BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of Liberty Utilities (CalPeco Electric) LLC (U 933 E) for Approval of its 2017 Transportation Electrification Proposals.	Application 17-06- ___ (Filed June 30, 2017)

APPLICATION OF LIBERTY UTILITIES (CALPECO ELECTRIC) LLC (U 933 E) FOR APPROVAL OF ITS 2017 TRANSPORTATION ELECTRIFICATION PROPOSALS

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Attorney for Liberty Utilities (CalPeco Electric) LLC

Dated: June 30, 2017

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I. INTRODUCTION

Pursuant to Articles 2 and 3 of the California Public Utilities Commission's ("Commission") Rules of Practice and Procedure ("Rules") and Commissioner Carla Peterman's September 14, 2016 Assigned Commissioner's Ruling Regarding the Filing of Transportation Electrification Applications Pursuant to Senate Bill 350 in Rulemaking (R.) 13-11-007 ("ACR"), Liberty Utilities (CalPeco Electric) LLC ("Liberty CalPeco") hereby respectfully files this application for Commission approval of its 2017 transportation electrification ("TE") proposals, as described herein ("Application"). Liberty CalPeco's proposal consists of this Application and supporting testimony.

II. SUMMARY OF LIBERTY CALPECO'S REQUESTS

Liberty CalPeco requests Commission approval of its 2017 TE proposals, which consist of the following projects: (1) DC Fast Charger Project; (2) Residential Charger Installation Rebate Program; (3) Small Business Charger Installation Rebate Program; (4) Customer Online Resource Project; and (5) EV Bus Infrastructure Program.

III. ORGANIZATION OF LIBERTY CALPECO'S TESTIMONY

Liberty CalPeco's testimony submitted in support of this Application is comprised of three chapters, summarized as follows:

Chapter 1 – Policy and Program Objectives provides Liberty CalPeco's summary of its proposed projects and programs, its vision of its role in TE, and how its proposals comply with the guidance and requirements of the ACR and contribute to meeting the State of California's environmental goals.

Chapter 2 – Liberty CalPeco's TE Portfolio describes Liberty CalPeco's proposed programs, with a description of each program, the gaps or problems the program addresses, and the program's benefits and costs.

Chapter 3 – Program Cost Recovery describes Liberty CalPeco's proposed methodology for program cost recovery. Liberty CalPeco proposes the establishment of a TE Balancing Account ("TEBA") to record capital and O&M expenses for 2017 and 2018. Additionally Liberty CalPeco proposes recovery of post-2018 capital and O&M expenses in its 2019 General Rate Case ("GRC"), which will be filed in 2018.

IV. EXECUTIVE SUMMARY

Liberty CalPeco is proposing a set of programs to help the state meet its ambitious climate change goals aimed at improving air quality and reducing greenhouse gas ("GHG") emissions. Liberty CalPeco's TE projects are designed to reduce the use of fossil fueled vehicles (a large contributor to GHG emissions) in its service territory by encouraging the use of electric vehicles ("EVs").

A. Liberty CalPeco's TE Projects

i. Priority Review Programs

Liberty CalPeco proposes four programs for priority review:[1]

1. DC Fast Charger ("DCFC") Project – This program proposes to deploy and operate five to nine DCFC sites. The program aims to increase EV adoption for both full-time and part-time residents in Liberty CalPeco's service territory by providing readily-available charging capability.
2. Residential Charger Installation Rebate Program – This program will provide a rebate of up to $1,500 to the first 1,000 residential customers who qualify for and enroll in the program. The program is designed to incentivize the installation of home EV chargers by providing an offset for the customers' hardware, permitting, and installation costs. To encourage participation in disadvantaged communities, Liberty CalPeco will reserve 100 of the 1,000 potential rebates for existing low-income California Alternative Rates for Energy ("CARE") customers.
3. Small Business Charger Installation Rebate Program – This program will provide a rebate of up to $2,500 for the first 100 customers that enroll in and meet the requirements of the program. The Small Business Charger Installation Rebate Program is designed to incentivize the installation of EV chargers by providing an offset for the hardware, permitting, and installation costs.

[1]/ "Priority Review" projects are projects and investments that are not controversial and which should be reviewed and approved on an expedited basis: "In order to expedite the priority review projects and investments, these should be non-controversial in nature, and limited to no more than $4 million in costs per project, with a total funding limit of $20 million for each utility. The priority review projects and investments can be of a short duration (up to one year), as opposed to other projects and investments proposed which should be two to five years in duration…. All other proposed projects and investments that do not meet the above criteria for priority review, will be reviewed using the normal timeline for the review of an application filed with the Commission." *See* ACR, at 31-32.

4. Customer Online Resource Project – Liberty CalPeco proposes the development of a web-based information resource, available on Liberty CalPeco's website, which will provide current and prospective EV owners with a convenient, easily accessible source for a wealth of EV-related information. The site will include information to educate customers on EVs, charging requirements, charger locations within Liberty CalPeco's service territory, federal and state rebate programs for EV purchases, Liberty CalPeco's charger installation rebate programs, Liberty CalPeco's Time of Use ("TOU") rates, and other valuable information – information that, hopefully, will increase customers' awareness of, and likelihood of purchasing, EVs.

ii. Standard Review Program

Liberty CalPeco proposes one program for standard review – the EV Bus Infrastructure Program. In this long-range program, Liberty CalPeco will install, build, own and operate charging stations at a Tahoe Transportation District ("TTD") site to enable overnight charging for EV buses that TTD intends to add to its fleet in the coming years.

B. Forecast Costs and Cost Recovery

i. Forecast Costs

Liberty CalPeco forecasts approximately $6 million in capital expenditures and $0.2 million in operations and maintenance ("O&M") expenses to be incurred for its TE projects, if all programs are approved by the Commission. Changes in the timing of approval or implementation of any of the proposed programs would change the estimated costs.

ii. Cost Recovery

Liberty CalPeco proposes to establish a Transportation Electrification Balancing Account ("TEBA") to record capital and O&M expenses incurred in 2017 and 2018. Liberty CalPeco will include these recorded costs in its 2019 GRC, to be recovered in rates over a to-be-determined period, depending on the extent of the recorded costs.

For costs in 2019 and beyond, Liberty CalPeco proposes including the capital and O&M costs related to the TE Program in the 2019 GRC, which is planned to be filed in March 2018 and result in the Commission setting rates for 2019-2021.

iii. Rate Impacts

Due to the unknown timing of when Liberty CalPeco's proposed programs will be approved and completed, an estimate of proposed rate impacts cannot be forecast at this time. The rate impact of Liberty CalPeco's TE Program will be included in the GRC application.

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

Liberty CalPeco is a California limited liability company. 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:

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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)." This Application will include the investigation of rates, and includes Liberty CalPeco's proposal for a "mechanism" that will influence the setting of rates in future applications. 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 any party contests Liberty CalPeco's requests in this Application. Liberty CalPeco's proposed procedural schedule below assumes evidentiary hearings will not be held; however, the need for hearings will be determined by the assigned Administrative Law Judge.

iii. Issues to be Considered

The primary issue to be considered in this proceeding is the reasonableness of Liberty CalPeco's 2017 TE proposals as described above and in more detail in Liberty CalPeco's supporting testimony served concurrently herewith.

iv. Proposed Schedule

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

Date	Action Item
June 30, 2017	Application file date
July 30, 2017	Protests Due
August 10, 2017	Reply to Protests Due
August 15, 2017	Prehearing Conference
September 25, 2017	Intervenor Testimony Due
October 31, 2017	Rebuttal Testimony Due
December, 2017	Proposed Phase 1 Decision Issued
20 days from the date the Commission issues Proposed Decision	Comments Due on Proposed Decision
5 days from the deadline for filing comments on Proposed Decision	Reply Comments on Proposed Decision
January, 2018	CPUC issues Final Phase 1 Decision

D. Organization and Qualification to Transact Business

Pursuant to Rule 2.2, a copy of Liberty CalPeco's Articles of Organization of Liberty CalPeco has previously been filed with the Commission as part of A.14-04-037, Exhibit A. A Certificate of Status for 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

Due to the unknown timing of when Liberty CalPeco's proposed programs will be approved and completed, an estimate of proposed rate impacts cannot be forecast at this time. The rate impact of Liberty CalPeco's TE Program will be included and addressed in Liberty CalPeco's GRC application, which will be filed in 2018.

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 each party with an e-mail address identified in the service list from R.13-11-007.

G. Safety and Reliability Information

Rule 2.1(c) requires 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. All electric infrastructure installed and operated by Liberty CalPeco as part of its TE Projects will follow Liberty CalPeco's standard operating procedures to ensure safety. Additionally, this infrastructure will adhere to applicable technical standards and energy efficiency recommendations. For any electric installations on the customer side of the meter as part of the TE

Projects, Liberty CalPeco will use, and require participating customers to use, a C-10 licensed electrical contractor. Furthermore, all such installations, whether by Liberty CalPeco or participating customers, will require appropriate permitting and inspection from the local authority having jurisdiction (if applicable) in compliance with applicable codes and ordinances.

H. Index of the Exhibits and Appendices to this Application

Exhibit 1 – TE Application Testimony

Chapter I – Policy and Program Objectives (Phong Nguyen)

Chapter II – Liberty CalPeco's TE Portfolio (Phong Nguyen)

Chapter III – Program Cost Recovery (Phong Nguyen)

Exhibit 2 – Witness Statement of Qualifications

Witness Statement of Phong Nguyen

APPENDICES

Appendix A – Financial Statements

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

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Attorney for Liberty Utilities (CalPeco Electric) LLC

Dated: June 30, 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 forgoing is true and correct.

Executed this 29th day of June, 2017, at Downey, California

/s/ Gregory S. Sorensen
Gregory S. Sorensen

Liberty Utilities (CalPeco Electric) LLC

Appendices to Liberty CalPeco’s TE Application

Appendix A – 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.

Ernst + Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
March 31, 2017.

Liberty Utilities (Calpeco Electric) LLC
Consolidated Balance Sheets

(thousands of U.S. dollars)	December 31, 2016	December 31, 2015
ASSETS		
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

(thousands of U.S dollars)	December 31, 2016	December 31, 2015
LIABILITIES AND SHAREHOLDER'S EQUITY		
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

(thousands of U.S. dollars)	Years ended December 31, 2016	2015
Revenue		
Residential	$ 41,758	$ 37,101
Commercial	39,631	34,429
Other	2,355	2,358
	83,744	73,888
Expenses		
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
	65,253	62,486
Operating income	18,491	11,402
Interest expense	3,440	3,073
Other income	(831)	(710)
	2,609	2,363
Net earnings	**$ 15,882**	**$ 9,039**
Net effect of non-controlling interests (note 13)	438	—
Net earnings attributable to the members	15,444	9,039
Other comprehensive income:		
Change in unrealized pension and other post-employment benefits (note 7)	49	143
Comprehensive income	**$ 15,493**	**$ 9,182**

See accompanying notes to consolidated financial statements

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

(thousands of U.S. dollars)	Liberty Utilities (Calpeco Electric) LLC 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
Cash provided by (used in):		
Operating Activities		
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
Financing Activities		
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
Investing Activities		
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

Supplemental disclosure of cash flow information:	**2016**	**2015**
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 (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").

(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.

(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.

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

k. Non-controlling interests (continued)

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

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

l. Recognition of revenue

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

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

Revenue is recorded net of sales taxes.

m. Income taxes

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

n. Financial instruments

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

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

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

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

o. Fair value measurements

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

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

p. Commitments and contingencies

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

q. Use of estimates

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

2. **Recently issued accounting pronouncements**

(a) Recently adopted accounting pronouncements

The FASB Issued ASU 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.

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.

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.

(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

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").

(in thousands of U.S. dollars)

5. **Regulatory matters (continued)**

Regulatory assets and liabilities consist of the following:

		2016		2015
Regulatory assets				
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
Regulatory liabilities				
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.

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.

(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
Change in projected benefit obligation				
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)	**$ —**	$ —
Projected benefit obligation, end of year	**$ 2,774**	$ 2,430	**$ 1,381**	$ 1,279
Change in plan assets				
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)	**—**	—
Fair value of plan assets, end of year	**$ 2,148**	$ 1,813	**$ —**	$ —
Unfunded status	**$ (626)**	$ (617)	**$ (1,381)**	$ (1,279)
Amounts recognized in the consolidated balance sheets consists of:				
Current liabilities	**$ —**	$ —	**$ (23)**	$ (18)
Non-current liabilities	**$ (626)**	$ (617)	**$ (1,358)**	$ (1,261)
Net amount recognized	**$ (626)**	$ (617)	**$ (1,381)**	$ (1,279)

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

(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	**3.73%**	3.15%	**4.43%**	3.94%
Expected return on assets	**5.50%**	5.50%	**N/A**	N/A
Rate of compensation increase	**3.00%**	3.00%	**N/A**	N/A
Healthcare cost trend rate				
Before Age 65			**6.50%**	7.00%
Age 65 and after			**6.50%**	7.00%
Assumed Ultimate Medical Inflation Rate			**4.75%**	5.00%
Year in which Ultimate Rate is reached			**2023**	2019

(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	**3.70%**	3.73%	**4.18%**	4.43%
Rate of compensation increase	**3.00%**	3.00%	**N/A**	N/A
Healthcare cost trend rate				
Before Age 65			**6.25%**	6.50%
Age 65 and after			**6.25%**	6.50%
Assumed Ultimate Medical Inflation Rate			**4.75%**	4.75%
Year in which Ultimate Rate is reached			**2023**	2023

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)

(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.

(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
Total	$ 28,166	$ 27,288	$ 27,853	$ 28,913	$ 28,913	$ —	$141,133

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)
	$ **19,111**	$ 4,564

(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.

(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.