

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

Application of Liberty Utilities (CalPeco Electric) LLC (U 933 E) for Authority to Recover Costs Recorded in its Catastrophic Event Memorandum Account.

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Application 17-10- \_\_\_\_  
(Filed October 25, 2017)

**APPLICATION OF  
LIBERTY UTILITIES (CALPECO ELECTRIC) LLC (U 933 E)  
TO RECOVER COSTS RECORDED IN ITS  
CATASTROPHIC EVENT MEMORANDUM ACCOUNT**

Daniel W. Marsh  
Manager of Rates & Regulatory Affairs  
Liberty Utilities (CalPeco Electric) LLC  
9750 Washburn Road  
Downey, CA 90241  
Telephone: (562) 299-5104  
Email: dan.marsh@libertyutilities.com

Joseph H. Park  
Director of Legal Services  
Liberty Utilities (California)  
9750 Washburn Road  
Downey, CA 90241  
Telephone: (562) 299-5120  
Email: joe.park@libertyutilities.com

Dated: October 25, 2017

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**Appendix C:** Liberty CalPeco’s financial statements

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Application 17-10 -\_\_  
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**APPLICATION OF  
LIBERTY UTILITIES (CALPECO ELECTRIC) LLC (U 933 E)  
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CATASTROPHIC EVENT MEMORANDUM ACCOUNT**

**I. INTRODUCTION**

Pursuant to California Public Utilities Code Section 454.9, California Public Utilities Commission (“Commission”) Resolution No. E-3238, and the Commission’s Rules of Practice and Procedure (“Rules”), Liberty Utilities (CalPeco Electric) LLC (“Liberty CalPeco”) (U 933 E) hereby files its Application under its Catastrophic Event Memorandum Account (“CEMA”) for authorization to recover incremental disaster-related expenses and capital costs incurred in responding to a catastrophic event – the January 2017 Storms.

**II. SUMMARY**

Liberty CalPeco submits this Application requesting that the Commission issue an Order authorizing Liberty CalPeco to recover its expense and capital-related costs incurred as a result of the January 2017 Storms. In this application, Liberty CalPeco seeks to recover its incremental costs associated with responding to this event. The purpose of the accounting documentation and supporting testimony submitted with this Application is to present the incremental costs incurred to repair, replace, and/or restore damaged electric facilities pursuant to Liberty CalPeco’s CEMA tariff. This Application and supporting material also provides relevant background information to assist the Commission in its review of these costs, including capital costs, recorded in the CEMA

account. This CEMA request also describes the process used to determine the CEMA-related costs associated with the January 2017 Storms for which Liberty CalPeco now seeks recovery.

In response to the January 2017 Storms, Liberty CalPeco incurred approximately \$4.846 million to date in total incremental costs, including \$3.379 million in O&M expenses and \$1.467 million in capital expenditures, associated with: (1) restoring utility services to customers; (2) repairing, replacing, or restoring damaged utility facilities; and (3) complying with governmental agency orders in connection with the events. As authorized by Commission Resolution No. E-3238, Liberty CalPeco seeks to recover only those costs that meet the above criteria that are not already being recovered through Liberty CalPeco's current rates.

### **III. DESCRIPTION OF CATASTROPHIC EVENT**

Beginning on January 3, 2017, a series of powerful and record-breaking winter storms struck Liberty CalPeco's service territory, resulting in significant damage to Liberty CalPeco's facilities and causing widespread and prolonged customer outages throughout its service territory. The prolific snowfall was a result of a series of atmospheric rivers, which carried vast amounts of moisture into central and northern California in January and February.

The snowfall in the Lake Tahoe area set all-time records, with precipitation in the North Sierra Region for the 2016-2017 winter being almost double the average. On several days during the storms, Liberty CalPeco's service territory received over four feet of snow. The record snowfall led to many downed trees, avalanches, and mud slides, which took out Liberty CalPeco's lines and led to extended outages. During some periods, the threat of avalanches and impassible roads due to snow accumulation delayed restoration efforts. The catastrophic nature of the January 2017 Storms and the extreme conditions associated with the event are amply demonstrated by the following images from the event:



During the first week of storms, Liberty CalPeco's system sustained outages on 15 of its circuits – affecting over 17,000 customers – due to falling trees and downed wires. Outages caused by falling trees and downed wires continued during the following weeks of the storms, impacting thousands of customers. The loss of three power sources into North Lake Tahoe caused by mud slides and falling trees during the second week of the storms impacted 22,000 customers.

To restore service and repair damaged facilities as quickly as possible under extreme conditions, Liberty CalPeco supplemented its three field crews working around the clock during the storms with 12 additional crews, consisting of both contractor and NV Energy crews, to remediate potentially hazardous situations, respond to outages, clear vegetation, and repair and replace damaged facilities. In addition to field crews, Liberty CalPeco's procurement and customer

service employees worked extremely long hours throughout the storm restoration efforts to procure equipment and materials and communicate with customers and emergency personnel about the progress of restoration efforts and to respond to customer calls. Following the restoration of power after the conclusion of these events, crews continued the work required to permanently repair damaged facilities.

Liberty CalPeco prioritized its restoration efforts in accordance with its Emergency Management Plan, which prioritizes transmission and substations, followed by circuits, primary taps, secondary lines, and finally individual services. When planning restoration efforts, Liberty CalPeco also followed its objectives in the following order: (1) protect the life, safety and health of employees and the public; (2) protect the property and assets of the Company and Public; (3) protect the environment; and (4) provide for the expeditious restoration of service and return to normal operations. During the restoration efforts, Liberty CalPeco replaced 13,286 feet of overhead line, 10 transformers, and 9 poles, in addition to various other pieces of related equipment.

#### **IV. OVERVIEW OF COSTS AND PROPOSED RECOVERY**

Liberty CalPeco incurred approximately \$3.379 million in incremental O&M expenses and approximately \$1.467 million in incremental capital-related expenditures to respond to this catastrophic event, including the costs of repairing and replacing damaged facilities and restoring service. In determining the costs recorded in CEMA, Liberty CalPeco confirmed such costs were incremental and not duplicative of costs already included in rates.

Liberty CalPeco proposes a revenue requirement of \$3.802 million associated with its CEMA-eligible costs. Liberty CalPeco proposes amortizing the revenue requirement over a one-year period beginning in July 2018. The average impact to customer bills is forecast at 4.54 percent. Liberty CalPeco proposes to spread the costs to customer classes based on the share of

distribution revenues for each customer class. Recovery would occur through an adjustment to the current CEMA surcharge, already included in Liberty CalPeco's tariffs.

The surcharge rates proposed in this Application are designed to collect the total CEMA revenue requirement over a one-year period based on the customer energy usage in a test period. Actual collections through the proposed surcharge will be monitored and Liberty CalPeco will file an advice letter to terminate the CEMA surcharge at such time as the authorized revenue requirement is fully collected. Any outstanding balance at the end of the one-year period would be transferred to Liberty CalPeco's Base Revenue Requirement Balancing Account ("BRRBA").

Liberty CalPeco's proposed increase from current rates would result in the following overall average rate increase by customer class:

Customer Class	Proposed Rate Change	
	Dollars	Percent (%)
Residential	\$ 1,795,417	4.29%
Commercial/Industrial	\$ 1,983,934	4.78%
Irrigation	\$ 4,030	2.36%
Lighting	\$ 20,096	7.41%
Overall	\$ 3,803,477	4.54%

## **V. INFORMATION REQUIRED BY COMMISSION RULES**

### **A. Identification of Statutory Authority**

This Application is filed pursuant to Rules 2.1 and 3.2 and the Commission's prior decisions, orders, and resolutions.

**B. Legal Name and Principal Place of Business; Correspondence or Communication Regarding this Application**

The legal name for Liberty CalPeco, a California limited liability company, is Liberty Utilities (CalPeco Electric) LLC. It has its principal place of business at 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  
Manager of Rates & Regulatory Affairs  
Liberty Utilities(CalPeco Electric) LLC  
9750 Washburn Road  
Downey, CA 90241  
Telephone: (562) 299-5104  
Email: dan.marsh@libertyutilities.com

Joseph H. Park  
Director of Legal Services  
Liberty Utilities (California)  
9750 Washburn Road  
Downey, CA 90241  
Telephone: (562) 299-5120  
Email: joe.park@libertyutilities.com

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

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

**i. Proceeding Category**

Rule 1.3(e) of the Commission’s Rules of Practice and Procedure defines “ratesetting” proceedings as “proceedings in which the Commission sets or investigates rates for a specifically named utility (or utilities), or establishes a mechanism that in turn sets the rates for a specifically named utility (or utilities).” In this Application, Liberty CalPeco seeks to recover incremental expenses and capital-related costs incurred in responding to the catastrophic event that occurred in Liberty CalPeco’s service territory, as described in this Application. Therefore, for purposes of Rule 2.1, Liberty CalPeco proposes that this proceeding be categorized as ratesetting.



**ii. Need for Hearings**

The need for hearings in this proceeding, and the issues to be considered in such hearings, will depend in large part on the degree to which other parties contest Liberty CalPeco's requests. Liberty CalPeco's Application and the supporting testimony and exhibits constitute a sufficient record for the Commission to rule on Liberty CalPeco's CEMA Application without the need for hearings. However, in the event hearings are required, Liberty CalPeco has provided adequate time in the proposed schedule below.

**iii. Issues to be Considered**

The primary issue to be considered in this proceeding is the reasonableness of Liberty CalPeco's CEMA request as described above and in more detail in Liberty CalPeco's supporting testimony served concurrently with this application.

**iv. Proposed Schedule**

Liberty CalPeco requests that the Commission approve the following proposed schedule:

<u><b>Date</b></u>	<u><b>Action Item</b></u>
October 25, 2017	Application file date
Due 30 days after the Application appears on the Commission's daily calendar	Protests Due
Due within 10 days of the protest deadline	Reply to Protests Due
December 1, 2017	Prehearing Conference
December 31, 2017	Scoping Memo
February 1, 2018	Intervenor Testimony Due
February 15, 2018	Rebuttal Testimony Due
April 2018	Proposed Decision
May 2018	Final Commission Decision

**D. Organization and Qualification to Transact Business**

Pursuant to Rule 2.2 and Public Utilities Code § 1004, a copy of the Articles of Organization of Liberty CalPeco has previously been filed with the Commission as part of Application No. 14-04-037, Exhibit A. A Certificate of Status for Liberty CalPeco issued by the California Secretary of State has previously been filed with the Commission as part of A.16-12-009.

**E. Statement of Proposed Rate Changes**

The presently effective rates and the illustrative changes proposed to be made to those rates are discussed in Exhibit 2 (Testimony of Jeff Kijanka). The proposed rates are illustrative and will be updated consistent with the Commission's decision in this proceeding to reflect Liberty CalPeco's then-current authorized revenues when such rates are implemented. Liberty CalPeco's current rates and charges for electric service are in its electric tariffs and schedules on file with the Commission. These tariffs and schedules are filed with and made effective by the Commission in its decisions, orders, resolutions, and approvals of advice letter filings pursuant to Commission General Order 96-A.

**F. Notice and Service of Application**

Cities and counties that would be affected by this Application include the cities and towns of South Lake Tahoe, Portola, Kings Beach and Markleeville. Counties affected by the rate changes that will result from the granting of this Application are Nevada, Placer, Sierra, Plumas, Mono, Alpine and El Dorado. Pursuant to Rule 3.2(b), Liberty CalPeco will mail a notice of the filing of this Application and a general description of the changes in rates, to each of these governmental entities and the State of California Attorney General and Department of General Services within twenty (20) days following the filing of this Application.

Pursuant to Rule 3.2(c), within twenty (20) days following the filing of this Application, Liberty CalPeco will publish a notice in a newspaper of general circulation in each county in which the changes proposed here will become effective. This notice will state that a copy of this Application and related attachments may be examined at the Commission's offices and such offices of Liberty CalPeco as are specified in the notice.

Pursuant to Rule 3.2(d), Liberty CalPeco will provide a similar notice to all customers within forty-five (45) days of the filing date of this Application.

In addition, Liberty CalPeco will provide an electronic copy of this Application to any other parties whom Liberty CalPeco deems appropriate or as required by the Commission.

#### **G. Safety and Reliability Information**

D.16-01-017 approved an amendment to Rule 2.1(c) of the Commission's Rules of Practice and Procedure (Title 20, Division 1, of the California Code of Regulations) to require all applications to identify all relevant safety considerations implicated by the application. One of Liberty CalPeco's core values is to protect public and employee safety. Throughout its response to this catastrophic event, Liberty CalPeco followed its standard operating procedures to ensure safety. In addition, Liberty CalPeco was in regular communication with emergency response officials throughout the catastrophic event. Lastly, in responding to this catastrophic event, Liberty CalPeco took measures to ensure the safety of its personnel performing these operations.

#### **H. List of Appendices and Exhibits**

Liberty CalPeco's submissions to support this Application include the following:

**Appendix A:** Letter dated January 26, 2017 from Liberty CalPeco to the Executive Director notifying the Commission it had activated its CEMA related to this event.

**Appendix B:** Governor Brown's Declaration of a State of Emergency, dated January 23, 2017, for the event described in this Application.

**Appendix C:** Liberty CalPeco's financial statements

**Exhibit 1:** Supporting testimony and exhibits of Mr. Travis Johnson, describing the damage caused by the catastrophic event and Liberty CalPeco's restoration efforts.

**Exhibit 2:** Supporting testimony and exhibits of Mr. Jeff Kijanka, describing Liberty CalPeco's accounting procedures, the costs incurred related to the restoration efforts, and the calculation of the revenue requirement requested in this Application.

## **VI. CONCLUSION**

Based on the foregoing and the supporting testimony concurrently served herewith, Liberty CalPeco respectfully requests that the Commission approve this Application as filed.

Respectfully submitted,

/s/ Joseph H. Park

Daniel W. Marsh  
Manager of Rates & Regulatory Affairs  
Liberty Utilities (CalPeco Electric) LLC  
9750 Washburn Road  
Downey, CA 90241  
Telephone: (562) 299-5104  
Email: Dan.Marsh@libertyutilities.com

Joseph H. Park  
Director of Legal Services  
Liberty Utilities (California)  
9750 Washburn Road  
Downey, CA 90241  
Telephone: (562) 299-5120  
Email: Joe.Park@libertyutilities.com

Dated: October 25, 2017

**VERIFICATION**

I, Gregory S. Sorensen, hereby declare that I am the President of Liberty Utilities (CalPeco Electric) LLC, that I have read the foregoing Application, and that the information set forth therein concerning Liberty CalPeco is true and correct to the best of my knowledge, information, and belief.

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

Executed this 20th day of October, 2017, at Downey, California

/s/ Gregory S. Sorensen  
Gregory S. Sorensen

Liberty Utilities (CalPeco Electric) LLC

**Appendix A:** Letter dated January 26, 2017 from Liberty CalPeco to the Executive Director notifying the Commission it had activated its CEMA related to this event.



**Liberty Utilities®**

Liberty Utilities (CalPeco Electric) LLC  
933 Eloise Avenue  
South Lake Tahoe, CA 96150  
Tel: 800-782-2506  
Fax: 530-544-4811

January 26, 2017

Mr. Edward Randolph  
Director, Energy Division  
California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, CA 94102-3298

RE: Liberty Utilities (CalPeco Electric) LLC (U 933-E) Notification of Activation of  
Catastrophic Events Memorandum Account (CEMA)

Dear Mr. Randolph:

Pursuant to Ordering Paragraph 2 of California Public Utilities Commission (Commission) Resolution No. E-3238 and the procedures set forth in Section 13.A of Liberty Utilities' (CalPeco Electric) LLC ("Liberty CalPeco") Preliminary Statement, Liberty CalPeco hereby notifies the Commission that it will start recording costs to its Catastrophic Event Memorandum Account (CEMA).

Liberty CalPeco serves approximately 49,000 electric customers in and around the Lake Tahoe Basin in California. Beginning on January 3, 2017, a series of extreme winter storms hit Northern California. On the evening of January 4, 2017, the storms began impacting Liberty CalPeco's service territory in and around the Lake Tahoe region.

Severe snowstorms, avalanches, and mudslides caused widespread damage to the system and causing outages to approximately 24,000 customers, some for extended periods. Restoration efforts were hampered by the severe weather and dangerous conditions closing many of the roads throughout the service territory and made it difficult to access outages in remote areas. Fallen green trees also brought down lines in various areas. Avalanche dangers in certain areas precluded crews from safely restoring service.

The magnitude of damage associated with these storms prompted California Governor Edmund G. Brown, Jr. to proclaim a state of emergency on January 23, 2017.

Liberty CalPeco field personnel worked around the clock, in extremely hazardous conditions and in remote areas, to restore service. To expedite restoration efforts, Liberty CalPeco brought in additional contract crews and also received assistance from NV Energy crews. Helicopters were



# Liberty Utilities®

Liberty Utilities (CalPeco Electric) LLC  
933 Eloise Avenue  
South Lake Tahoe, CA 96150  
Tel: 800-782-2506  
Fax: 530-544-4811

required in certain areas. In addition, dispatch and customer service personnel provided ongoing support throughout the restoration efforts.

Restoration costs are currently estimated to exceed \$2 million, with costs still incoming. Liberty CalPeco anticipates requesting recovery of costs recorded in CEMA at a later date through an appropriate CPUC proceeding.

Respectfully submitted,

DANIEL W. MARSH

Manager, Rates and Regulatory Affairs  
Liberty Utilities (CalPeco Electric) LLC.  
(562) 299-5104  
[dan.marsh@libertyutilities.com](mailto:dan.marsh@libertyutilities.com)

cc: James Loewen [James.Loewen@cpuc.ca.gov](mailto:James.Loewen@cpuc.ca.gov)  
Gurbux Kahlon [Gurbux.Kahlon@cpuc.ca.gov](mailto:Gurbux.Kahlon@cpuc.ca.gov)  
Michael Picker, [michael.picker@cpuc.ca.gov](mailto:michael.picker@cpuc.ca.gov)  
Carla J. Peterman, [carla.peterman@cpuc.ca.gov](mailto:carla.peterman@cpuc.ca.gov)  
Martha Guzman Aceves, [martha.guzman-aceves@cpuc.ca.gov](mailto:martha.guzman-aceves@cpuc.ca.gov)  
Liane M. Randolph, [liane.randolph@cpuc.ca.gov](mailto:liane.randolph@cpuc.ca.gov)  
Clifford Rechtschaffen, [clifford.rechtschaffen@cpuc.ca.gov](mailto:clifford.rechtschaffen@cpuc.ca.gov)  
Elizaveta Malashenko, SED Director, [elizaveta.malashenko@cpuc.ca.gov](mailto:elizaveta.malashenko@cpuc.ca.gov)  
Ed Randolph, Director, [edward.randolph@cpuc.ca.gov](mailto:edward.randolph@cpuc.ca.gov)  
Doris Lo, Administrative Assistant, [doris.lo@cpuc.ca.gov](mailto:doris.lo@cpuc.ca.gov)  
Tim Sullivan, Executive Director, [timothy.sullivan@cpuc.ca.gov](mailto:timothy.sullivan@cpuc.ca.gov)  
Peter Skala, [peter.skala@cpuc.ca.gov](mailto:peter.skala@cpuc.ca.gov)



**Appendix B:** Governor Brown's Declaration of a State of Emergency, dated January 23, 2017, for the event described in this Application.

# Executive Department

## State of California

### PROCLAMATION OF A STATE OF EMERGENCY

**WHEREAS** beginning on January 3, 2017, a storm system resulting from an atmospheric river swept across California, bringing high winds, substantial precipitation, and flooding, which has severely impacted counties throughout the State; and

**WHEREAS** due to extreme drought conditions throughout the State, this storm system caused dangerous flash flooding, erosion, and substantial mud and debris flows; and

**WHEREAS** this storm system caused damage to roads and highways throughout the State; and

**WHEREAS** state and local officials are still assessing the full scope of the damage caused by these storms, with preliminary estimates totaling tens of millions of dollars; and

**WHEREAS** the circumstances of the storm damage, by reason of their magnitude, are or are likely to be beyond the control of the services, personnel, equipment and facilities of any single local government and require the combined forces of a mutual aid region or regions to combat; and

**WHEREAS** under the provisions of section 8558(b) of the California Government Code, I find that conditions of extreme peril to the safety of persons and property exist due to the storm damage in Alameda, Alpine, Butte, Calaveras, Contra Costa, El Dorado, Fresno, Humboldt, Inyo, Kern, Kings, Lake, Lassen, Los Angeles, Madera, Marin, Mendocino, Merced, Modoc, Monterey, Napa, Nevada, Orange, Placer, Plumas, Sacramento, San Benito, San Bernardino, San Diego, San Francisco, San Luis Obispo, San Mateo, Santa Barbara, Santa Clara, Santa Cruz, Shasta, Sierra, Siskiyou, Solano, Sonoma, Stanislaus, Sutter, Tehama, Trinity, Tulare, Tuolumne, Ventura, Yolo, and Yuba counties.

**NOW, THEREFORE, I, EDMUND G. BROWN JR.,** Governor of the State of California, in accordance with the authority vested in me by the state Constitution and statutes, including the California Emergency Services Act, and in particular, section 8625 of the California Government Code, **HEREBY PROCLAIM A STATE OF EMERGENCY** to exist within Alameda, Alpine, Butte, Calaveras, Contra Costa, El Dorado, Fresno, Humboldt, Inyo, Kern, Kings, Lake, Lassen, Los Angeles, Madera, Marin, Mendocino, Merced, Modoc, Monterey, Napa, Nevada, Orange, Placer, Plumas, Sacramento, San Benito, San Bernardino, San Diego, San Francisco, San Luis Obispo, San Mateo, Santa Barbara, Santa Clara, Santa Cruz, Shasta, Sierra, Siskiyou, Solano, Sonoma, Stanislaus, Sutter, Tehama, Trinity, Tulare, Tuolumne, Ventura, Yolo, and Yuba counties.

#### IT IS HEREBY ORDERED THAT:

1. The California Department of Transportation shall formally request immediate assistance through the Federal Highway Administration's Emergency Relief Program, Title 23, United States Code section 125, in order to obtain federal assistance for highway repairs or reconstruction.
2. The Office of Emergency Services shall provide assistance to the counties, as appropriate and based upon damage assessments received from local governments, under the authority of the California Disaster Assistance Act, California Government Code section 8680 et seq. and California Code of Regulations, Title 19, section 2900 et seq.

3. All agencies of the state government utilize and employ state personnel, equipment, and facilities for the performance of any and all activities related to this state of emergency consistent with the direction of my Office of Emergency Services and the State Emergency Plan.

**I FURTHER DIRECT** that as soon as hereafter possible, this proclamation be filed in the Office of the Secretary of State and that widespread publicity and notice be given of this proclamation.



**IN WITNESS WHEREOF** I have hereunto set my hand and caused the Great Seal of the State of California to be affixed this 23rd day of January 2017.

  
**EDMUND G. BROWN JR.**  
Governor of California

**ATTEST:**

  
**ALEX PADILLA**  
Secretary of State

## **Appendix C:** Liberty CalPeco's financial statements

**Consolidated Financial Statements of  
Liberty Utilities (CalPeco Electric) LLC.  
For the years ended December 31, 2016 and 2015**

## 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 sheet as at December 31, 2016 and 2015, 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, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in conformity with United States generally accepted accounting principles.

Toronto, Canada  
March 31, 2017.

*Ernst & Young LLP*

Chartered Professional Accountants  
Licensed Public Accountants



A member firm of Ernst & Young Global Limited

**Liberty Utilities (Calpeco Electric) LLC**  
**Consolidated Balance Sheets**

	December 31, 2016	December 31, 2015
<i>(thousands of U.S. dollars)</i>		
<b>ASSETS</b>		
Utility plant		
Utility plant in service	\$ 232,209	\$ 206,579
Less accumulated depreciation	(20,370)	(15,974)
Total	211,839	190,605
Construction work-in-progress	43,998	18,847
Utility plants, net (note 4)	255,837	209,452
Goodwill	10,381	10,381
Regulatory assets (note 5)	11,659	11,034
Other assets	166	64
Current assets		
Cash and cash equivalents	262	187
Supplies and consumables inventory	4,092	4,302
Accounts receivable, net (note 3)	11,246	10,846
Prepaid expenses and other	561	448
Current portion of regulatory assets (note 5)	8,204	1,539
	24,365	17,322
	\$ 302,408	\$ 248,253

See accompanying notes to consolidated financial statements



**Liberty Utilities (Calpeco Electric) LLC**  
**Consolidated Balance Sheets**

<i>(thousands of U.S. dollars)</i>		December 31,	December 31,
		2016	2015
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>			
Shareholder's equity			
Members' capital (note 10)	\$	66,077	\$ 66,077
Accumulated surplus		49,946	34,502
Accumulated other comprehensive loss		(633)	(682)
Total equity attributable to the members		115,390	99,897
Redeemable non-controlling interest (note 13)		7,969	—
Long-term debt (note 6)		69,474	69,375
Regulatory liabilities (note 5)		20,037	18,903
Pension and other post-employment benefits (note 7)		1,984	1,878
Advances in aid of construction (note 8)		15,526	14,989
Current liabilities			
Accounts payable and accrued liabilities		9,904	9,875
Current portion of customer deposits		651	636
Current portion of regulatory liabilities (note 5)		5,906	325
Current portion of other post-employment benefits obligation (note 7)		23	18
Due to related parties (note 9)		55,544	32,357
		72,028	43,211
Commitments and contingencies (note 11)			
Subsequent events (note 13 and 15)			
	\$	302,408	\$ 248,253

See accompanying notes to consolidated financial statements



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

	Years ended December 31,	
	2016	2015
<i>(thousands of U.S. dollars)</i>		
<b>Revenue</b>		
Residential	\$ 41,758	\$ 37,101
Commercial	39,631	34,429
Other	2,355	2,358
	<b>83,744</b>	<b>73,888</b>
<b>Expenses</b>		
Energy purchased	38,158	37,016
Operating costs	17,688	16,752
Taxes other than income taxes	3,064	2,968
Depreciation of utility plant	5,800	5,523
Other amortization	543	227
	<b>65,253</b>	<b>62,486</b>
<b>Operating income</b>	<b>18,491</b>	<b>11,402</b>
Interest expense	3,440	3,073
Other income	(831)	(710)
	<b>2,609</b>	<b>2,363</b>
<b>Net earnings</b>	<b>\$ 15,882</b>	<b>\$ 9,039</b>
Net effect of non-controlling interests (note 13)	438	—
<b>Net earnings attributable to the members</b>	<b>15,444</b>	<b>9,039</b>
<b>Other comprehensive income:</b>		
Change in unrealized pension and other post-employment benefits (note 7)	49	143
<b>Comprehensive income</b>	<b>\$ 15,493</b>	<b>\$ 9,182</b>

See accompanying notes to consolidated financial statements

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

	Liberty Utilities (Calpeco Electric) LLC					
(thousands of U.S. dollars)	Shareholder's capital	Accumulated surplus	Accumulated other comprehensive loss	Non-controlling interests	Total	
Balance, December 31, 2014	\$ 66,077	\$ 25,463	\$ (825)	\$ —	\$ 90,715	
Net income	—	9,039	—	—	9,039	
Other comprehensive income	—	—	143	—	143	
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 members' equity (note 13)	—	—	—	(438)	(438)	
Other comprehensive income	—	—	49	—	49	
Balance, December 31, 2016	\$ 66,077	\$ 49,946	\$ (633)	\$ —	\$ 115,390	

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,	
	2016	2015
<b>Cash provided by (used in):</b>		
<b>Operating Activities</b>		
Net earnings	\$ 15,882	\$ 9,039
Items not affecting cash:		
Depreciation of utility plant	5,800	5,523
Cost of equity funds used for construction purposes	(765)	(686)
Other amortization	641	325
Pension and post-employment expense	153	(93)
Changes in non-cash operating items (note 12)	19,111	4,564
	40,822	18,672
<b>Financing Activities</b>		
Cash contributions from non-controlling interests, net of issuance costs	7,535	—
Increase (decrease) in customer deposits	16	(35)
Increase in advances in aid of construction	991	931
Refunds of advances in aid of construction	(455)	(488)
Increase in other assets	(102)	(21)
	7,985	387
<b>Investing Activities</b>		
Additions to utility plants	(48,732)	(18,936)
Increase in cash and cash equivalents	75	123
Cash and cash equivalents, beginning of year	187	64
Cash and cash equivalents, end of year	\$ 262	\$ 187
<b>Supplemental disclosure of cash flow information:</b>	<b>2016</b>	<b>2015</b>
Cash paid during the year for interest expense	\$ 3,733	\$ 3,733
Non-cash transactions: Utility plants in accruals	\$ 1,589	\$ 821

See accompanying notes to consolidated financial statements



**Liberty Utilities (CalPeco Electric) LLC.**

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

*(in thousands of U.S. dollars)*

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Liberty Utilities (CalPeco Electric) LLC (the "Company"), formerly known as California Pacific Electric Company LLC, 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, 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").



**Liberty Utilities (CalPeco Electric) LLC.**

## Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

(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 (allowance for borrowed funds used during construction) 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 statements of comprehensive income. The AFUDC capitalized that relates to equity funds is recorded as other income on the consolidated statements of comprehensive income.

	2016	2015
AFUDC capitalized on regulated property:		
Allowance for borrowed funds	\$ 461	\$ 800
Allowance for equity funds	765	686
Total	\$ 1,226	\$ 1,486

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.

**Liberty Utilities (CalPeco Electric) LLC.**

## Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

(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	
	2016	2015	2016	2015
Plant	10 - 78	8 - 99	50	51
Equipment, office furniture and improvements	14 - 25	15 - 25	16	21

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.



**Liberty Utilities (CalPeco Electric) LLC.**

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

*(in thousands of U.S. dollars)*

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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.



**Liberty Utilities (CalPeco Electric) LLC.**

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

(in thousands of U.S. dollars)

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**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 2017-03 Accounting Changes and Error Corrections (Topic 250) and Investments—Equity Method and Joint Ventures (Topic 323) to enhance disclosures of new accounting standards, including a comparison to current accounting policies, and the progress status of implementation. This ASU applies to ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606); ASU No. 2016-02, Leases (Topic 842); and ASU 2016-03, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, and subsequent amendments. The Company has enhanced its disclosures regarding the impact that recently issued accounting standards will have on the Company's consolidated financial statements when such standards are adopted in a future period.

The FASB issued ASU 2016-19, Technical Corrections and Improvements, to clarify the codification correct unintended application of guidance, or make minor improvements to the codification. The adoption of this ASU in the fourth quarter of 2016 had no impact on the Company's consolidated financial statements.

The FASB issued ASU 2015-16 Business Combinations (Topic 805): Simplifying the Accounting for Measurement Period Adjustments. Under this ASU, adjustments to the provisional amounts recorded in a business combination continue to be calculated as if the accounting had been completed at the acquisition date. However, the ASU eliminates the requirement to retrospectively account for those adjustments and instead requires recognition in the period that the adjustments are identified. The adoption of this ASU effective January 1, 2016 had no impact on the Company's consolidated financial statements.



**Liberty Utilities (CalPeco Electric) LLC.**

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

*(in thousands of U.S. dollars)*

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**2. Recently issued accounting pronouncements (continued)**

**(a) Recently adopted accounting pronouncements (continued)**

The FASB issued ASU 2015-05, Intangibles: Goodwill and Other Internal-Use Software (Subtopic 350-40), to provide guidance to customers about whether a cloud computing arrangement includes a software license. The prospective adoption of this ASU effective January 1, 2016 had no impact on the Company's consolidated financial statements.

The FASB issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis, which ends the deferral granted to investment companies from applying the VIE guidance and makes targeted amendments to the current consolidation guidance. Some of the more notable amendments are (1) the identification of variable interests when fees are paid to a decision maker or service provider, (2) the VIE characteristics for a limited partnership or similar entity and (3) the primary beneficiary determination. The adoption of this ASU effective January 1, 2016 had no impact on the Company's consolidated financial statements.

The FASB issued ASU 2015-01, Income Statement: Extraordinary and Unusual Items (Subtopic 225-20), to simplify income statement classification by removing the concept of extraordinary items from U.S. GAAP. As a result, items that are both unusual and infrequent will no longer be separately reported net of tax after continuing operations. The adoption of this ASU effective January 1, 2016 had no impact on the Company's consolidated financial statements.

The FASB issued ASU 2014-15, Presentation of Financial Statements - Going Concern. This new standard provides that in connection with preparing financial statements for each annual and interim reporting period, an entity's management should evaluate whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued. The adoption of this standard as of December 31, 2016 had no impact on the Company's consolidated financial statements. Its implementation leveraged existing financial reporting processes.

**(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 Postretirement Benefit Cost to improve the reporting of defined benefit pension cost and postretirement benefit cost (net benefit cost) in the financial statements. The new standard 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 standard will also only allow the service cost component to be eligible for capitalization when applicable. The standard is effective for fiscal years and interim periods beginning after December 15, 2017. Early adoption is permitted. The adoption of the presentation component of the standard will change the presentation of net benefit cost in the Company's consolidated statements of comprehensive income. The Company is currently in the process of evaluating the impact of adoption of this standard on the eligibility for capitalization of the other components of net benefit cost on its consolidated financial statements, given the application of ASC 980 Regulated Operations and ongoing regulatory developments.

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.



**Liberty Utilities (CalPeco Electric) LLC.**

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

*(in thousands of U.S. dollars)*

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**2. Recently issued accounting pronouncements (continued)**

**(a) Recent accounting pronouncements not yet adopted (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 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 2016-17 Consolidation (Topic 810): Interests Held through Related Parties That Are under Common Control. This ASU 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 standard is effective for fiscal years and interim periods beginning after December 15, 2016. Early adoption is permitted. The adoption of this standard is not expected to have an impact on the Company's consolidated financial position or results of operations.

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. The Company is currently in the process of evaluating the impact of adoption of this standard on its consolidated financial statements.

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 FASB issued ASU 2016-06, Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments to clarify the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts, which is one of the criteria for bifurcating an embedded derivative. An entity performing the assessment under the amendments in this Update is required to assess the embedded call (put) options solely in accordance with the four-step decision sequence. The standard is effective for fiscal years and interim periods beginning after December 15, 2016. Early adoption is permitted. The adoption of this standard is not expected to have an impact on the Company's consolidated financial position or results of operations.

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 standard is effective for fiscal years and interim periods beginning after December 15, 2018. Early adoption is permitted. The Company is currently in the process of evaluating the impact of adoption of this standard on its 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 standard is effective for fiscal years and interim periods beginning after December 15, 2017. Early adoption is permitted. The Company is currently in the process of evaluating the impact of adoption of this standard on its consolidated financial statements.



**Liberty Utilities (CalPeco Electric) LLC.**

## Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

(in thousands of U.S. dollars)

**2. Recently issued accounting pronouncements (continued)****(a) Recent accounting pronouncements not yet adopted (continued)**

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 prospective application of this standard is effective for fiscal years and interim periods beginning after December 15, 2016. Early adoption is permitted. The adoption of this standard is not expected to have an impact on the Company's consolidated financial position or results of operations.

The FASB issued a new revenue recognition standard codified as ASC 606, Revenue from Contracts with Customers. This newly 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 new 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 will also 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 identified existing customer contracts and tariffs that are within the scope of the new guidance and has begun an assessment in order to determine the method of adoption and the impact it may have on its consolidated financial statements. The Company also closely monitors outstanding industry specific interpretative issues, including contributions in aid of construction and collectability of sales to low income customers.

**3. Accounts receivable**

Accounts receivable as of December 31, 2016 include unbilled revenue of \$6,516 (December 31, 2015 - \$6,467). Accounts receivable as of December 31, 2016 are presented net of allowance for doubtful accounts of \$140 (December 31, 2015 - \$113).

**4. Utility plant**

Utility plant of the Company consists of electricity distribution assets used to distribute electricity within a specific geographic service territory to supply end users with electricity. These assets include 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 includes deposit of \$23,291 (2015 - nil) related to the Luning Solar facility (note 14).

	2016	2015
Land and land rights	\$ 3,878	\$ 3,878
Plant - electricity	213,770	188,896
Equipment, office furniture and improvements	14,561	13,805
	232,209	206,579
Accumulated amortization	(20,370)	(15,974)
	211,839	190,605
Construction work-in-progress	43,998	18,847
Net utility plant	\$ 255,837	\$ 209,452

**Liberty Utilities (CalPeco Electric) LLC.**

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

*(in thousands of U.S. dollars)*

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**5. 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.

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 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").



**Liberty Utilities (CalPeco Electric) LLC.**

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

*(in thousands of U.S. dollars)***5. Regulatory matters (continued)**

Regulatory assets and liabilities consist of the following:

	2016	2015
<b>Regulatory assets</b>		
Energy cost adjustment clause (a)	\$ —	\$ 176
Rate case costs (b)	1,543	1,505
Vegetation management (c)	761	1,946
Rate adjustment mechanism (d)	10,742	2,931
Other	6,817	6,015
Total regulatory assets	\$ 19,863	\$ 12,573
Less current regulatory assets	(8,204)	(1,539)
Non-current regulatory assets	\$ 11,659	\$ 11,034
<b>Regulatory liabilities</b>		
Cost of removal (e)	20,386	\$ 19,228
Energy cost adjustment clause (a)	5,557	—
Total regulatory liabilities	\$ 25,943	\$ 19,228
Less current regulatory liabilities	(5,906)	(325)
Non-current regulatory liabilities	\$ 20,037	\$ 18,903

**(a) 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.

**(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.

**Liberty Utilities (CalPeco Electric) LLC.**

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

*(in thousands of U.S. dollars)*

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**5. 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.

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. 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, 2016.

As of December 31, 2016, the Company had accrued \$nil in interest expense (2015 - \$nil). Interest paid on the long-term debt in 2016 was \$3,733 (2015 - 3,733).

**7. Pension and other post-employment benefits**

The Company provides defined contribution pension plans to substantially all of its employees. The Company's contributions for 2016 were \$310 (2015 - \$335).

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.

**Liberty Utilities (CalPeco Electric) LLC.**

## Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

*(in thousands of U.S. dollars)***7. 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	
	2016	2015	2016	2015
<b>Change in projected benefit obligation</b>				
Projected benefit obligation, beginning of year	\$ 2,431	\$ 1,845	\$ 1,280	\$ 1,263
Modifications to pension plan	\$ —	\$ 27	\$ —	\$ —
Service cost	441	498	102	119
Interest cost	99	76	63	58
Actuarial loss (gain)	81	50	(64)	(161)
Benefits paid	\$ (278)	\$ (66)	\$ —	\$ —
<b>Projected benefit obligation, end of year</b>	<b>\$ 2,774</b>	<b>\$ 2,430</b>	<b>\$ 1,381</b>	<b>\$ 1,279</b>
<b>Change in plan assets</b>				
Fair value of plan assets, beginning of year	\$ 1,813	\$ 1,202	\$ —	\$ —
Actual return (loss) on plan assets	\$ 124	\$ (6)	\$ —	\$ —
Employer contributions	\$ 489	\$ 683	\$ —	\$ —
Benefits paid	(278)	(66)	—	—
<b>Fair value of plan assets, end of year</b>	<b>\$ 2,148</b>	<b>\$ 1,813</b>	<b>\$ —</b>	<b>\$ —</b>
<b>Unfunded status</b>	<b>\$ (626)</b>	<b>\$ (617)</b>	<b>\$ (1,381)</b>	<b>\$ (1,279)</b>
Amounts recognized in the consolidated balance sheets consists of:				
Current liabilities	\$ —	\$ —	\$ (23)	\$ (18)
Non-current liabilities	\$ (626)	\$ (617)	\$ (1,358)	\$ (1,261)
<b>Net amount recognized</b>	<b>\$ (626)</b>	<b>\$ (617)</b>	<b>\$ (1,381)</b>	<b>\$ (1,279)</b>

The accumulated benefit obligation for the pension plans was \$2,558 and \$2,270 as of December 31, 2016 and 2015, respectively.



**Liberty Utilities (CalPeco Electric) LLC.**

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

*(in thousands of U.S. dollars)***7. 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, 2015	\$ 681	\$ (404)	\$ 548	\$ —
Additions to AOCI	128	27	(161)	—
Amortization in current period	(113)	17	(41)	—
Balance at December 31, 2015	\$ 696	\$ (360)	\$ 346	\$ —
Additions to AOCI	52	—	(64)	—
Amortization in current period	(29)	17	(23)	—
Balance at December 31, 2016	\$ 719	\$ (343)	\$ 259	\$ —
Expected amortization in 2017	\$ 22	\$ (17)	\$ 10	\$ —

**(b) Assumptions**

Assumptions used to determine net benefit cost for 2016 and 2015 were as follows:

	Pension benefits		OPEB	
	2016	2015	2016	2015
Discount rate	<b>3.73%</b>	3.15%	<b>4.43%</b>	3.94%
Expected return on assets	<b>5.50%</b>	5.50%	<b>N/A</b>	N/A
Rate of compensation increase	<b>3.00%</b>	3.00%	<b>N/A</b>	N/A
Healthcare cost trend rate				
Before Age 65			<b>6.50%</b>	7.00%
Age 65 and after			<b>6.50%</b>	7.00%
Assumed Ultimate Medical Inflation Rate			<b>4.75%</b>	5.00%
Year in which Ultimate Rate is reached			<b>2023</b>	2019



**Liberty Utilities (CalPeco Electric) LLC.**

## Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

*(in thousands of U.S. dollars)***7. Pension and other post-employment benefits (continued)****(b) Assumptions (continued)**

Assumptions used to determine benefit obligation for 2016 and 2015 were as follows:

	Pension benefits		OPEB	
	2016	2015	2016	2015
Discount rate	<b>3.70%</b>	3.73%	<b>4.18%</b>	4.43%
Rate of compensation increase	<b>3.00%</b>	3.00%	<b>N/A</b>	N/A
Healthcare cost trend rate				
Before Age 65			<b>6.25%</b>	6.50%
Age 65 and after			<b>6.25%</b>	6.50%
Assumed Ultimate Medical Inflation Rate			<b>4.75%</b>	4.75%
Year in which Ultimate Rate is reached			<b>2023</b>	2023

The mortality assumption for December 31, 2016 was updated to the projected generationally scale MP-2016, adjusted to reflect the ultimate improvement rates in the 2016 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 2016 is as follows:

	2016
Effect of a 1 percentage point increase in the HCCTR on:	
Year-end benefit obligation	\$ 120
Total service and interest cost	22
Effect of a 1 percentage point decrease in the HCCTR on:	
Year-end benefit obligation	\$ (91)
Total service and interest cost	(17)

**Liberty Utilities (CalPeco Electric) LLC.**

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

*(in thousands of U.S. dollars)***7. 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 statements of comprehensive income.

	Pension benefits		OPEB	
	2016	2015	2016	2015
Service cost	\$ 441	\$ 498	\$ 102	\$ 119
Interest cost	99	76	63	58
Expected return on plan assets	(94)	(72)	—	—
Amortization of net actuarial loss	29	113	23	42
Amortization of prior service credits	(17)	(17)	—	—
Net benefit cost	\$ 458	\$ 598	\$ 188	\$ 219

**(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, 2016, by asset category, are as follows

Asset Class	Level 1	Percentage
Equity securities	\$ 1,074	50%
Debt securities	\$ 1,074	50%

As at December 31, 2016, 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 \$481 to its pension plans and \$23 to its post-employment benefit plans in 2017.

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

	2017	2018	2019	2020	2021	2022-2026
Pension plan	\$ 492	\$ 148	\$ 170	\$ 235	\$ 227	\$ 1,403
OPEB	23	24	41	59	61	393

**8. 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. In 2016, \$0 (2015 - 208) was transferred from advances in aid of construction to contributions in aid of construction.



**Liberty Utilities (CalPeco Electric) LLC.**

## Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

*(in thousands of U.S. dollars)***9. 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 2016 were \$2,238 (2015 - \$2,465).

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, 2016, the amounts payable to related parties total \$55,544 (December 31, 2015 - \$32,357).

**10. Member's capital**

The Company is a single member limited liability corporation. As of December 31, 2016, there are 61,789,763 issued membership units of equity of the Company outstanding (December 31, 2015 - 61,789,763), all of which 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.

**(b) Commitments**

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

	2017	2018	2019	2020	2021	Thereafter	Total
Power purchase	\$ 28,088	\$ 27,275	\$ 27,853	\$ 28,913	\$ 28,913	\$ —	\$141,042
Operating leases	78	13	—	—	—	—	91
<b>Total</b>	<b>\$ 28,166</b>	<b>\$ 27,288</b>	<b>\$ 27,853</b>	<b>\$ 28,913</b>	<b>\$ 28,913</b>	<b>\$ —</b>	<b>\$141,133</b>

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.

On April 21, 2015, the Company entered into an all-purpose power purchase agreement with NV Energy to provide its full electric requirements at NV Energy's "system average cost" rates. The PPA has an effective starting date of January 1, 2016 and terminates on December 30, 2021. The commitment amounts included in the table above are based on market prices as of December 31, 2016. However, the effects of purchased power unit cost adjustments are mitigated through a purchased power rate-adjustment mechanism.

**12. Non-cash operating items**

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

	2016	2015
Accounts receivable	\$ (400)	\$ 273
Prepaid expenses	(113)	(132)
Supplies and consumables inventory	210	79
Accounts payable and accrued liabilities	(736)	1,453
Due to/from related parties	23,186	6,074
Net regulatory assets and liabilities	(3,036)	(3,183)
	<b>\$ 19,111</b>	<b>\$ 4,564</b>

**Liberty Utilities (CalPeco Electric) LLC.**

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

*(in thousands of U.S. dollars)***13. Redeemable non-controlling interest****Luning Solar Facility**

The Company owns 100% of the Class B Interests in Liberty Utilities (Luning Holdings) LLC ("Luning Holdings"). Luning Holdings owns 100% of Luning Energy LLC (the "Luning Solar project"), which owns a 50 MW photovoltaic project in Mineral County, Nevada. During 2016, a tax equity agreement was executed. The Class A Interest is owned by a third-party tax equity investor who funded \$7,826 as of December 31, 2016 and an amount of \$31,212, subsequent to year-end, 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. The Company accounts for this interest as "Redeemable non-controlling interest" outside of permanent equity on the consolidated balance sheets. Redemption is not considered probable as of December 31, 2016.

Subsequent to year-end, on February 15, 2017, Luning Holdings obtained control of the Luning Solar project as it achieved commercial operation.

Changes in redeemable non-controlling interest during the year as follows:

	2016
Opening balance	\$ —
Contributions from redeemable non-controlling interests, net of issuance costs	7,535
Net income attributable to redeemable non-controlling interest	438
Dividends declared to redeemable non-controlling interest	(4)
	\$ 7,969

**14. Financial instruments****(a) Fair value of financial instruments**

	December 31, 2016		December 31, 2015	
	Carrying amount	Fair Value	Carrying amount	Fair Value
Long-term debt	\$69,474	\$78,017	\$69,375	\$77,138

The Company has determined that the carrying value of its short-term financial assets and liabilities approximates fair value as of December 31, 2016 and December 31, 2015 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 15,526 as of December 31, 2016 (December 31, 2015 - 14,989). Portions of these non-interest bearing instruments are payable annually through 2024, 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, 2016 or 2015.



**Liberty Utilities (CalPeco Electric) LLC.**

## Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

(in thousands of U.S. dollars)

**14. Financial instruments (continued)****(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 \$11,246 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, 2016, the Company's maximum exposure to credit risk for these financial instruments was as follows:

	2016
Cash and cash equivalents	\$ 262
Accounts receivable	11,149
Allowance for doubtful accounts	(140)
	\$ 11,271

*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 constructions	—	—	—	15,526	15,526
Purchase obligations	9,904	—	—	—	9,904
Interest on long-term debt	3,733	7,466	5,131	5,590	21,920
Other obligations	651	—	—	—	651
Total obligations	\$ 14,288	\$ 7,466	\$ 50,131	\$ 46,116	\$ 118,001

**15. Subsequent events**

Other than disclosed in Note 13, the Company has evaluated other subsequent events from the balance sheet date through March 31, the date at which the financial statements were available to be issued, and determined that there are no other items to be disclosed.