions assumptions.

In selecting an assumed discount rate, the Company uses a modeling process that involves selecting a portfolio of high-quality corporate debt issuances (AA- or better) whose cash flows (via coupons or maturities) match the timing and amount of the Company's expected future benefit payments. The Company considers the results of this modeling process, as well as overall rates of return on high-quality corporate bonds and changes in such rates over time, to determine its assumed discount rate.

The rate of return assumptions are based on projected long-term market returns for the various asset classes in which the plans are invested, weighted by the target asset allocations.

(d) Benefit costs

The following table lists the components of net benefit cost for the pension plans and OPEB recorded as part of operating expenses in the consolidated statements of comprehensive income.

	Pension benefits		OPEB	
	2020	**2019**	**2020**	**2019**
Service cost	**$ 663**	$ 529	**$ 60**	$ 49
Non-service costs				
Interest cost	**164**	167	**48**	47
Expected return on plan assets	**(213)**	(149)	**—**	—
Amortization of net actuarial loss (gain)	**41**	30	**(3)**	(35)
Amortization of prior service credits	**(17)**	(17)	**—**	—
	(25)	31	**45**	12
Net benefit cost	**$ 638**	$ 560	**$ 105**	$ 61

(in thousands of U.S. dollars)

6. Pension and other post-employment benefits (continued)

(e) Plan assets

The Company's investment strategy for its pension and post-employment plan assets is to maintain a diversified portfolio of assets with the primary goal of meeting long-term cash requirements as they become due.

The Company's target asset allocation is 50% in equity securities and 50% in debt securities.

The fair values of investments as of December 31, 2020, by asset category, are as follows

Asset class	Level 1	Percentage
Equity securities	$ 2,647	49 %
Debt securities	2,469	46 %
Other	286	5 %
	$ 5,402	100 %

As at December 31, 2020, the funds do not hold any material investments in the parent company of Liberty Utilities, Algonquin Power and Utilities Corp.

(f) Cash flows

The Company expects to contribute $692 to its pension plans and $22 to its post-employment benefit plans in 2020.

The expected benefit payments over the next 10 years are as follows:

	2021	2022	2023	2024	2025	2026-20
Pension plan	$ 1,162	$ 448	$ 468	$ 487	$ 541	$ 2,612
OPEB	29	38	48	58	70	420

7. Long-term debt

Due to related parties represents advances for current operating costs and reimbursement for management and accounting services provided by entities related to Liberty Utilities as well as other third party costs incurred by entities related to Liberty Utilities on behalf of the Company.

The Company has $25,000 bearing an interest rate of 5.59% and maturing on December 29, 2025. A $45,000 senior unsecured utility notes was repaid upon its maturity on December 29, 2020. The note has interest only payments, payable semi-annually in arrears. The notes has certain financial covenants, which must be maintained on a quarterly basis. The Company was in compliance with the covenants as of December 31, 2020.

As of December 31, 2020, the Company had accrued $nil in interest expense (2019 - $nil). Interest paid on the long-term debt in 2020 was $3,733 (2019 - $3,733).

(in thousands of U.S. dollars)

8. Related party transactions

Due to related parties represents advances for current operating costs and reimbursement for management and accounting services provided by entities related to Liberty Utilities as well as other third party costs incurred by entities related to Liberty Utilities on behalf of the Company. These amounts bear interest on variable rates and have no fixed repayment terms. Total amounts allocated for year ended December 31, 2020 were $5,634 (2019 - $4,285).

Periodically there are advances due to and from related parties. Such advances bear interest on variable rates and are due on demand. As at December 31, 2020, the amounts payable to related parties total $140,176 (December 31, 2019 - $54,565).

9. Advances in aid of construction

The Company has various agreements with real estate development companies (the "developers") conducting business within the Company's utility service territories, whereby funds are advanced to the Company by the developers to assist with funding some or all of the costs of the development.

In many instances, developer advances can be subject to refund but the refund is non-interest bearing. Refunds of developer advances are made over a period of 10 years. Advances not refunded within the prescribed period are usually not required to be repaid. After the prescribed period has lapsed, any remaining unpaid balance is transferred to contributions in aid of construction and recorded as an offsetting amount to the cost of property, plant and equipment. No amounts were transferred from advances in aid of construction to contributions in aid of construction in 2020 and 2019.

10. Member's capital

The Company is a single member limited liability corporation. As of December 31, 2020, all outstanding equity membership units of the Company belong to Liberty Utilities.

11. Commitments and contingencies

(a) Contingencies

The Company is involved in various litigation arising out of the ordinary course and conduct of its business. Although such matters cannot be predicted with certainty, management does not consider the Company's exposure to such litigation to be material to these consolidated financial statements. Accruals for any contingencies related to these items, if any, are recorded in the consolidated financial statements at the time it is concluded that its occurrence is probable and the related liability is estimable.

Mountain View fire

On November 17, 2020, a wildfire now known as the Mountain View fire occurred in the territory of Liberty Utilities (CalPeco Electric) LLC. The cause of the fire is undetermined at this time, and CAL FIRE has not yet issued a report. Lawsuits have been filed against subsidiaries of the Company in connection with the Mountain View fire. The likelihood of success in these lawsuits cannot be reasonably predicted; however, Liberty Utilities (CalPeco Electric) LLC intends to vigorously defend them.

(b) Commitments

The Company has a purchase commitment to purchase physical quantities of power for load serving requirements. The commitment amounts included in the table below are based on market prices as of December 31, 2020. However, the effects of purchased power unit cost adjustments are mitigated through a purchased power rate-adjustment mechanism.

	2021	2022	2023	2024	2025
Power purchases	$ 14,440	$ 14,440	$ 14,440	$ 14,440	$ 14,440

(in thousands of U.S. dollars)

12. Non-cash operating items

The changes in non-cash operating items consist of the following:

	2020	2019
Accounts receivable	**$ 1,876**	$ 344
Prepaid expenses and other	**(1,518)**	250
Supplies and consumables inventory	**149**	(154)
Accounts payable and accrued liabilities	**6,476**	(147)
Due to related parties	**85,611**	13,298
Net regulatory assets and liabilities	**(33,931)**	(11,737)
	$ 58,663	$ 1,854

13. Redeemable non-controlling interests

Non-controlling interests in subsidiaries that are redeemable upon the occurrence of uncertain events not solely within the Company's control are classified as temporary equity on the consolidated balance sheets. The redeemable non-controlling interests in subsidiaries' balance are determined using the HLBV method subsequent to initial recognition, however, if the redemption amount is probable or currently redeemable, the Company records the instruments at their redemption value. Redemption is not considered probable as of December 31, 2020.

	2020	2019
Opening balance	**$ 25,047**	$ 28,220
Contributions from redeemable non-controlling interests	**3,717**	3,403
Net earnings attributable to redeemable non-controlling interest	**(6,955)**	(5,770)
Dividends declared to redeemable non-controlling interest	**(952)**	(806)
Closing balance	**$ 20,857**	$ 25,047

(in thousands of U.S. dollars)

14. Financial instruments

(a) Fair value of financial instruments

	December 31, 2020		December 31, 2019	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Long-term debt	**$ 24,861**	**$ 30,583**	$ 69,769	$ 75,497

The Company has determined that the carrying value of its short-term financial assets and liabilities approximates fair value as of December 31, 2020 and 2019 due to the short-term maturity of these instruments.

Long-term debt (level 2 inputs) is at fixed interest rates. The estimated fair value is calculated using a discounted cash flow method and current interest rates.

Advances in aid of construction has a carrying value of $19,498 as of December 31, 2020 (2019 - $18,746). Portions of these non-interest bearing instruments are payable annually through 2027, including new customer connections, customer consumption levels, and future rate increase. However, amounts not paid by the contract expiration date become nonrefundable. Their relative fair values cannot be accurately estimated because future refund payments depend on several variables. The fair value of these amounts would be less than their carrying value due to the non-interest bearing feature.

Fair value estimates are made at a specific point in time, using available information about the financial instrument. These estimates are subjective in nature and often cannot be determined with precision.

(b) Risk management

In the normal course of business, the Company is exposed to financial risks that potentially impact its operating results. The Company employs risk management strategies with a view of mitigating these risks to the extent possible on a cost effective basis.

This note provides disclosures relating to the nature and extent of the Company's exposure to risks arising from financial instruments, including credit risk and liquidity risk, and how the Company manages those risks.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's financial instruments that are exposed to concentrations of credit risk are primarily cash and cash equivalents and accounts receivable. The Company limits its exposure to credit risk with respect to cash equivalents by ensuring available cash is deposited with its senior lenders, all of which have a credit rating of A or better.

Credit risk related to the accounts receivable balance of $13,857 is spread over thousands of customers. The Company has processes in place to monitor and evaluate this risk on an ongoing basis including background credit checks and security deposits from new customers. In addition, the Regulator allows for a reasonable bad debt expense to be incorporated in the rates and therefore recovered from rate payers.

As of December 31, 2020, the Company's maximum exposure to credit risk for these financial instruments was as follows:

(in thousands of U.S. dollars)

14. Financial instruments (continued)

(c) Risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, to the extent possible, that it will always have sufficient liquidity to meet liabilities when due.The Company's liabilities mature as follows:

	Due less than 1 year	Due 2–3 years	Due 4–5 years	Due after 5 years	Total
Long-term debt	$ —	$ —	$ —	$ 25,000	$ 25,000
Advances in aid of construction	—	—	—	19,498	19,498
Purchase obligations	162,518	—	—	—	162,518
Interest on long-term debt	1,398	1,398	1,398	1,398	5,592
Other obligations	527	—	—	—	527
Total obligations	$ 164,443	$ 1,398	$ 1,398	$ 45,896	$ 213,135

	2020
Cash and cash equivalents	$ **3,794**
Accounts receivable	**14,151**
Allowance for doubtful accounts	**(295)**
	$ **17,650**

15. Comparative figures

Certain of the comparative figures have been reclassified to conform to the financial statement presentation adopted in the current period.

16. Subsequent events

The Company has evaluated subsequent events from the consolidated balance sheet date through May 14, 2021, the date at which the consolidated financial statements were available to be issued, and determined that there are no other items to disclose.

Consolidated Financial Statements of

Liberty Utilities (CalPeco Electric) LLC

For the years ended December 31, 2021 and 2020

Liberty Utilities (Calpeco Electric) LLC
Consolidated Statements of Comprehensive Income

(thousands of U.S. dollars)	Years ended December 31, 2021	2020
Revenue		
Residential	**$ 46,522**	$ 41,386
Commercial	**45,060**	39,163
Other	**10,221**	18,019
	101,803	98,568
Expenses		
Energy purchased	**30,678**	27,069
Operating costs	**27,579**	26,582
Taxes other than income taxes	**4,478**	4,450
Depreciation of utility plant	**15,277**	13,977
Other amortization	**498**	38
	78,510	72,116
Operating income	**23,293**	26,452
Interest expense	**1,300**	4,227
Pension and post-employment non-service costs (recovery) (note 6)	**(35)**	20
Other income	**—**	(7,621)
Loss (gain) on disposal	**(405)**	27
	860	(3,347)
Net earnings	**$ 22,433**	$ 29,799
Net effect of non-controlling interest (note 13)	**(6,902)**	(6,955)
Net earnings attributable to the member	**29,335**	36,754
Other comprehensive income:		
Change in unrealized pension and other post-employment benefits (note 6)	**470**	(717)
Comprehensive income	**$ 29,805**	$ 36,037

See accompanying notes to consolidated financial statements

Liberty Utilities (Calpeco Electric) LLC
Consolidated Balance Sheets

(thousands of U.S. dollars)		**December 31, 2021**		December 31, 2020
ASSETS				
Utility plant				
Utility plant in service	**$**	**497,882**	$	484,990
Less: accumulated depreciation		**(58,813)**		(60,833)
		439,069		424,157
Construction work-in-progress		**46,625**		17,278
Utility plant, net (note 4)		**485,694**		441,435
Goodwill		**10,381**		10,381
Regulatory assets (note 5)		**73,439**		51,866
Other assets		**1,070**		356
Current assets				
Cash and cash equivalents		**—**		3,794
Supplies and consumables inventory		**7,541**		5,309
Accounts receivable, net (note 3)		**17,658**		13,857
Prepaid expenses and other		**6,281**		3,454
Due from related parties (note 8)		**3,191**		5,634
Regulatory assets (note 5)		**22,431**		15,184
		57,102		47,232
	$	**627,686**	$	551,270

See accompanying notes to consolidated financial statements

Liberty Utilities (Calpeco Electric) LLC
Consolidated Balance Sheets

(thousands of U.S dollars)	December 31, 2021	December 31, 2020
LIABILITIES AND MEMBER'S EQUITY		
Member's equity		
Member's capital (note 10)	**$ 135,780**	$ 135,780
Accumulated surplus	**172,586**	143,251
Accumulated other comprehensive loss	**(315)**	(785)
Total equity	**308,051**	278,246
Redeemable non-controlling interests (note 13)	**12,986**	20,857
Long-term debt (note 7)	**24,894**	24,861
Regulatory liabilities (note 5)	**32,743**	33,858
Pension and other post-employment benefits obligation (note 6)	**1,704**	2,386
Advances in aid of construction (note 9)	**20,144**	19,498
Asset retirement obligation	**723**	685
Current liabilities		
Accounts payable and accrued liabilities	**24,886**	22,253
Customer deposits	**439**	527
Regulatory liabilities (note 5)	**4,577**	2,260
Other post-employment benefit obligation (note 6)	**28**	29
Due to related parties (note 8)	**196,511**	145,810
	226,441	170,879
Commitments and contingencies (note 11)		
Subsequent events (note 16)		
	$ 627,686	$ 551,270

See accompanying notes to consolidated financial statements

Liberty Utilities (Calpeco Electric) LLC
Consolidated Statements of Changes in Member's Interest

(thousands of U.S. dollars)	Liberty Utilities (Calpeco Electric) LLC Member's capital	 Accumulated surplus	 Accumulated other comprehensive loss	Non-controlling interests	Total
Balance, December 31, 2019	$ 135,780	$ 106,497	$ (68)	$ —	$ 242,209
Net earnings (loss)		36,754	—	(6,955)	29,799
Redeemable non-controlling interests not included in member's equity (note 13)	—	—	—	6,955	6,955
Other comprehensive income (loss)	—	—	(717)	—	(717)
Balance, December 31, 2020	**$ 135,780**	**$ 143,251**	**$ (785)**	**$ —**	**$ 278,246**
Net earnings (loss)	**—**	**29,335**	**—**	**(6,902)**	**22,433**
Redeemable non-controlling interests not included in member's equity (note 13)	**—**	**—**	**—**	**6,902**	**6,902**
Other comprehensive income (loss)	**—**	**—**	**470**	**—**	**470**
Balance, December 31, 2021	**$ 135,780**	**$ 172,586**	**$ (315)**	**$ —**	**$ 308,051**

See accompanying notes to consolidated financial statements

Liberty Utilities (Calpeco Electric) LLC
Consolidated Statements of Cash Flow

(thousands of U.S. dollars)

	Years ended December 31, 2021	2020
Cash provided by (used in):		
Operating Activities		
Net earnings	**$ 22,433**	$ 29,799
Items not affecting cash:		
Depreciation of utility plant	**15,277**	13,977
Cost of equity funds used for construction purposes	**(194)**	(176)
Other amortization	**498**	38
Pension and post-employment contributions in excess of expense	**(32)**	—
Other non-cash income	**—**	(7,266)
Changes in non-cash operating items (note 12)	**21,073**	58,663
	59,055	95,035
Financing Activities		
Decrease in long term debt	**—**	(45,000)
Contributions from non-controlling interests (note 13)	**—**	3,717
Distributions paid to non-controlling interests (note 13)	**(668)**	(1,090)
Increase in advances in aid of construction	**702**	752
Decrease in operating lease liabilities	**—**	(48)
	34	(41,669)
Investing Activities		
Additions to utility plant	**(62,870)**	(54,841)
Decrease (increase) in other assets	**(13)**	51
	(62,883)	(54,790)
Decrease in cash and cash equivalents	**(3,794)**	(1,424)
Cash and cash equivalents, beginning of period	**3,794**	5,218
Cash and cash equivalents, end of period	**$ —**	$ 3,794

Supplemental disclosure of cash flow information:	**2021**	**2020**
Cash paid during the year for interest expense	**$ 1,533**	$ 3,733
Non-cash transactions: Utility plant in accruals	**$ 2,444**	$ 7,698

See accompanying notes to consolidated financial statements

Liberty Utilities (CalPeco Electric) LLC (the “Company”) is a limited liability company organized on April 14, 2009 under the laws of California. The Company is in the business of providing regulated electric distribution service to approximately 50,000 customers in the Lake Tahoe region of California.

The Company is 100% owned by Liberty Utilities Co. (“Liberty Utilities”).

1. Significant accounting policies

(a) Basis of preparation

The accompanying consolidated financial statements and notes have been prepared in accordance with generally accepted accounting principles in the United States (“U.S. GAAP”).

(b) Basis of consolidation

The accompanying consolidated financial statements of the Company include the accounts of the Company and its wholly owned subsidiaries, Liberty Utilities (Luning Holdings) LLC and Liberty Utilities (Turquoise Holdings) LLC. Intercompany transactions and balances have been eliminated. Interests in subsidiaries owned by third parties are included in non-controlling interests (note 1(j)).

(c) Business combinations and goodwill

The Company accounts for acquisitions of entities or assets that meet the definition of a business as business combinations. Business combinations are accounted for using the acquisition method. Assets acquired and liabilities assumed are measured at their fair value at the acquisition date. Acquisition costs are expensed in the period incurred. When the set of activities does not represent a business, the transaction is accounted for as an asset acquisition and includes acquisition costs. Goodwill represents the excess of the purchase price of an acquired business over the fair value of the net assets acquired. Goodwill is not included in the rate-base on which the utility is allowed to earn a return and is not amortized.

As at September 30 of each year, the Company assesses qualitative and quantitative factors to determine whether it is more likely than not that the fair value of a reporting unit to which goodwill is attributed is less than its carrying amount. If it is more likely than not that a reporting unit’s fair value is less than its carrying amount or if a quantitative assessment is elected, the Company calculates the fair value of the reporting unit. If the carrying amount of the reporting unit as a whole exceeds the reporting unit’s fair value, an impairment charge is recorded in an amount of that excess, limited to the total amount of goodwill allocated to that reporting unit. Goodwill is tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

(d) Accounting for rate-regulated operations

The Company is subject to rate regulation overseen by the public utility commission in California (the “Regulator”). The Regulator provides the final determination of the rates charged to customers. The company is accounted for under the principles of U.S. Financial Accounting Standards Board ("FASB") ASC Topic 980, Regulated Operations (“ASC 980”). Under ASC 980, regulatory assets and liabilities are recorded to the extent that they represent probable future revenue or expenses associated with certain charges or credits that will be recovered from or refunded to customers through the rate making process. Included in note 4, "Regulatory matters" are details of regulatory assets and liabilities, and their current regulatory treatment.

In the event the Company determines that its net regulatory assets are not probable of recovery, it would no longer apply the principles of the current accounting guidance for rate regulated enterprises and would be required to record an after-tax, non-cash charge or credit against earnings for any remaining regulatory assets or liabilities. The impact could be material to the Company’s reported financial condition and results of operations.

The Company's accounts are maintained in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission ("FERC").

1. Significant accounting policies (continued)

(e) Cash and cash equivalents

Cash and cash equivalents include all highly liquid instruments with an original maturity of three months or less.

(f) Accounts receivable

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The Company maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable portfolio. In establishing the required allowance, management considers historical losses adjusted to take into account current market conditions and customers' financial condition, the amount of receivables in dispute, future economic conditions and outlook, and the receivables aging and current payment patterns. Account balances are charged against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance sheet credit exposure related to its customers.

(g) Supplies and consumables inventory

Supplies and consumables inventory (other than capital spares and rotatable spares, which are included in utility plant) are charged to inventory when purchased and then capitalized to plant or expensed, as appropriate, when installed, used or upon becoming obsolete. These items are stated at the lower of cost and net realizable value. Through rate orders and the regulatory environment, capitalized construction jobs are recovered through rate base and repair and maintenance expenses are recovered through a cost of service calculation. Accordingly, the cost usually reflects the net realizable value.

(h) Utility plant

Utility plant of the Company consists of solar generation assets and electricity distribution assets used to generate and distribute electricity within a specific geographic service territory to supply end users with electricity. These assets include solar panels, inverters, poles, towers and fixtures, low-voltage wires, transformers, overhead and underground conductors, street lighting, meters, metering equipment and other related equipment.

The costs of acquiring or constructing plant include the following: materials, labor, contractor and professional services, construction overhead directly attributable to the capital project (where applicable) and allowance for funds used during construction ("AFUDC"). Where possible, individual components are recorded and depreciated separately in the books and records of the Company. Plant under finance leases are initially recorded at cost determined as the present value of lease payments to be made over the lease term.

AFUDC represents the cost of borrowed funds and a return on other funds. Under ASC 980, an allowance for funds used during construction projects that are included in rate base is capitalized. This allowance is designed to enable a utility to capitalize financing costs during periods of construction of property subject to rate regulation. The AFUDC capitalized that relates to equity funds is recorded as other income on the consolidated statements of comprehensive income.

	2021	**2020**
AFUDC capitalized on regulated property:		
Allowance for borrowed funds	**$ 160**	$ 160
Allowance for equity funds	**194**	176
	$ 354	$ 336

Improvements that increase or prolong the service life or capacity of an asset are capitalized. Maintenance and repair costs are expensed as incurred.

(in thousands of U.S. dollars)

1. **Significant accounting policies (continued)**

(h) Utility plant (continued)

Contributions in aid of construction represent amounts contributed by customers, governments and developers to assist with the funding of some or all of the cost of utility capital assets. They also includes amounts initially recorded as advances in aid of construction (note 9) but where the advance repayment period has expired. These contributions are recorded as a reduction in the cost of utility assets and are amortized at the rate of the related asset as a reduction to depreciation expense.

The Company's depreciation is based on the estimated useful lives of the depreciable assets in each category and is determined using the straight-line method. The ranges of estimated useful lives and the weighted average useful lives are summarized below:

	Range of useful lives		Weighted average useful lives	
	2021	**2020**	**2021**	**2020**
Plant	**10–78**	10–78	**47**	50
Equipment, office furniture and improvements	**14–30**	14–30	**18**	16

In accordance with regulator-approved accounting policies, when depreciable plant is replaced or retired, the original cost plus any removal costs incurred (net of salvage) are charged to accumulated depreciation with no gain or loss reflected in results of operations. Gains and losses will be charged to results of operations in the future through adjustments to depreciation expense.

(i) Impairment of long-lived assets

The Company reviews utility plant and intangible assets for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Recoverability of assets expected to be held and used is measured by comparing the carrying amount of an asset to undiscounted expected future cash flows. If the carrying amount exceeds the recoverable amount, the asset is written down to its fair value.

(j) Pension and other post-employment plans

The Company has established defined contribution pension plans, defined benefit pension plans, and other post-employment benefit ("OPEB") plans for its various employee groups. Employer contributions to the defined contribution pension plans are expensed as employees render service. The Company recognizes the funded status of its defined benefit pension plans and OPEB plans on the consolidated balance sheets. The Company's expense and liabilities are determined by actuarial valuations, using assumptions that are evaluated annually as of December 31, including discount rates, mortality, assumed rates of return, compensation increases, turnover rates and healthcare cost trend rates. The impact of modifications to those assumptions and modifications to prior services are recorded as actuarial gains and losses in accumulated other comprehensive income (loss) ("AOCI") and amortized to net periodic cost over future periods using the corridor method. When settlements of the Company's pension plans occur, the Company recognizes associated gains or losses immediately in earnings if the cost of all settlements during the year is greater than the sum of the service cost and interest cost components of the pension plan for the year. The amount recognized is a pro rata portion of the gains and losses in AOCI equal to the percentage reduction in the projected benefit obligation as a result of the settlement. The costs of the Company's pension for employees are expensed over the periods during which employees render service and are recognized as part of operating costs in the consolidated statements of comprehensive income.

The components of net periodic benefit cost other than the service cost component are included in pension and other post-employment non-service costs in the consolidated statements of comprehensive income.

1. Significant accounting policies (continued)

(k) Leases

The Company accounts for leases in accordance with ASC Topic 842, *Leases* ("ASC 842").

The Company leases office equipment for use in its day-to-day operations. The Company has options to extend the lease term of many of its lease agreements, with renewal periods ranging from one to five years. As at the consolidated balance sheet date, the Company is not reasonably certain that these renewal options will be exercised.

The right-of-use assets are included in plant while lease liabilities are included in operating leases on the consolidated balance sheets. The discount rates used in the measurement of the Company's right-of-use assets and liabilities are the discount rates at the date of lease inception. The Company's lease balances as at December 31, 2021 and its expected lease payments for the next five years and thereafter are not significant.

(l) Non-controlling interests

Non-controlling interests represent the portion of equity ownership in subsidiaries that is not attributable to the equity holders of the Company. Non-controlling interests are initially recorded at fair value and subsequently adjusted for the proportionate share of earnings and other comprehensive income (loss) ("OCI") attributable to the non-controlling interests and any dividends or distributions paid to the non-controlling interests.

Two subsidiaries of the Company have non-controlling Class A equity investors ("Class A Interest") which are entitled to allocations of earnings, tax attributes and cash flows in accordance with contractual agreements. The partnership agreements have liquidation rights and priorities that are different from the underlying percentage ownership interests. In such situation, simply applying the percentage ownership interest to U.S. GAAP net income in order to determine earnings or losses would not accurately represent the income allocation and cash flow distributions that will ultimately be received by the investors. As such, the share of earnings attributable to the non-controlling interest holders in these entities is calculated using the Hypothetical Liquidation at Book Value ("HLBV") method of accounting (note 13).

The HLBV method uses a balance sheet approach. A calculation is prepared at each balance sheet date to determine the amount that Class A Equity Investors would receive if an equity investment entity were to liquidate all of its assets and distribute that cash to the investors based on the contractually defined liquidation priorities. The difference between the calculated liquidation distribution amounts at the beginning and the end of the reporting period is the Class A Equity Investors' share of the earnings or losses from the investment for that period.

Equity instruments subject to redemption upon the occurrence of uncertain events not solely within the Company's control are classified as temporary equity and presented as redeemable non-controlling interests on the consolidated balance sheets (note 13). The Company records temporary equity at issuance based on cash received less any transaction costs. As needed, the Company reevaluates the classification of its redeemable instruments, as well as the probability of redemption. If the redemption amount is probable or currently redeemable, the Company records the instruments at their redemption value. Increases or decreases in the carrying amount of a redeemable instrument are recorded within deficit. When the redemption feature lapses or other events cause the classification of an equity instrument as temporary equity to be no longer required, the existing carrying amount of the equity instrument is reclassified to permanent equity at the date of the event that caused the reclassification.

1. Significant accounting policies (continued)

(m) Revenue Recognition

Revenue are recognized when control of the promised goods or services is transferred to the Company’s customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services.

Revenue related to utility electricity distribution is recognized over time as the energy is delivered. At the end of each month, the electricity delivered to the customers from the date of their last meter read to the end of the month is estimated and the corresponding unbilled revenue is recorded. These estimates of unbilled revenue and sales are based on the ratio of billable days versus unbilled days, amount of electricity procured during that month, historical customer class usage patterns, weather, line loss, and current tariffs. Unbilled receivables are typically billed within the next month. Some customers elect to pay their bill on an equal monthly plan. As a result, in some months cash is received in advance of the delivery of electricity. Deferred revenue is recorded for that amount. The amount of revenue recognized in the period from the balance of deferred revenue is not significant.

On occasion, the utility is permitted to implement new rates that have not been formally approved by the regulatory commission, which are subject to refund. The Company recognizes revenue based on the interim rate and if needed, establishes a reserve for amounts that could be refunded based on experience for the jurisdiction in which the rates were implemented.

The Company's revenue is subject to alternative revenue programs approved by its Regulator, which require to charge approved annual delivery revenue on a systematic basis over the fiscal year. As a result, the difference between delivery revenue calculated based on metered consumption and approved delivery revenue is disclosed as alternative revenue and is recorded as a regulatory asset or liability to reflect future recovery or refund, respectively, from customers (note 3). The amount subsequently billed to customers is recorded as a recovery of the regulatory asset. The Company's revenues include $3,737 (2020 - $14,028) related to alternative revenue programs for the year ended December 31, 2021.

(n) Income taxes

The Company is a limited liability company and is a disregarded entity for income tax purposes. Accordingly, it is not subject to federal income taxes or state income taxes. The tax on the Company's net earnings is borne by the member through the allocation of taxable income. Net earnings for financial statement purposes may differ significantly from taxable income of the member because of differences between the tax basis and financial reporting basis of assets and liabilities and the taxable income allocation requirements under the operating agreement. The aggregate difference in the basis of the net assets for financial and tax reporting purposes cannot be readily determined because it is based on the information regarding the member's tax attribute.

(o) Financial instruments and derivatives

Accounts receivable and notes receivable are measured at amortized cost. Long-term debt is measured at amortized cost using the effective interest method, adjusted for the amortization or accretion of premiums or discounts.

Transaction costs related to a recognized debt liability are presented in the consolidated balance sheets as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts and premiums. Deferred financing costs, premiums and discounts on long-term debt are amortized on a straight-line basis over the term of the financial liability as required by the Regulator.

The Company, enters into power purchase contracts for load serving requirements. These contracts meet the exemption for normal purchase and normal sales and as such, are not required to be recorded at fair value as derivatives and are accounted for on an accrual basis. Counterparties are evaluated on an ongoing basis for non-performance risk to ensure it does not impact the conclusion with respect to this exemption.

1. Significant accounting policies (continued)

(p) Fair value measurements

The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Company determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 Inputs: unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.
- Level 2 Inputs: other than quoted prices included in level 1, inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 Inputs: unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

(q) Commitments and contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

(r) Use of estimates

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of these consolidated financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates. During the years presented, management has made a number of estimates and valuation assumptions, including the useful lives and recoverability of utility plant and goodwill; assessments of unbilled revenue; pension and OPEB obligations; timing effect of regulated assets and liabilities; and the fair value of assets and liabilities acquired in an asset acquisition. These estimates and valuation assumptions are based on present conditions and management's planned course of action, as well as assumptions about future business and economic conditions. Should the underlying valuation assumptions and estimates change, the recorded amounts could change by a material amount.

(s) COVID-19 Pandemic

The ongoing outbreak of the novel strain of coronavirus ("COVID-19") has resulted in business suspensions and shutdowns that have changed consumption patterns of residential, commercial and industrial customers across all three modalities of utility services, including decreased consumption among certain commercial and industrial customers.

The Company's business, financial condition, cash flows and results of operations are subject to actual and potential future impacts resulting from COVID-19, the full extent of which is not currently known. The extent of the future impact of the COVID-19 pandemic on the Company will depend on, among other things, the duration of the pandemic, the extent of the related public health response measures taken in response to the pandemic and the Company's efforts to mitigate the impact on its operations. The Company has made estimates of the impact of COVID-19 within its consolidated financial statements and there may be changes to those estimates in future periods.

2. Recently issued accounting pronouncements

(a) Recently adopted accounting pronouncements

The Financial Accounting Standards Board ("FASB") issued ASU 2020-01, *Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323, and Topic 815* to address the diversity in practice associated with accounting for certain equity securities upon the application or discontinuation of the equity method of accounting and certain scope considerations for forward contracts and purchased options. The adoption of this update did not have an impact on the consolidated financial statements.

The FASB issued ASU 2019-12, Income Taxes (Topic 740): *Simplifying the Accounting for Income Taxes* to reduce complexity in the accounting standards generally. The update removed certain exceptions to the general principles of Topic 740, Income Taxes and made certain amendments to improve consistent application of other areas of Topic 740. The adoption of this update did not have an impact on the consolidated financial statements.

(b) Recently issued accounting guidance not yet adopted

The FASB issued ASU 2021-05, Leases (Topic 842): Lessors — Certain Leases with Variable Lease Payments to address concerns relating to day-one losses for sales-type or direct financing leases with variable payments that do not depend on a reference index or rate. The update amends the lease classification requirements for lessors to align them with past practice under Topic 840, Leases. The amendments in this update are effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. The Company is currently assessing the impact of this update.

The FASB issued ASU 2020-06, Debt — Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging — Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity to address the complexity associated with accounting for certain financial instruments with characteristics of liabilities and equity. The number of accounting models for convertible debt instruments and convertible preferred stock is being reduced and the guidance has been amended for the derivatives scope exception for contracts in an entity's own equity to reduce form-over-substance-based accounting conclusions. The amendments in this update are effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. The Company is currently assessing the impact of this update.

The FASB issued ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting, which provides optional expedients and exceptions to ease the potential burden in accounting for reference rate reform. The amendments apply to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of the reference rate reform. The amendments in this update are effective for all entities as at March 12, 2020 through December 31, 2022. The FASB issued an update to Topic 848 in ASU 2021-01 to clarify that the scope of Topic 848 includes derivatives affected by the discounting transition. The Company is currently assessing the impact of the reference rate reform and this update.

3. Accounts receivable

Accounts receivable as of December 31, 2021 include unbilled revenue of $6,926 (December 31, 2020 - $5,954). Accounts receivable as of December 31, 2021 are presented net of allowance for doubtful accounts of $314 (December 31, 2020 - $295).

(in thousands of U.S. dollars)

4. Utility plant

Utility plant of the Company consists of solar generation assets and electricity distribution assets used to generate and distribute electricity within a specific geographic service territory to supply end users with electricity. These assets include solar panels, inverters, poles, towers and fixtures, low-voltage wires, transformers, overhead and underground conductors, street lighting, meters, metering equipment and other related equipment.

	2021	2020
Land and land rights	$ 3,878	$ 3,878
Plant	468,098	457,440
Equipment, office furniture and improvements	25,906	23,672
	497,882	484,990
Accumulated depreciation	(58,813)	(60,833)
	439,069	424,157
Construction work-in-progress	46,625	17,278
Net utility plant	$ 485,694	$ 441,435

5. Regulatory matters

The Company is subject to rate regulation by the California Public Utilities Commission ("CPUC"), and the FERC in some instances. The CPUC has jurisdiction with respect to rate, service, accounting procedures, issuance of securities, acquisitions and other matters. The Company operates under cost-of-service regulation as administered by the CPUC. The Company uses a test year in the establishment of its rates and pursuant to this method, the determination of the rate of return on approved rate base and deemed capital structure, together with all reasonable and prudent costs, establishes the revenue requirement upon which the Company's customer rates are determined.

The Company is accounted for under the principles of ASC 980. Under ASC 980, regulatory assets and liabilities that would not be recorded under U.S. GAAP for non-regulated entities are recorded to the extent that they represent probable future revenue or expenses associated with certain charges or credits that will be recovered from or refunded to customers through the rate-setting process.

The Company is required to file a rate case with its regulator on a regular three- year cycle. Rate cases seek to ensure that the Company has the opportunity to recover its operating costs and earn a fair and reasonable return on its capital investment as allowed by the regulatory authority under which the Company operates.

Revenue decoupling and vegetation management

The Company's revenue is subject to a decoupling mechanism that decouples base revenue from fluctuations caused by weather and economic factors.

Post Test Year Adjustment Mechanism (“PTAM”)

The PTAM allows the Company to update its rates annually by a cost inflation index. In addition, rates are allowed to be updated to recover the return on investment and associated depreciation of major capital projects.

Renewables Portfolio Standard

The Company is required to satisfy the current 33% California Renewables Portfolio Standard requirement. The 33% California Renewables Portfolio Standard is currently met through deliveries under a power purchase agreement that is structured in a manner which satisfies the CPUC resource adequacy (“RA”) requirements, and is designed to enable the California Utility to comply with the associated RA reporting requirements, and from energy production at Luning Energy LLC (the "Luning Solar project") and Turquoise Liberty ProjectCo LLC (the "Turquoise Solar project").

(in thousands of U.S. dollars)

5. Regulatory matters (continued)

Regulatory assets and liabilities consist of the following:

		December 31, 2021		December 31, 2020
Regulatory assets				
Rate adjustment mechanism (a)	$	40,082	$	38,298
Wildfire mitigation and vegetation management (b)		35,696		21,468
Storm costs (c)		2,071		668
Rate review costs (d)		666		1,291
Energy cost adjustment clause (e)		9,375		2,111
Other		7,980		3,214
Total regulatory assets	$	95,870	$	67,050
Less: current regulatory assets		(22,431)		(15,184)
Non-current regulatory assets	$	73,439	$	51,866
Regulatory liabilities				
Cost of removal (f)	$	27,349	$	25,930
Income taxes (g)		2,100		4,312
Other		7,871		5,876
Total regulatory liabilities	$	37,320	$	36,118
Less: current regulatory liabilities		(4,577)		(2,260)
Non-current regulatory liabilities	$	32,743	$	33,858

(a) Rate adjustment mechanism

The Company is subject to a revenue decoupling mechanism approved by the Regulator, which requires charging approved annual delivery revenues on a systematic basis over the fiscal year. As a result, the difference between delivery revenue calculated based on metered consumption and approved delivery revenue is recorded as a regulatory asset or liability to reflect future recovery or refund, respectively, from customers.

(b) Wildfire mitigation and vegetation management

The regulatory asset for vegetation management includes wildfire insurance in the Company's California operations as well as spending related to dead trees program, to prevent future forest fires and general vegetation management.

(c) Storm costs

Incurred repair costs resulting from certain storms over or under amounts collected from customers, which are expected to be recovered or refunded through rates.

(d) Rate review costs

The costs to file, prosecute and defend rate review applications are referred to as rate review costs. These costs are capitalized and amortized over the period of rate recovery granted by the CPUC. The Company does not earn a return on these amounts but receives recovery of these costs in rates over the periods prescribed by the Regulator (three years).

5. Regulatory matters (continued)

(e) Energy cost adjustment clause ("ECAC")

ECAC is designed to recover the cost of electricity through rates charged to customers. Under deferred energy accounting, to the extent actual purchased power costs differ from purchased power costs recoverable through current rates, that difference is not recorded on the consolidated statements of comprehensive income but rather is deferred and recorded as a regulatory asset or liability on the consolidated balance sheets. These differences are reflected in adjustments to rates and recorded as an adjustment to cost of electricity in future periods, subject to regulatory review.

(f) Cost of removal

The regulatory liability for cost of removal represents amounts that have been collected from rate payers for costs that are expected to be incurred in the future to retire utility plant.

(g) Income taxes

As a result of the *Tax Act* being enacted in 2017, CPUC is contemplating the rate-making implications of the reduction of federal tax rates from the legacy 35% tax rate and the new 21% federal statutory income tax rate effective January 2018. The regulatory liability reflects the excess deferred taxes of the members normally reflected in the revenue requirement and probable of being refunded to customers. The Company is working with CPUC to identify the most appropriate way to address the impact of the *Tax Act* on cost of service based rates.

As recovery of regulatory assets is subject to regulatory approval, if there were any changes in regulatory positions that indicate recovery is not probable, the related cost would be charged to earnings in the period of such determination.

6. Pension and other post-employment benefits obligation

The Company provides defined contribution pension plans to substantially all of its employees. The Company's contributions for 2021 were $418 (2020 - $372).

The Company provides a defined benefit cash balance pension plan covering substantially all its employees, under which employees are credited with a percentage of base pay plus a prescribed interest rate credit. The Company also has an OPEB plan providing health care and life insurance coverage to eligible retired employees. Eligibility is based on age and length of service requirements and, in most cases, retirees must cover a portion of the cost of their coverage.

(in thousands of U.S. dollars)

6. Pension and other post-employment benefits obligation (continued)

(a) Net pension and OPEB obligation

The following table sets forth the projected benefit obligations, fair value of plan assets, and funded status of the Company's plans as of December 31:

	Pension benefits		OPEB	
	2021	**2020**	**2021**	**2020**
Change in projected benefit obligation				
Projected benefit obligation, beginning of year	**$ 6,034**	$ 4,712	**$ 1,783**	$ 1,333
Service cost	**725**	663	**78**	60
Interest cost	**138**	164	**43**	48
Actuarial loss (gain)	**(168)**	737	**(398)**	342
Benefits paid	**(453)**	(242)	**—**	—
Projected benefit obligation, end of year	**$ 6,276**	$ 6,034	**$ 1,506**	$ 1,783
Change in plan assets				
Fair value of plan assets, beginning of year	**5,402**	4,346	**—**	—
Actual return on plan assets	**301**	554	**—**	—
Employer contributions	**801**	744	**—**	—
Benefits paid	**(453)**	(242)	**—**	—
Fair value of plan assets, end of year	**$ 6,051**	$ 5,402	**$ —**	$ —
Unfunded status	**$ 225**	$ 632	**$ 1,506**	$ 1,783
Amounts recognized in the consolidated balance sheets consist of:				
Current liabilities	**—**	—	**(28)**	(29)
Non-current liabilities	**(225)**	(632)	**(1,479)**	(1,754)
Net amount recognized	**$ (225)**	$ (632)	**$ (1,507)**	$ (1,783)

The accumulated benefit obligation for the pension plans was $5,508 and $5,263 as of December 31, 2021 and 2020, respectively.

(in thousands of U.S. dollars)

6. Pension and other post-employment benefits (continued)

(b) Pension and OPEB actuarial changes

The amounts recognized in AOCI were as follows:

Change in AOCI (before tax)	**Pension**		**OPEB**	
	Actuarial losses (gains)	**Past service gains**	**Actuarial losses (gains)**	**Past service gains**
Balance, January 1, 2020	$ 440	$ (129)	$ (243)	$ —
Additions to AOCI	396	—	342	—
Amortization in current period	(41)	17	4	—
Balance, December 31, 2020	$ 795	$ (112)	$ 103	$ —
Additions to AOCI	**(224)**	**—**	**(399)**	**—**
Amortization in current period	**(47)**	**17**	**—**	**—**
Balance, December 31, 2021	**$ 524**	**$ (95)**	**$ (296)**	**$ —**

(c) Assumptions

Assumptions used to determine net benefit cost for 2021 and 2020 were as follows:

	Pension benefits		**OPEB**	
	2021	**2020**	**2021**	**2020**
Discount rate	**2.12 %**	3.01 %	**2.59 %**	3.31 %
Expected return on assets	**5.50 %**	5.50 %	**N/A**	N/A
Rate of compensation increase	**4.00 %**	4.00 %	**N/A**	N/A
Health care cost trend rate				
Before age 65			**6.00 %**	6.13 %
Age 65 and after			**6.00 %**	6.13 %
Assumed Ultimate Medical Inflation Rate			**4.75 %**	4.75 %
Year in which Ultimate Rate is reached			**2031**	2031

(in thousands of U.S. dollars)

6. Pension and other post-employment benefits (continued)

(c) Assumptions (continued)

Assumptions used to determine benefit obligation for 2021 and 2020 were as follows:

	Pension benefits		OPEB	
	2021	**2020**	**2021**	**2020**
Discount rate	**2.74%**	2.12%	**3.02%**	2.59%
Rate of compensation increase	**4.00%**	4.00%	**N/A**	N/A
Health care cost trend rate				
Before age 65			**5.875%**	6.000%
Age 65 and after			**5.875%**	6.000%
Assumed Ultimate Medical Inflation Rate			**4.75%**	4.75%
Year in which Ultimate Rate is reached			**2031**	2031

The mortality improvement projection scale was updated to Scale MP-2021, adjusted to reflect the ultimate improvement rates contained in the 2021 SSA Intermediate assumptions from Scale MP-2020, adjusted to reflect the ultimate improvement rates contained in the 2020 SSA Intermediate assumptions in order to reflect the most recent mortality assumptions published by the Society of Actuaries and Social Security Administration.

In selecting an assumed discount rate, the Company uses a modeling process that involves selecting a portfolio of high-quality corporate debt issuances (AA- or better) whose cash flows (via coupons or maturities) match the timing and amount of the Company's expected future benefit payments. The Company considers the results of this modeling process, as well as overall rates of return on high-quality corporate bonds and changes in such rates over time, to determine its assumed discount rate.

The rate of return assumptions are based on projected long-term market returns for the various asset classes in which the plans are invested, weighted by the target asset allocations.

(d) Benefit costs

The following table lists the components of net benefit cost for the pension plans and OPEB recorded as part of operating expenses in the consolidated statements of comprehensive income.

	Pension benefits		OPEB	
	2021	**2020**	**2021**	**2020**
Service cost	**$ 725**	$ 663	**$ 78**	$ 60
Non-service costs				
Interest cost	**138**	164	**43**	48
Expected return on plan assets	**(246)**	(213)	**—**	—
Amortization of net actuarial loss (gain)	**(17)**	41	**—**	(3)
Amortization of prior service credits	**47**	(17)	**—**	—
	(78)	(25)	**43**	45
Net benefit cost	**$ 647**	$ 638	**$ 121**	$ 105

(in thousands of U.S. dollars)

6. Pension and other post-employment benefits (continued)

(e) Plan assets

The Company's investment strategy for its pension and post-employment plan assets is to maintain a diversified portfolio of assets with the primary goal of meeting long-term cash requirements as they become due.

The Company's target asset allocation is 50% in equity securities and 50% in debt securities.

The fair values of investments as of December 31, 2021, by asset category, are as follows

Asset class	Level 1	Percentage
Equity securities	$ 2,965	49 %
Debt securities	2,765	46 %
Other	321	5 %
	$ 6,051	100 %

As at December 31, 2021, the funds do not hold any material investments in the parent company of Liberty Utilities, Algonquin Power and Utilities Corp.

(f) Cash flows

The Company expects to contribute $877 to its pension plans and $28 to its post-employment benefit plans in 2022.

The expected benefit payments over the next 10 years are as follows:

	2022	2023	2024	2025	2026	2027-31
Pension plan	$ 1,231	$ 454	$ 470	$ 515	$ 473	$ 2,778
OPEB	28	36	44	54	57	353

7. Long-term debt

Due to related parties represents advances for current operating costs and reimbursement for management and accounting services provided by entities related to Liberty Utilities as well as other third party costs incurred by entities related to Liberty Utilities on behalf of the Company.

The Company has $25,000 note bearing an interest rate of 5.59% and maturing on December 29, 2025. The note has interest only payments, payable semi-annually in arrears. The notes has certain financial covenants, which must be maintained on a quarterly basis. The Company was in compliance with the covenants as of December 31, 2021.

As of December 31, 2021, the Company had accrued $nil in interest expense (2020 - $nil). Interest paid on the long-term debt in 2021 was $1,533 (2020 - $3,733).

(in thousands of U.S. dollars)

8. Related party transactions

Due from related parties represents advances for current operating costs and reimbursement for management and accounting services provided by entities related to Liberty Utilities as well as other third party costs incurred by entities related to Liberty Utilities on behalf of the Company. These amounts bear interest on variable rates and have no fixed repayment terms. Total amounts allocated for year ended December 31, 2021 were $3,191 (2020 - $5,634).

Periodically there are advances due to and from related parties. Such advances bear interest on variable rates and are due on demand. As at December 31, 2021, the amounts payable to related parties total $196,511 (December 31, 2020 - $145,810).

9. Advances in aid of construction

The Company has various agreements with real estate development companies (the "developers") conducting business within the Company's utility service territories, whereby funds are advanced to the Company by the developers to assist with funding some or all of the costs of the development.

In many instances, developer advances can be subject to refund but the refund is non-interest bearing. Refunds of developer advances are made over a period of 10 years. Advances not refunded within the prescribed period are usually not required to be repaid. After the prescribed period has lapsed, any remaining unpaid balance is transferred to contributions in aid of construction and recorded as an offsetting amount to the cost of property, plant and equipment. No amounts were transferred from advances in aid of construction to contributions in aid of construction in 2021 and 2020.

10. Member's capital

The Company is a single member limited liability corporation. As of December 31, 2021, all outstanding equity membership units of the Company belong to Liberty Utilities.

11. Commitments and contingencies

(a) Contingencies

The Company is involved in various litigation arising out of the ordinary course and conduct of its business. Although such matters cannot be predicted with certainty, management does not consider the Company's exposure to such litigation to be material to these consolidated financial statements. Accruals for any contingencies related to these items, if any, are recorded in the consolidated financial statements at the time it is concluded that its occurrence is probable and the related liability is estimable.

Mountain View fire

On November 17, 2020, a wildfire now known as the Mountain View fire occurred in the territory of Liberty Utilities (CalPeco Electric) LLC. The cause of the fire is undetermined at this time, and CAL FIRE has not yet issued a report. Lawsuits have been filed against subsidiaries of the Company in connection with the Mountain View fire. The likelihood of success in these lawsuits cannot be reasonably predicted; however, Liberty Utilities (CalPeco Electric) LLC intends to vigorously defend them.

(b) Commitments

The Company has a purchase commitment to purchase physical quantities of power for load serving requirements. The commitment amounts included in the table below are based on market prices as of December 31, 2021. However, the effects of purchased power unit cost adjustments are mitigated through a purchased power rate-adjustment mechanism.

	2022	2023	2024	2025
Power purchases	$ 21,789	$ 21,789	$ 21,789	$ 21,789

(in thousands of U.S. dollars)

12. Non-cash operating items

The changes in non-cash operating items consist of the following:

	2021	2020
Accounts receivable	$ (3,801)	$ 1,876
Prepaid expenses and other	(2,827)	(1,518)
Supplies and consumables inventory	(2,232)	149
Accounts payable and accrued liabilities	2,681	6,476
Due to related parties	53,144	85,611
Net regulatory assets and liabilities	(25,892)	(33,931)
	$ 21,073	$ 58,663

13. Redeemable non-controlling interests

Non-controlling interests in subsidiaries that are redeemable upon the occurrence of uncertain events not solely within the Company's control are classified as temporary equity on the consolidated balance sheets. The redeemable non-controlling interests in subsidiaries' balance are determined using the HLBV method subsequent to initial recognition, however, if the redemption amount is probable or currently redeemable, the Company records the instruments at their redemption value. Redemption is not considered probable as of December 31, 2021.

	2021	2020
Opening balance	$ 20,857	$ 25,047
Contributions from redeemable non-controlling interests	—	3,717
Net earnings attributable to redeemable non-controlling interest	(6,902)	(6,955)
Dividends declared to redeemable non-controlling interest	(969)	(952)
Closing balance	$ 12,986	$ 20,857

(in thousands of U.S. dollars)

14. Financial instruments

(a) Fair value of financial instruments

	December 31, 2021		December 31, 2020	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Long-term debt	$ **24,894**	$ **30,583**	$ **24,861**	$ **30,583**

The Company has determined that the carrying value of its short-term financial assets and liabilities approximates fair value as of December 31, 2021 and 2020 due to the short-term maturity of these instruments.

Long-term debt (level 2 inputs) is at fixed interest rates. The estimated fair value is calculated using a discounted cash flow method and current interest rates.

Advances in aid of construction has a carrying value of $20,144 as of December 31, 2021 (2020 - $19,498). Portions of these non-interest bearing instruments are payable annually through 2027, including new customer connections, customer consumption levels, and future rate increase. However, amounts not paid by the contract expiration date become nonrefundable. Their relative fair values cannot be accurately estimated because future refund payments depend on several variables. The fair value of these amounts would be less than their carrying value due to the non-interest bearing feature.

Fair value estimates are made at a specific point in time, using available information about the financial instrument. These estimates are subjective in nature and often cannot be determined with precision.

(b) Risk management

In the normal course of business, the Company is exposed to financial risks that potentially impact its operating results. The Company employs risk management strategies with a view of mitigating these risks to the extent possible on a cost effective basis.

This note provides disclosures relating to the nature and extent of the Company's exposure to risks arising from financial instruments, including credit risk and liquidity risk, and how the Company manages those risks.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's financial instruments that are exposed to concentrations of credit risk are primarily cash and cash equivalents and accounts receivable. The Company limits its exposure to credit risk with respect to cash equivalents by ensuring available cash is deposited with its senior lenders, all of which have a credit rating of A or better.

Credit risk related to the accounts receivable balance of $17,658 is spread over thousands of customers. The Company has processes in place to monitor and evaluate this risk on an ongoing basis including background credit checks and security deposits from new customers. In addition, the Regulator allows for a reasonable bad debt expense to be incorporated in the rates and therefore recovered from rate payers.

As of December 31, 2021, the Company's maximum exposure to credit risk for these financial instruments was as follows:

(in thousands of U.S. dollars)

14. Financial instruments (continued)

(c) Risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, to the extent possible, that it will always have sufficient liquidity to meet liabilities when due. The Company's liabilities mature as follows:

	Due less than 1 year	Due 2–3 years	Due 4–5 years	Due after 5 years	Total
Long-term debt	$ —	$ —	$ —	$ 24,894	$ 24,894
Advances in aid of construction	—	—	—	20,144	20,144
Purchase obligations	221,171	—	—	—	221,171
Interest on long-term debt	1,533	1,533	1,533	1,533	6,132
Other obligations	439	—	—	—	439
Total obligations	$ 223,143	$ 1,533	$ 1,533	$ 46,571	$ 272,780

	2021
Cash and cash equivalents	$ —
Accounts receivable	17,658
Allowance for doubtful accounts	(314)
	$ 17,344

15. Comparative figures

Certain of the comparative figures have been reclassified to conform to the financial statement presentation adopted in the current period.

16. Subsequent events

The Company has evaluated subsequent events from the consolidated balance sheet date through April 29, 2022, the date at which the consolidated financial statements were available to be issued, and determined that there are no other items to disclose.

Appendix B
Affordability Ratio Calculations

Affordability Ratio Calculations

2021 Base Case

	Year 2023	Year 2024	Year 2025
PUMA [1]	N/A	N/A	N/A
AR20	5.30%	5.35%	5.40%
AR50	1.41%	1.42%	1.42%

Memo Account Amortization 36-months

	Year 2023	Year 2024	Year 2025
PUMA [1]	N/A	N/A	N/A
AR20	5.73%	5.78%	5.83%
AR50	1.52%	1.53%	1.53%

36-months Surcharge over 2021 Base Case Difference

	Year 2023	Year 2024	Year 2025
PUMA [1]	N/A	N/A	N/A
AR20	0.43%	0.43%	0.43%
AR50	0.11%	0.11%	0.11%

[1] Public Use Microdata Area ("PUMA") not applicable to Liberty CalPeco service territory

Hours at Minimum Wage ("HM")

Average Monthly Essential Charge ($)

Current California Minimum Wage: $ 15.00

	Basic	All-Electric
2021 Base Case	$ 86.93	$ 119.64
HM	5.80	7.98

	Basic	All-Electric	Difference to Base Case 36-months	
MARBA 36-month	$ 99.20	$ 137.70		
HM	6.61	9.18	0.82	1.20