DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

IN THE MATTER OF the Joint Application of Liberty Utilities Co., Liberty WWH, Inc., Western Water Holdings, LLC, and Mountain Water Company for Approval of a Sale and Transfer of Stock	))))))	REGULATORY DIVISION DOCKET NO. D2014.12.99

CLARK FORK COALITION'S MOTION FOR ALGONQUIN POWER & UTILITIES CORP. TO APPEAR IN PROCEEDINGS

Pursuant to the Procedural Order No. 7392, dated February 9, 2015, and Administrative Rules of Montana 38.2.1501, the Clark Fork Coalition (the "Coalition") hereby moves the Public Service Commission of the State of Montana to order Algonquin Power & Utilities Corp. ("Algonquin") to appear along with Liberty Utilities Co., Liberty WWH, Inc., Western Water Holdings, LLC, and Mountain Water Company as an applicant in this docket. Liberty Utilities is a wholly owned subsidiary of Algonquin, which owns over sixty regulated and non-regulated utilities in Canada and the U.S.[1] As such, if the City of Missoula ("City") does not prevail in its imminent domain action currently pending in the

[1] http://www.algonquinpower.com/about_us/

Fourth Judicial District Court, and if the Joint Application at issue in this docket is approved, Algonquin will be the ultimate owner of Mountain Water Company. The Commission, intervenors, and – most importantly – Missoula ratepayers need to know and understand Algonquin's motivations for this acquisition, its management vision, and its plans for the company over time.

Because the Coalition and the City raised preliminary issues in this proceeding, the Procedural Order includes a briefing schedule on these issues. The Coalition understands that the City will be filing a motion to stay these proceedings, pending the outcome of the City's eminent domain action in *City of Missoula v. Mountain Water, Carlyle, et al.*, Docket No. DV-14-352. The Coalition supports that motion. The following brief concerns only the issue of Algonquin's absence as a formal applicant in this docket and the Coalition's motion for the Commission to order Algonquin to appear.

First, as demonstrated by the 2011 proceedings regarding the sale of Mountain Water Company to The Carlyle Group and subsequent developments to date, Mountain Water Company's position as a wholly owned subsidiary of a parent company regulated in a foreign jurisdiction places decision-making about the direction and future of the utility in board rooms far removed from Montana. Second, recent investment research points to significant concerns that must be evaluated by the Commission regarding Algonquin's recent jump in acquisitions and the associated execution risk of successfully integrating activities of its subsidiaries, along with unsettling related-party transactions. Finally, given the potential difficulty of the Commission to exert jurisdiction and authority over the dealings at the parent company level, well-crafted ring-fencing provisions will play a critical role in this docket. The Commission and intervenors must be afforded the opportunity to seek discovery directly from Algonquin as a party in this proceeding.

Each of these concerns individually and collectively point to the simple fact that – in order to adequately protect Mountain Water Company ratepayers and the water resources to be tapped to run this system and to ensure the proposed sale of the Company to Algonquin is in the public interest – the Commission should order Algonquin to appear in this docket.

I. Mountain Water Company's position as a wholly owned subsidiary of a regulated utility subject to the jurisdiction of the California Public Utilities Commission makes Commission vetting of any change in ownership at the parent company level critically important.

In the December 15, 2014 *Joint Application for Approval of Sale and Transfer of Stock*, the Joint Applicants include a great deal of information on Algonquin's strategies, objectives, and goals that have led to its "substantial growth over the past decade," yet indicate that Algonquin is not a "formal" applicant. *Joint Application,* ¶¶ 4, 5, 6, 20. In its January 12, 2015 *Petition to Intervene*, the Coalition noted that the Joint Applicants appear to be relying on

Algonquin's reputation and track record, though Algonquin has chosen not to subject itself to the jurisdiction of the Commission. This dichotomy underscores the fundamental challenge with the Commission's regulation of Mountain Water Company as a subsidiary of a non-regulated parent company. Algonquin attempts to call the shots with regard to how and if it makes itself available to the Missoula community and to the Commission.

In September 2014, the Missoula community – and likely the local management of Mountain Water Company – first learned that The Carlyle Group intended to sell the utility to Algonquin. (Exhibit A, Press release and Acquisition Fact Sheet (Sept. 19, 2014).) Algonquin CEO, Ian Robertson was the spokesperson in all press coverage of the announced sale; there were no statements from any Liberty Utilities executives.[2] Shortly after the deal became public, Robertson made the journey to Missoula to meet with community members, including the Coalition with assurances that – unlike Carlyle – Algonquin makes community relations a top priority and is in this for the long haul.[3]

As the Coalition director put it back in September, this sale is like déjà vu. It was just about four years ago when The Carlyle Group's Robert Dove first appeared in Missoula under the same pretenses. Dove informed the Commission,

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[2] http://missoulian.com/news/local/missoula-fights-back-against-sale-of-mountain-water-co/article_77dcd4aa-4010-11e4-998d-ff6fb98384c8.html

[3] http://missoulian.com/ceo-algonquin-mg-jpg/image_6eb8d44c-4438-11e4-9f02-fbeb7ba598eb.html

the Coalition, and the Missoula community that The Carlyle Group intended to own Mountain Water Company "for a long period of time and invest capital into the system as necessary." D2011.1.8, Order 7149d, ¶ 23 (Dec. 14, 2011). Further responding to concerns about The Carlyle Group's business strategy and investor-driven profit-making obligations, Dove explained, that The Carlyle Group, "will not try to quickly increase the value of the assets by increasing revenues or cutting expenses in order to sell the company for a large profit." *Id.* Based on the $327 million sale price to Algonquin, which is more than double what Carlyle paid in 2011, it appears that Carlyle did just that – but not before expeditiously filing for and obtaining a rate increase in Docket D.2012.7.81.

Dove made a number of other promises to the Missoula community and to the Commission – most of which have not come to fruition. It is unclear what, if any, authority the Commission has to enforce these promises, even though they were relied upon when the Commission made its decision in 2011. This proposed transaction, with its many corporate layers, creates a chasm separating the Commission's regulatory reach from the ultimate owner of Mountain Water Company. As the Commission observes, Mountain Water Company is currently a wholly owned subsidiary of Park Water Company, "a closely held California corporation subject to the jurisdiction of the California Public Utilities Commission," which is the only subsidiary wholly owned by Western Water

Holdings, an unregulated company wholly owned by The Carlyle Group. Order 7392, ¶ 1. Upon the consummation of the transaction at issue here, Mountain Water Company under Park Water Company under Western Water Holdings, will be folded into the $3.6 billion portfolio of regulated and non-regulated utilities owned by Algonquin, a Canadian company.

In short and based on recent experience, the ultimate upstream owner calls the shots for Mountain Water Company – not local management – and those decisions have direct and immediate ramifications for the Missoula community. Decisions made in faraway boardrooms beyond the reach of the Commission's regulatory arm can have significant negative consequences for Mountain Water Company customers. By ordering Algonquin to appear, the Commission can make its best effort to analyze and understand the proposed controlling entity.

II. Financial concerns regarding Algonquin Power & Utilities Corp. demand that the Commission fully vet this new potential owner of Mountain Water Company.

Because of the potential for a large regulatory divide separating the Commission from Algonquin, now is the time for the Commission to take a close look at the company, its business strategies, and associated risks. The Commission has jurisdiction over "any sale or transfer of a public utility, its assets or utility obligations" and must ensure that "utility customers will receive adequate service and facilities, that utility rates will not increase as a result of the sale or transfer, and that the acquiring entity is fit, willing, and able to assume the service responsibilities of a public utility." D2006.6.82, Order No. 6754e, Conclusions of Law ¶ 6 (July 31, 2007).

The Commission must decide whether Algonquin is "fit, willing, and able" to manage Mountain Water Company. As indicated by a July 22, 2014 Report prepared by Accountability Research Corporation, there have been significant issues related to Algonquin's history of self-dealing, debt load, high execution risk, and recent acquisition spree. (Exhibit B, Algonquin Power Investment Update, Accountability Research Corporation.) Notable highlights from the report (which pre-dates the Park Water Company acquisition) include:

- While it appears that Algonquin has eliminated most of its related third party transactions, analysts still "question the prolonged time it took to resolve even the simple issues and we believe the amounts settled upon were very material to the management motivations."

- From 2010 to July 2014, Algonquin has increased its regulated customer connections from around 70,000 to 480,000, with over $1 billion spent on capital expenditures with debt increasing by five times. The report concludes this "acquisition spree" results in "considerably high execution risk."

- Algonquin's deficit has grown to $470 million and "ever increasing common share dividend payments have outpaced earnings . . . adding to the growing deficit" and has obtained "unsecured debt financing, which is uncommon in the industry."

While the July 22, 2014 Accountability Research Corporation report includes the opinions of one firm, these issues beg the question: will Missoula lose if Mountain Water Company becomes another piece of Algonquin's aggressive and risky growth strategy? If placed under the Algonquin umbrella, Mountain Water Company will be managed to benefit Algonquin. Liberty Utilities is simply an intermediary. Algonquin is the financial entity that issues stock to fund these acquisitions, not Liberty Utilities. And Algonquin is the entity that pays dividends on that stock. The Commission must take advantage of this opportunity to evaluate Algonquin and there are no assurances that relevant information can be obtained from Liberty Utilities alone.

As the Commission observed in Docket D2006.6.82 regarding the proposed sale of NorthWestern Energy to the Australia-based corporation Babcock & Brown Infrastructure, Ltd., "bad decisions made in the boardroom don't often show up on the balance sheet of the regulatory agency until it's too late to save customers from the problems that its decisions cause." D2006.6.82, Order No. 6754e, ¶ 165, (quoting Mont. Cons. Counsel, John Coyle.) Further, in that case, after conducting extensive investigation of the proposed ultimate upstream owner of NorthWestern Energy, the Commission determined that the "proposed transaction presents the risk of harm to NorthWestern's financial integrity and to Montana customers of NorthWestern . . . and is inconsistent with the public interest." *Id.,* Order.

In this case, as in the NorthWestern Energy case, the Commission must also take a close look at the financial health, performance, and expectations of

Algonquin. The most logical way to accomplish this inquiry is for the Commission and intervenors to have access to the source.

III. Comprehensive ring-fencing safeguards are necessary to fully protect Mountain Water Company from undesirable management decisions made at the parent company level.

In Docket D2011.1.8, the Commission and interested parties conducted extensive discovery on The Carlyle Group. Direct testimony and questioning of Carlyle's director, was critical to determining whether the 2011 sale of Mountain Water was in the public interest. Based on information about Carlyle obtained in the proceeding, the Commission ordered as a condition of approval strong ring-fencing provisions that "provid[ed] important structural and financial protections for Mountain [Water] assets and limit[ed] subsequent negative impacts on ratepayers from activities of Carlyle and its other companies." D2011.1.8, Order 7149d, ¶ 6.

As the Commission observed in the NorthWestern Energy case, when a regulated utility is a "holding company subsidiary . . . provisions [are] necessary to protect ratepayers from the possibility . . . of a corporate parent extracting excessive dividends from the regulated utility subsidiary." D2006.6.82, Order No. 6754e, ¶ 166. The Commission elaborated:

> In that kind of organizational structure, appropriate ring fencing would include a restriction on dividends to prohibit all of the utility's cash from being upstreamed to the holding company parent, or to paraphrase [Montana Consumer Counsel], installing a ring fence

> around NorthWestern that includes a roof as well as walls. (citations omitted.) As [Montana Consumer Counsel witness] Dr. Wilson noted at hearing, 'If they can take all the cash and upstream it, your ring fencing limitations are fairly hollow.' Id.

As in all cases of this nature and in this case, the Commission must determine whether the proposed transaction is consistent with the public interest. Mont. Code Ann. § 69-3-504. It is very conceivable that – if the Commission approves the transaction – strict ring-fencing provisions will be required. Without access to direct information from Algonquin, it will be impossible to craft the most protective ring fence with a solid roof and strong fence around Mountain Water Company and the Missoula community's drinking water system.

For all of the above reasons, the Coalition respectfully requests the Commission to order Algonquin Power & Utilities Corp. to appear in this docket as an applicant.

Respectfully submitted this 13th day of February, 2015.

CLARK FORK COALITION

By: ____________________

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CERTIFICATE OF SERVICE

I hereby certify that on this, the 13th day of February, 2015, the foregoing CLARK FORK COALITION'S MOTION FOR ALGONQUIN POWER & UTILITIES CORP. TO APPEAR IN PROCEEDINGS was served via U.S. mail on:

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ALGONQUIN
Power & Utilities Corp.

Algonquin Power & Utilities Corp. to Acquire Water Utilities in California and Montana

Company Release - 09/19/2014 05:57

OAKVILLE, ON, Sept. 19, 2014 /CNW/ - Algonquin Power & Utilities Corp. ("APUC") (TSX: AQN) today announced that Liberty Utilities, APUC's regulated utility business, has entered into an agreement with Western Water Holdings, a wholly-owned investment of Carlyle Infrastructure, to acquire the regulated water distribution utility Park Water Company ("Park Water"). Park Water owns and operates three regulated water utilities engaged in the production, treatment, storage, distribution, and sale of water in Southern California and Western Montana. The three utilities collectively serve approximately 74,000 customer connections and have more than 1,000 miles of distribution mains.

Total consideration for the utility purchase is expected to be approximately U.S. $327 million, which includes the assumption of approximately U.S. $77 million of existing long-term utility debt. The acquisition will maintain APUC's strategic business mix and further enhance its investment grade consolidated capital structure. The acquisition is expected to have net property, plant and equipment and other assets for rate making purposes at closing of U.S. $259 million.

"The acquisition of Park Water strategically expands our utility presence in California and marks our entry into the state of Montana," commented Ian Robertson, Chief Executive Officer of APUC. "The acquisition builds on our strong water utility expertise, provides continuing opportunity for organic growth, and increases the proportion of our earnings from long-term, stable utility assets. We look forward to bringing our caring, local and responsive business approach to the communities served by Park Water."

Carlyle Managing Director Robert Dove said, "We are delighted to have reached a signed agreement with Liberty, an experienced U.S.-regulated utility, to acquire Park Water and its subsidiaries. Liberty Utilities' water utility expertise, commitment to customer service and long term ownership approach will enable Park Water to continue to provide excellent service to its customers."

The acquisition is subject to certain approvals and conditions, including state and federal regulatory approval, and is expected to close in the latter half of 2015.

Scotiabank acted as financial advisor to APUC as part of the transaction. Wells Fargo served as financial advisor to Carlyle.

For additional information on the acquisition, please visit: http://investors.algonquinpower.com/file.aspx?iid=4142273&fid=1500063949

About Algonquin Power & Utilities Corp.
Algonquin Power & Utilities owns and operates a diversified $3.6 billion portfolio of regulated and non-regulated utilities in North America. The regulated utility business provides water, electricity and natural gas utility services to 485,000 customers through a portfolio of regulated generation, transmission and distribution utility systems. The non-regulated electric generation subsidiary owns or has interests in renewable energy and thermal energy facilities representing more than 1,100 MW of installed capacity. Algonquin Power & Utilities delivers continuing growth through an expanding pipeline of renewable power and clean energy projects, organic growth within its regulated utilities and the pursuit of accretive acquisition opportunities. Common shares and preferred shares are traded on the Toronto Stock Exchange under the symbols AQN, AQN.PR.A and AQN.PR.D. Visit Algonquin Power & Utilities at www.AlgonquinPowerandUtilities.com and follow us on Twitter @AQN_Utilities.

Caution Regarding Forward-Looking Information
Certain statements included in this news release contain information that is forward-looking within the meaning of certain securities laws, including information and statements regarding prospective results of operations, financial position or cash flows. These statements are based on factors or assumptions that were applied in drawing a conclusion or making a forecast or projection, including assumptions based on historical trends, current conditions and expected future developments. Since forward-looking statements relate to future events and conditions, by their very nature they require making assumptions and involve inherent risks and uncertainties. APUC cautions that although it is believed that the assumptions are reasonable in the circumstances, these risks and uncertainties give rise to the possibility that actual results may differ materially from the expectations set out in the forward-looking statements. Material risk factors include those set out in the management's discussion and analysis section of APUC's most recent annual report, quarterly report, and APUC's Annual Information Form. Given these risks, undue reliance should not be placed on these forward-looking statements, which apply only as of their dates. Other than as specifically required by law, APUC undertakes no obligation to

EXHIBIT A

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update any forward-looking statements or information to reflect new information, subsequent or otherwise.

SOURCE Algonquin Power & Utilities Corp.

ALGONQUIN POWER & UTILITIES CORP.

ACQUISITION FACT SHEET

TSX: AQN

LIBERTY UTILITIES: ACQUISITION OF WATER UTILITIES IN CALIFORNIA AND MONTANA

Acquisition Overview

- Acquisition of Park Water Company comprised of three water distribution utilities in California (2) and Montana (1), serving approximately 74,000 customer connections
- Aligned with Liberty Utilities' on-going roll-up strategy of U.S. regulated utilities
    - Represents 8th regulated utility acquisition in the U.S. since 2010
- Maintains Algonquin Power & Utilities Corp's (APUC) strategic business mix of regulated utilities and non-regulated power generation, positioning the company for future growth
- Expands Liberty Utilities' California presence, builds on strong water utility expertise and easily integrates operations into existing U.S. platform by leveraging current infrastructure
- Purchase price of U.S. $327 million, expected EV/2016 EBITDA of 9.6x
- Continuing opportunities for capital investment in growth and infrastructure replacement programs expected to drive 7.5% EBITDA CAGR through 2020
- Increased regulated earnings improve APUC's business risk profile, strengthens credit rating metrics and improves financial flexibility
- Closing subject to regulatory approvals

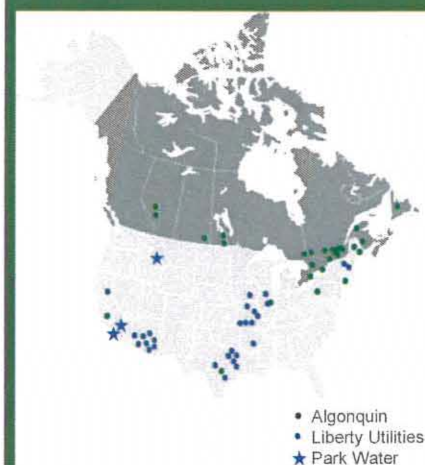
Key Facts	
Purchase Price	U.S. $327 million
Net property, plant and equipment and regulatory assets expected at closing (Net of accumulated depreciation of U.S. $98 million)	U.S. $259 million
Customer Connections	73,590
Employees	160

Distribution and Seasonality	Q1	Q2	Q3	Q4	Total
Approximate Gallons Distributed (Billions)	3.0	4.1	5.9	3.6	16.6
EBITDA Seasonality Percentages	18%	25%	35%	22%	100%

"THE PARK WATER AQUISITION BUILDS ON OUR STRONG WATER UTILITY EXPERTISE, PROVIDES CONTINUING OPPORTUNITY FOR ORGANIC GROWTH AND IS ALIGNED WITH OUR ON-GOING ROLL-UP STRATEGY OF U.S. REGULATED UTILITIES." - IAN ROBERTSON, CEO

Liberty Utilities

Liberty Utilities Co., the Company's distribution utility business, provides regulated water , natural gas and electric utility services to nearly 500,000 customers through operations in nine states.



Algonquin

Algonquin Power Co., our electric generation subsidiary owns and has interest in 39 clean, renewable energy facilities representing more than 1,100 MW of gross installed capacity and 500 MW of capacity under development/construction.

AFFIRMING OUR SUCCESSFUL APPROACH TO GROWTH

Regulatory Environment

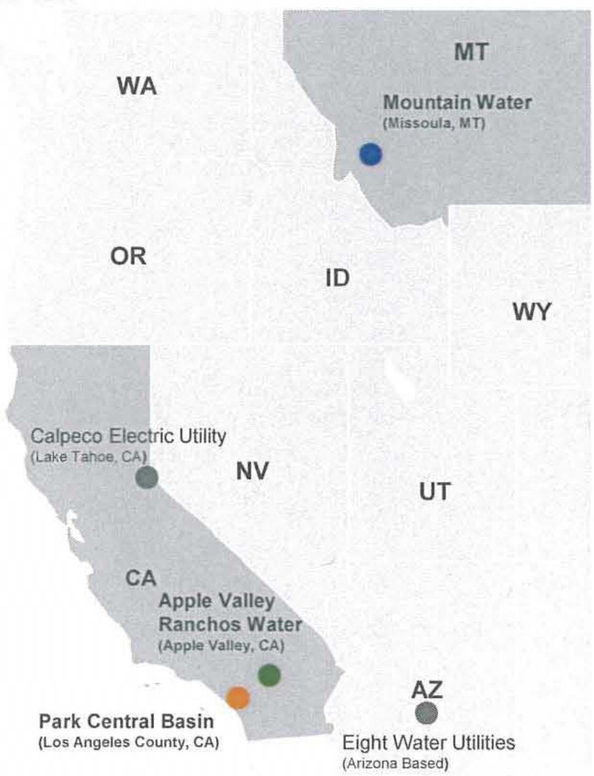
- Constructive regulatory environments in California and Montana
- Several regulatory mechanisms serve to support stable and predictable earnings, including:
  - Rate adjustment and tracking mechanisms providing recovery of costs related to purchased water and power with minimal regulatory lag
  - Recovery of post rate case inflation impact on operating costs in California
- California rate cases on mandated three year cycle with forward looking test year
  - 9.79% approved return on equity with 57.0% equity thickness in last rate case
  - New rates expected to be implemented in 2015 in both California service territories
- Montana rate cases historically filed every 2-3 years
  - 9.80% return on equity with 56.1% equity thickness approved in last rate case

Acquisition and Utility Financing

- Acquisition includes assumption of U.S. $77 million of existing long term debt
  - fixed effective borrowing cost of 6.8% reflected in current tariffs
- APUC's strong balance sheet and credit metrics support financing the acquisition with more than 50% debt
- Developer advances/contributions in aid of construction of U.S. $64 million and accumulated deferred income taxes of U.S. $27 million expected at closing
- Consistent with previous utility acquisitions, financing for the balance of acquisition costs to be arranged closer to the acquisition date

Continuing Capital Investment Program

- Expected 5-year capital investment program representing ~U.S. $195 million, with U.S. $31 million and U.S. $38 million targeted for investment in 2016 and 2017, respectively
- On-going capital investment program to renew aging infrastructure and serve new customers expected to drive ~7.5% CAGR in EBITDA from 2016 through 2020
- Expected net property, plant and equipment and regulatory assets of U.S. $259 million at closing (1/1/2016) with average depreciable life remaining of ~27 years



CAUTION REGARDING FORWARD-LOOKING INFORMATION

Certain statements included in this document contain information that is forward-looking within the meaning of certain securities laws, including information and statements regarding prospective results of operations, financial position or cash flows. These statements are based on factors or assumptions that were applied in drawing a conclusion or making a forecast or projection, including assumptions based on historical trends, current conditions and expected future developments. Since forward-looking statements relate to future events and conditions, by their very nature they require making assumptions and involve inherent risks and uncertainties. Algonquin Power & Utilities Corp. ("APUC") cautions that although it is believed that the assumptions are reasonable in the circumstances, these risks and uncertainties give rise to the possibility that actual results may differ materially from the expectations set out in the forward-looking statements. Material risk factors include those set out in the management's discussion and analysis section of APUC's most recent annual report and quarterly report, and APUC's Annual Information Form. Given these risks, undue reliance should not be placed on these forward-looking statements, which apply only as of their dates. Other than as specifically required by law, APUC undertakes no obligation to update any forward-looking statements or information to reflect new information, subsequent or otherwise.

NON-GAAP FINANCIAL MEASURES

The term "earnings before interest, taxes, depreciation and amortization" ("EBITDA") may be used in this document. EBITDA is not a recognized measure under GAAP. There is no standardized measure of EBITDA, consequently APUC's method of calculating this measure may differ from methods used by other companies and therefore may not be comparable to similar measures presented by other companies. A calculation and analysis of EBITDA can be found in APUC's most recent Management Discussion & Analysis.

ACCOUNTABILITY RESEARCH CORPORATION
independent equity research

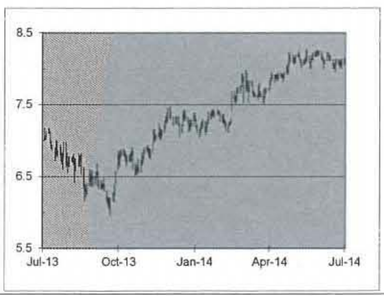
ALGONQUIN POWER
Investment Update

July 22, 2014

AQN/TSX
Price: $8.13
Target: $7.00
Expected Return: -13%
SELL

Earnings Quality:	**Below Average**
Quality of fit:	15 / 25
Completeness:	8 / 25
Appropriateness:	10 / 25
Management:	8 / 25
Total:	41 /100

Dividend Yield:	4.3%
Market Cap:	$1.68 billion
Shares Out:	206.7 million
Avg. Volume:	288 million
Credit Rating:	BBB
2014E Revenue:	$995 million
2015E Revenue:	$1,002 million
2014E EPS:	$0.33
2015E EPS:	$0.36



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The Investorside Research Association certifies that Accountability Research does not have any investment banking, consulting, or research-for-hire conflicts of interest.

Investment Focus

- We rate Algonquin as a **SELL** due to its debt load and higher than average execution risk as a result of several acquisitions. We see much better opportunities in the sector.

Investment Highlights

- **Self-Dealing Issues Largely Resolved:** Algonquin has cleaned up its related party transactions and we are mostly satisfied with the resolution. We still question the prolonged time it took to resolve even simple issues and we believe the amounts settled upon were very material to management motivations. This will still cloud management credibility over the short-term but should fade as leadership continues down the path of transparency. Lastly, we believe there is insufficient information to comment on the fairness of the finalizing transactions.

- **Deficit and Debt Load Still Growing:** AQN's deficit has grown to over $470 million, as ever increasing common share dividends have outpaced earnings (with the exception of Q1). Debt load has increased from $331 million at the end of 2011 to more than $1.4 billion at the end of Q1/14, which has corresponded to a more than doubling of quarterly interest expense, lowering the company's ROI.

- **Growth Opportunities:** The company has experienced good organic growth in its wind and solar businesses and has a solid pipeline of further opportunities ahead of it with roughly 343MW of renewables projects in queue through 2016 (for roughly $850 million). Additionally, AQN has $29 million in rate cases pending as well as almost $1.2 billion in organic investment opportunities at Liberty Utilities.

- **Valuation:** AQN currently trades above an industry average EV/EBITDA multiple compared to both its independent power producer and utility peers. We believe an average valuation is justified given its increasing deficit and debt load, and considerably high execution risk in terms of its recent acquisition spree.

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Investment Summary

We rate Algonquin as a **SELL** despite a relatively attractive growth outlook for an independent power producer. We believe AQN has several drawbacks and see much better opportunities in the sector.

AQN currently trades above an industry average EV/EBITDA multiple compared to both its independent power producer and utility peers. We believe an average valuation is justified given its increasing deficit and debt load, and considerably high execution risk in terms of its recent acquisition spree.

Accounting Concerns: Related Party Transactions

Algonquin has cleaned up its related party transactions and we are mostly satisfied with the resolution. We still question the prolonged time it took to resolve even simple issues and we believe the amounts settled upon were very material to management motivations. This will still cloud management credibility over the short-term but should fade as leadership continues down the path of transparency.

The final resolution included the payment of $1.83 million to the related parties (CEO Ian Robertson and Vice-Chair Chris Jarratt, among others) as well as the receipt of $812,000 from those parties. The amounts due were fully settled as of December 31, 2013 (roughly 3.5 years after the board began the process to bring these relationships to an end). Also, the company essentially swapped its ownership in the Rattle Brook facility for the parties' interest in the Long Sault Rapids Hydro and BCI Thermal facilities. Algonquin headquarters will be switching from one owned by the related parties to a third party facility in Q3/14 and all chartered aircraft services will be undertaken through third party operators.

We still believe there is insufficient information to comment on the fairness of the finalizing transactions but the company/board finally taking decisive action to clear all the issues related to self-dealing should be enough to remove the overhang on credibility as perceived by the market, in our opinion. Consequently, we believe there is a reduced impact on valuation.

High Execution Risk Remains

Algonquin has made significant investments over the past few years acquiring both regulated and non-regulated businesses as well as expanding its existing capacity. The number of regulated customer connections has grown from just over 70,000 in 2010 to ~480,000 by the end of Q1/14. Installed power generating capacity has grown from just over 400MW to roughly 1,100MW currently. Over $1 billion has been spent on acquisitions and capex since the end of 2010 and debt has grown by over 5 times, increasing AQN's execution risk considerably.

A Growing Deficit and An Increasing Debt Load

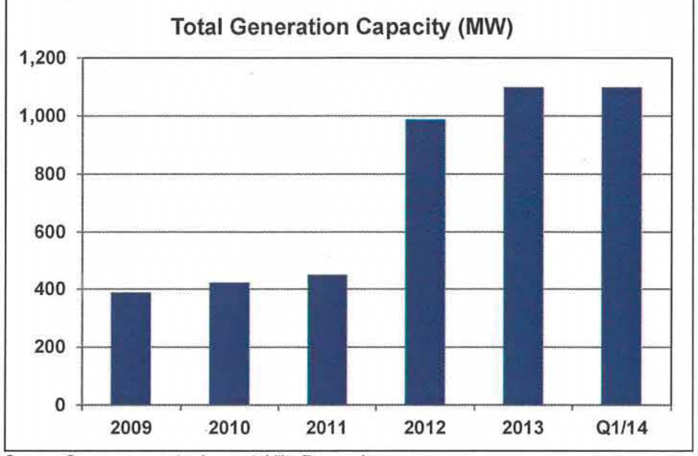
Algonquin has a large balance sheet deficit that has grown to over $470 million currently. Ever increasing common share dividend payments have outpaced earnings, with the exception of Q1, and the issuance of preferred shares in November 2012 and March 2014, which are cumulative and pay $0.28/share and $0.31/share quarterly, add to the growing deficit.

The company has increased its indebtedness substantially over that time period from roughly $331 million at the end of 2011 to more than $1.4 billion as of the end of Q1/14. This has corresponded to a more than doubling of quarterly interest expense, lowering the company's ROI. Given the unknown rate of returns of the recent acquisitions we will be keeping a close watch on the company's profitability metrics. Additionally, the company has been able to obtain unsecured debt financing, which is uncommon in the industry.

Growth Initiatives

Algonquin has gone through a transformation over the past few years to embrace a growth strategy in an industry that is typically less acquisitive. The company has grown its total power generation capacity from just over 400MW in 2010 to roughly 1,100MW currently. AQN has added incremental capacity through both acquisitions and organic growth. The expanded capacity is contrasted against a long-term debt load that has grown from ~$434 million in 2009 with shares outstanding of 81.3 million to current LT debt of over $1.4 billion and 206.8 million common shares outstanding (as well as 8.8 million preferred shares).

Figure 1: AQN Total Power Generation Capacity (MW)



Source: Company reports, Accountability Research

APCo has 6 projects in its non-regulated development pipeline for a total of $852 million in potential new investment over the coming two plus years that would add roughly 343MW of total generation capacity. Additionally, these projects have an average PPA length of over 20 years, which will increase the average for the segment as these projects are completed.

Figure 2: Algonquin Non-Regulated Project Pipeline

Project	MW (net)	Capex (millions)	Completion Date	PPA (Years)
St. Damase	24	$65	2014	20
Bakerfield Solar	20	$66	2014	20
Morse Wind	23	$81	2015	20
Amherst Island	75	$230	2015	20
Val Eo	24	$70	2015	20
Chaplin Wind	177	$340	2016	25
TOTAL	**343**	**$852**		

Source: Company reports, Accountability Research

Liberty Utilities closed the New England Gas Company acquisition in December, expanding its natural gas distribution footprint and adding over 50,000 active connections in Massachusetts. Additionally, this segment has organic expansion and rate increase opportunities within its existing portfolio that will be exploited over the coming years.

Figure 3: Algonquin Regulated Growth Opportunities

($ in Millions)	2014	2015	2016-17	Total
Local Distribution	$165	$171	$309	$645
Transmission & Generation	$21	$63	$466	$550
TOTAL	**$186**	**$234**	**$775**	**$1,195**

Source: Company reports, Accountability Research

Figure 4: Current Liberty Rate Case Proceedings

Utility	State	Type	Rate Request	Current Status
Litchfield Park Service Co.	AZ	Rate Case	$3M	Final order approving US$1.8 million increase received in April
Peach State Gas System	GA	Adjustment	$4.9M	Expect final approval of US$4.7 million adjustment any day
Granite State Electric System	NH	Rate Case	$13M+ $1.2M adj. in 2014	Commission approval received in Q1 of US$9.8 million + US$1.1 million step increase for 2014
Missouri Gas System	MO	Rate Case	$6M	Order expected Q1/15
Illinois Gas System	IL	Rate Case	$5.7M	Order expected Q1/15

Source: Company reports, Accountability Research

Valuation

AQN currently trades above industry average EV/EBITDA multiples compared to both its independent power producer and utility peers. We believe an average valuation is justified given its increasing deficit and debt load, and considerably high execution risk in terms of its recent acquisition spree.

Our 12-month target price of $7.00/share reflects a 2015 EV/EBITDA multiple of 8.7x (split 50/50 IPP and utility given our expectations for 2015E EBITDA to be roughly split between the two segments) on our 2015E EBITDA estimate.

Figure 5: Algonquin Comp Table

Company	Price	S/O (MM)	52W High	52W Low	Market Cap (MM)	Net Debt (MM)	EV (MM)	EBITDA (MM) 2014E	EBITDA (MM) 2015E	EV/EBITDA 2014E	EV/EBITDA 2015E	EPS 2014E	EPS 2015E	P/E 2014E	P/E 2015E
Power Producers															
ALGONQUIN POWER & UTILITIES	**$8.13**	**207**	**$8.28**	**$5.96**	**$1,682**	**$1,242**	**$2,924**	**$278**	**$309**	**10.5x**	**9.5x**	**$0.34**	**$0.40**	**23.7x**	**20.5x**
ALTERRA POWER	$0.33	469	$0.37	$0.27	$155	$203	$357	$39	$41	9.2x	8.7x	$0.00	$0.00	n/a	n/a
ATLANTIC POWER	$4.43	121	$5.51	$2.35	$535	$1,718	$2,252	$252	$248	8.9x	9.1x	-$0.63	-$0.57	n/a	n/a
BROOKFIELD RENEWABLE ENERGY	$31.18	143	$32.86	$25.69	$4,467	$6,420	$10,887	$1,298	$1,357	8.4x	8.0x	$0.59	$0.61	53.3x	51.5x
CAPITAL POWER	$26.04	82	$26.49	$19.80	$2,138	$1,427	$3,565	$447	$522	8.0x	6.8x	$1.30	$1.53	20.0x	17.0x
INNERGEX RENEWABLE ENERGY	$10.81	100	$11.43	$8.40	$1,082	$1,387	$2,469	$175	$190	14.1x	13.0x	$0.11	$0.19	98.3x	57.5x
NORTHLAND POWER	$17.59	146	$18.69	$14.07	$2,573	$1,699	$4,272	$359	$389	11.9x	11.0x	$0.40	$0.42	44.0x	41.7x
TRANSALTA	$12.67	272	$15.17	$12.43	$3,444	$4,305	$7,749	$1,051	$1,053	7.4x	7.4x	$0.40	$0.44	31.6x	28.7x
AVERAGE										**9.8x**	**9.2x**			**45.1x**	**36.1x**
Utilities															
ALGONQUIN POWER & UTILITIES	**$8.13**	**207**	**$8.28**	**$5.96**	**$1,682**	**$1,242**	**$2,924**	**$278**	**$309**	**10.5x**	**9.5x**	**$0.34**	**$0.40**	**23.7x**	**20.5x**
ATCO	$50.59	101	$55.19	$42.25	$5,134	$5,654	$10,788	$1,894	$2,095	5.7x	5.1x	$3.38	$3.83	15.0x	13.2x
ATMOS ENERGY	$51.17	100	$53.47	$39.22	$5,127	$2,757	$7,884	$821	$885	9.6x	8.9x	$2.84	$2.95	18.0x	17.3x
CANADIAN UTILITIES	$39.69	187	$41.68	$33.47	$7,415	$5,795	$13,210	$1,731	$1,934	7.6x	6.8x	$2.27	$2.56	17.5x	15.5x
EMERA	$34.74	142	$35.73	$28.77	$4,937	$4,029	$8,966	$905	$897	9.9x	10.0x	$2.11	$2.00	16.5x	17.4x
FORTIS	$32.79	215	$32.96	$29.51	$7,037	$7,716	$14,753	$1,569	$2,174	9.4x	6.8x	$1.64	$1.96	20.0x	16.7x
AVERAGE										**8.8x**	**7.9x**			**18.4x**	**16.8x**

Source: Company reports, Bloomberg, Accountability Research

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