

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

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

**WESTERN WATER HOLDINGS, LLC'S AND MOUNTAIN WATER COMPANY'S
RESPONSES TO MONTANA PUBLIC SERVICE COMMISSION'S DATA REQUESTS
PSC-028 TO PSC-032**

Western Water Holdings, LLC ("Western Water") and Mountain Water Company ("Mountain Water") provide the attached responses to the Montana Public Service Commission's Data Requests PSC-028 to PSC-032. Responses to PSC-033 to PSC-038 will be provided by Liberty Utilities Co. and Liberty WWH, Inc.

Respectfully submitted this 21st day of April, 2015.

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**ATTORNEYS FOR MOUNTAIN WATER
COMPANY AND WESTERN WATER
HOLDINGS**

DATA REQUESTS

PSC-028: RE: Wells Fargo bid solicitation process
Witness: Robert Dove

In response to PSC-027(c), Carlyle provided Wells Fargo's initial contact letter to prospective bidders regarding the sale of Western Water's equity interest in Park (WWH000657-659).

- a. What was the letter's date?
- b. Please provide the Confidential Information Memorandum that is referenced in the letter.
- c. Please provide in its entirety the "Indication" that was submitted by Algonquin/Liberty in response to the initial contact letter.
- d. Please provide a copy of Wells Fargo's "second round process" letter.
- e. Please provide the final, binding proposal that was submitted by Algonquin/Liberty to Wells Fargo.

Objection:

Mountain Water and Western Water object to this request to the extent it seeks information not relevant to the subject matter of the instant proceeding, information not reasonably calculated to lead to the discovery of evidence admissible in the instant proceeding, or confidential and proprietary information.

Response to PSC-028:

- a. Wells Fargo sent out the initial contact letter over a number of days beginning on May 21, 2014.
- b. Attached is a redacted copy of the Confidential Information Memorandum. See WWH000799-WWH000898. Pages 47 through 68 of the Confidential Information Memorandum have been redacted based on relevance as those pages only contain information regarding Park Water Company's Park Central Basin and Apple Valley operations in California. The confidential portions of this document will be provided in accordance with the Commission's decision to grant or deny Mountain Water's and Western Water's motion for a protective order filed contemporaneously with this response.
- c. See WWH000899-WWH000904.
- d. See WWH000905-WWH000908.

e. See WWH000909-WWH000972.

PSC-029: RE: Wells Fargo transaction process
Witness: Robert Dove

- a. Please provide an index of all of the materials in the virtual data room (referenced in the Wells Fargo initial contact letter).
- b. Please provide copies of all management presentations that were provided to bidders as part of the second round in the transaction process.

Response to PSC-029:

- a. See WWH000973-WWH001027.
- b. See WWH001028-WWH001074. Pages 9 through 26 of the management presentation have been redacted based on relevance as those pages only contain information regarding Park Water Company's Park Central Basin and Apple Valley operations in California. The confidential portions of this document will be provided in accordance with the Commission's decision to grant or deny Mountain Water's and Western Water's motion for a protective order filed contemporaneously with this response.

PSC-030: RE: Project Orchard summary fact sheet
Witness: Robert Dove

Included on page 2 of the summary fact sheet is the statement: “Over \$200 million of planned regulated capital investment through 2019E.” Please list the projects and associated regulated capital investment amounts that Carlyle/Western Water planned through 2019E for Mountain Water.

Response to PSC-030:

See WWH001075-WWH001079 for the most recent 5-year capital budget for Mountain Water. However, the expenditure amounts listed reflect potential work to be undertaken by Mountain Water. After completion of its acquisition of Western Water, Liberty Utilities, in conjunction with Mountain Water, will need to determine which capital expenditures to pursue.

PSC-031: RE: City of Missoula dealings
Witness: Robert Dove

- a. On pages 6-7 of your testimony, you state that Carlyle Infrastructure and Western Water conferred with outside experts as well as conducted internal analysis to evaluate the tax, bond indenture, and regulatory implications of a potential sale of Mountain to the City. Please provide any and all written evaluations provided to Carlyle and/or to Western Water that are associated with this external and internal evaluation process.
- b. Please explain fully the reasons that Carlyle and Western Water concluded “there would be a significant value degradation in our investment in Western Water if the City’s offer was accepted.” (Dove testimony, p. 7)
- c. Please provide copies of any written communications from Carlyle and/or Western Water to the City regarding the City’s March and November offers to purchase Mountain, the City’s December 2013 “ultimatum,” and the City’s January 2014 offer.

Objection:

Mountain Water and Western Water object to this request to the extent it seeks information not relevant to the subject matter of the instant proceeding, information not reasonably calculated to lead to the discovery of evidence admissible in the instant proceeding, confidential and proprietary information, or information protected by the attorney-work product and attorney-client privileges. Mountain Water and Western Water also object to this request on the grounds it is overly broad inasmuch as it seeks “any and all written evaluations...associated with this external and internal evaluation process.”

Response to PSC-031:

- a. Although communications with counsel on the tax implications and potential “make whole” payments on bonds on a sale of Mountain Water, separate from a sale of Park Water, are subject to the attorney-client privilege, attached is an e-mail from April, 2013 outlining the financial implications of such a sale with respect to tax consequences and make-whole payments. See WWH001080.
- b. Upon receiving the \$65 million offer from the City of Missoula for Mountain Water Company stock, Carlyle conducted an analysis on the remaining value of Park Water Company if the City’s offer was accepted. The analysis, which excluded any transaction-related costs, showed that in order to avoid any write-down in our investment in Park Water, at \$65 million for Mountain Water, the California operation would have to be valued at a significant premium to comparable regulated water utility companies, implying significant value degradation would result from accepting City’s offer.

- c. See WWH000001; WWH001081-WWH001082; WWH001083; WWH001084-WWH001085; WWH001086-WWH001087; WWH001088-WWH001090; WWH001091-WWH001093; WWH001094-WWH001096.

PSC-032: RE: Western Water sale process
Witness: Robert Dove

- a. Please explain fully how Carlyle and/or Wells Fargo developed the list of interested parties to whom the initial contact letter was sent.
- b. Please identify/list the interested parties to whom the initial contact letter was sent.
- c. Regarding your testimony on p. 10, was Algonquin/Liberty one of the entities that expressed unsolicited interest in purchasing Park Water prior to May 2014? If so, provide details of the means of expressing that interest and the details of the communication(s) to Carlyle, as well as Carlyle's response.
- d. Please disclose and produce any written or verbal agreements between Carlyle/Western Water/Park and Algonquin/Liberty Utilities that have not already been provided to the Commission.

Objection:

Mountain Water and Western Water object to this request to the extent it seeks information not relevant to the subject matter of the instant proceeding, information not reasonably calculated to lead to the discovery of evidence admissible in the instant proceeding, confidential and proprietary information, or information not in the custody or control of Mountain Water or Western Water. Regarding subpart (d), Mountain Water and Western Water also object to the extent it seeks agreements that are protected by the attorney-client privilege or the attorney work-product doctrine.

Response to PSC-032:

- a. The list of interested parties was developed jointly with Wells Fargo and represented organizations which were believed to have a potential interest in acquiring or investing in regulated utility businesses. The list was based on our experience as an investor in the market and on knowledge Wells Fargo has gained as an active financial advisor to the regulated utility sector. The list was inclusive of both utility companies and financial investment firms. Although these companies are primarily based in the U.S., the list also included international entities.
- b. Wells Fargo contacted 78 financial and utility entities, including Algonquin.
- c. Algonquin/Liberty was not one of the entities that expressed unsolicited interest in purchasing Park Water prior to May 2014.
- d. There are no other agreements governing the transaction that have not already been provided to the Commission.

CERTIFICATE OF SERVICE

I hereby certify that on this, the 21st day of April, 2015, **WESTERN WATER HOLDINGS, LLC AND MOUNTAIN WATER COMPANY'S RESPONSES TO MONTANA PUBLIC SERVICE COMMISSION'S DATA REQUESTS (PSC-028 to PSC-032)** were electronically filed with the Commission and served via U.S. mail and e-mail, unless otherwise noted, to the following:

| | |
|---|---|
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| <p>Christopher Schilling Chief Executive Officer Leigh Jordan Executive Vice President Park Water Company 9750 Washburn Road Downey, CA 90241 CSchilling@parkwater.com LeighJ@parkwater.com</p> | <p>Michael Green Gregory F. Dorrington CROWLEY FLECK PLLP 100 North Park, Suite 300 P. O. Box 797 Helena, MT 59624-0797 mgreen@crowleyfleck.com gdoorrington@crowleyfleck.com</p> |

| | |
|---|--|
| <p>Todd Wiley Assistant General Counsel Liberty Utilities 12725 West Indian School Road, Suite D-101 Avondale, Arizona 85392 Todd.Wiley@LibertyUtilities.com</p> | |
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s/ Adele C. Lee



Project Orchard

Confidential Information Memorandum

June 2014



STRICTLY CONFIDENTIAL

WWH000799



Disclaimer

This Confidential Information Memorandum (the "Memorandum") has been prepared by the management of Western Water Holdings, LLC ("Western Water") for the purpose of obtaining a purchaser for Western Water's 100% stake in Park Water Company ("Park Water" or the "Company").

Wells Fargo Securities, LLC ("WFS") has been engaged by Western Water as its exclusive financial advisor to assist in the proposed transaction. All inquiries and requests for additional information concerning Park Water should be directed to WFS. Under no circumstances should the management, employees, officers, shareholders, partners, vendors, or customers of the Company be contacted directly.

By acceptance hereof, each recipient agrees that it will not copy, reproduce or distribute to others this Memorandum in whole or in part, at any time, without the prior written consent of Park Water and that it will keep permanently confidential all information contained herein pursuant to the Confidentiality Agreement (except as expressly permitted in the Confidentiality Agreement delivered by the recipient to WFS), and will use this Memorandum only for the purpose set forth in the Confidentiality Agreement.

This Memorandum has been prepared for the purpose of providing certain parties (each, a "Prospective Bidder") with general operating, financial and other information concerning Park Water and its subsidiaries. All information presented in this Memorandum with respect to the existing business and historical operating results as well as projections for future operations are based on material prepared by Park Water and its management. No representation or warranty is made by Western Water, WFS, or any of their respective directors, officers, employees, agents, stockholders, subsidiaries or affiliates with respect to any information contained herein or in connection with discussions regarding this Memorandum. Representations, warranties and agreements, if any, will be made only in definitive agreements relating to the transaction and signed by Western Water. Without limiting the foregoing, neither Western Water nor WFS has undertaken an investigation of and is not responsible for information sourced by any third party.

If and when authorized by Western Water, certain Prospective Bidders may be allowed to conduct a comprehensive due diligence review of the Company's operations and financial condition, including discussions with senior management of the Company. Western Water reserves the right to terminate this sale process at any time without any liability to any person. The receipt of this Memorandum does not confer on the recipient, or any party, any rights whatsoever. Western Water reserves the right to require the return of this Memorandum at any time.

| Wells Fargo Securities, LLC | | |
|--|---|--|
| Energy & Power Investment Banking | | Mergers & Acquisitions |
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Section I:
EXECUTIVE SUMMARY

CONFIDENTIAL



Executive Summary

Introduction

Park Water Company (“Park Water” or the “Company”) is a regulated water utility wholly-owned by Western Water, LLC (“Western Water”). Western Water was formed by Carlyle Infrastructure Partners, L.P. (“Carlyle Infrastructure”) to facilitate its acquisition of 100% of the equity interest in Park Water in 2011. Western Water has retained Wells Fargo Securities, LLC (“WFS” or the “Advisor”) as its exclusive financial advisor in connection with the potential sale of 100% of the equity interests in Park Water (the “Transaction”). All inquiries and requests for information concerning Park Water and the Transaction should be directed to WFS.

Park Water represents a unique opportunity to acquire a multi-state, turnkey, scalable regulated water utility platform with strong cash flow and significant growth potential. Under Carlyle Infrastructure’s ownership, Park Water significantly expanded its Company-funded capital investment¹ program from \$9 million in 2011 to \$27 million in 2014E and instituted on-going business improvement initiatives, the combination of which has resulted in rapid EBITDA growth from \$18 million in 2011 to \$27 million in 2014E.

In the coming years, management anticipates that Park Water will experience significant growth in both customer connections and distribution system assets. Park Water’s operating regions continue to see revitalized economic activity and system-wide customer connections are anticipated to increase by approximately 6% through 2019. In support of customer growth and distribution system replacement and improvements, the Company is forecasting over \$200 million of Company-funded capital investment required through 2019E. As a result, and in combination with continued business improvements and initiatives, EBITDA is expected to grow from \$30 million in 2015E to \$43 million in 2019E.

¹ Excluding contributions in aid of construction (“CIAC”) and advances for construction (“Advances”)

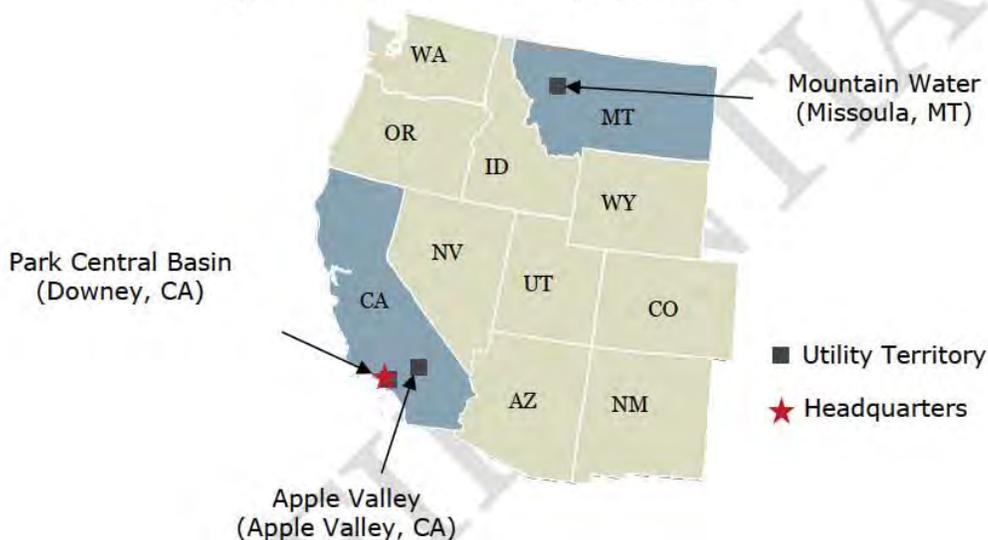


Executive Summary

Business Description

Park Water owns and operates three regulated utilities providing water services to residential and commercial customers in California and Montana. The Company was incorporated in 1937 with one utility, Park Central Basin (“Park Central Basin”), originally serving the southern Los Angeles area known as the Central Basin. Park Water subsequently expanded through the acquisition of Apple Valley Ranchos Water Company (“Apple Valley”) in Apple Valley, CA and Mountain Water Company (“Mountain Water”) in Missoula, MT. The combined utilities currently have 73,500 connections and operate over 1,000 miles of pipeline that serve a total combined population of 266,700 people.

Figure 1: Park Water Utility Locations





Executive Summary

Investment Highlights Summary

| | |
|--|---|
| <p>Attractive Stable Industry with Strong Fundamentals</p> | <ul style="list-style-type: none"> Fully regulated industry with significant barriers to entry and financial stability from regulated cash flows Significant capital investment opportunities driven by replacement of aging infrastructure, system improvement and growth |
| <p>Diverse, Balanced and Scalable Water Utility</p> | <p>[REDACTED]</p> |
| <p>Strong Growth Through Increased Capital Investment and Service Territory Expansion</p> | <ul style="list-style-type: none"> Compound annual rate base growth of 13% since 2011A from increased capital investment program for on-going replacement and improvement of distribution systems Over \$200 million of planned regulated Company-funded capital investment through 2019E Water supply rebalancing supports incremental capital investment opportunities while improving supply reliability and diversity Improving economic conditions driving customer growth across each of Park Water's service territories |
| <p>Increasing Margins and Improved Business Performance</p> | <ul style="list-style-type: none"> Enterprise-wide strategic initiatives to enhance and improve business performance have increased operating margins and profitability while mitigating customer rate increases EBITDA margin improvement from 29% in 2011 to 37% in 2014E with further improvement planned |
| <p>Supportive Regulatory Jurisdictions</p> | <ul style="list-style-type: none"> Constructive state regulation allows for predictable business planning and capital investment Regulatory mechanisms enable timely cost recovery and mitigate risks associated with production costs and conservation <p>[REDACTED]</p> <ul style="list-style-type: none"> Annual filings with post-test year adjustments in Montana align ratepayer and utility objectives while reducing regulatory lag |



Executive Summary

Financial Summary

Park Water generates predictable regulated cash flows that have exhibited steady growth over time. The Company grew EBITDA at a 14% compound annual growth rate (“CAGR”) between 2011 and 2014E and projects EBITDA will continue to increase at an 8% CAGR through 2019E.

Park Water’s annual Company-funded capital budget has increased from \$9 million in 2011 to \$27 million in 2014E. The increased capital spending is focused on main replacements and other critical infrastructure to ensure long-term system reliability. Park Water anticipates the need for over \$200 million of planned Company-funded capital investments between 2014E and 2019E focused on infrastructure rehabilitation and system expansion.

While EBITDA has grown substantially, Park Water has managed to limit customer rate increases through operations and maintenance (“O&M”) expense management, focusing on operational efficiencies and process improvements, many driven by technology enhancements. Park Water’s revenues are expected to increase from \$63 million in 2011 to \$73 million in 2014E, a 5% CAGR, while EBITDA margins are forecasted to expand from 29% to 37% during the same period.

Figure 2: EBITDA Summary





Executive Summary

Figure 3: Company-Funded Capital Investment Summary

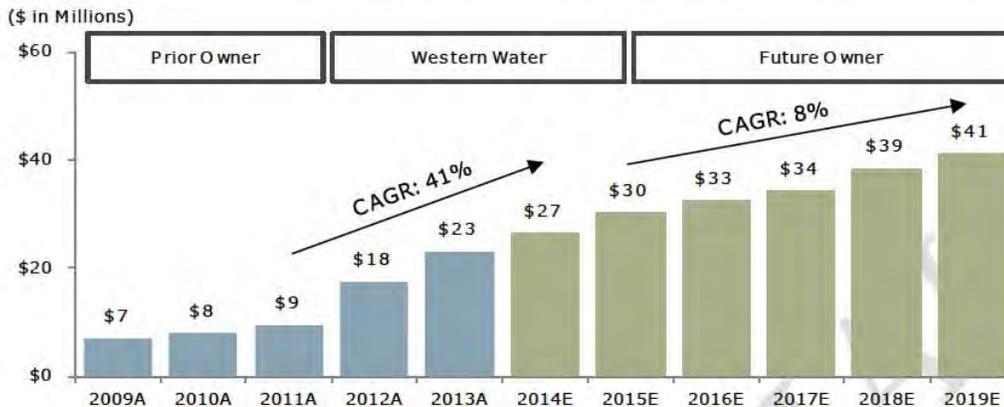
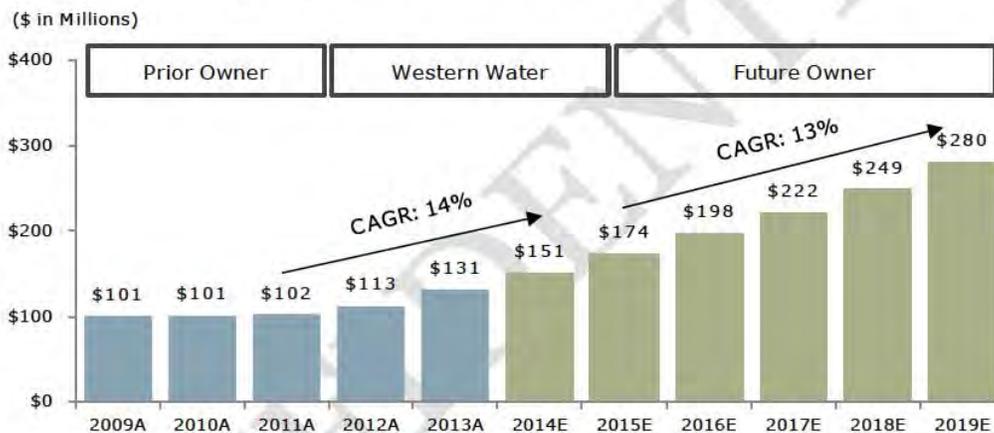


Figure 4: End of Year Rate Base Summary



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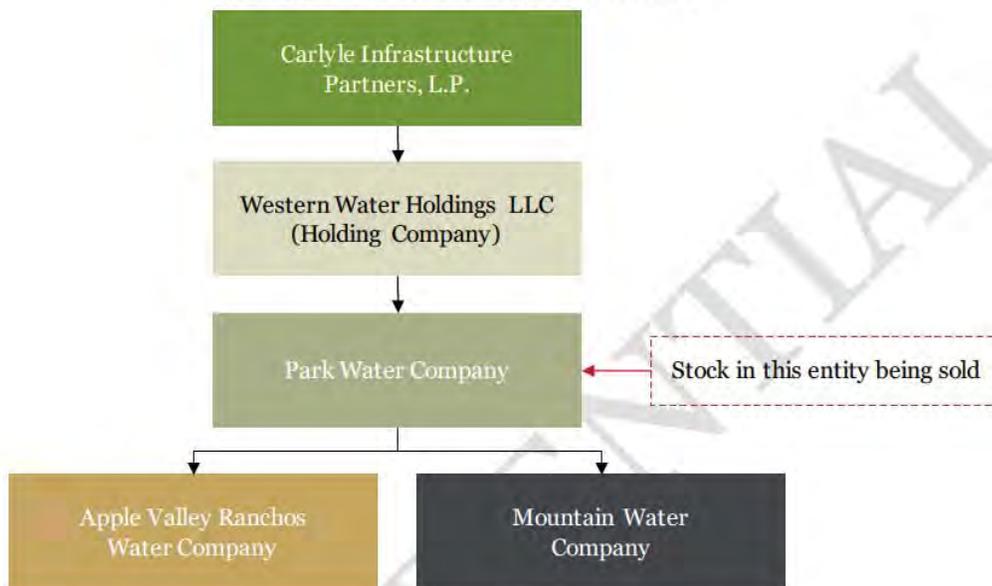


Executive Summary

Transaction Structure

The Transaction will be structured as a sale of the equity interests in Park Water. Park Water’s equity is 100% owned by Western Water. Park Water, in turn, owns 100% of the equity of Apple Valley and Mountain Water. Western Water’s equity is 100% owned by Carlyle Infrastructure.

Figure 5: Park Water Legal Structure ²



² In March 2014, Santa Paula Water Works, Ltd. (“SPWW”) filed with the Secretary of State of California a Certificate of Dissolution. The City of Santa Paula acquired all the utility operating assets of SPWW on January 2, 1996 at which time SPWW became inactive having minimal non-operating assets (land, notes receivable and deferred income taxes) and liabilities (accrued pension and postretirement). Upon dissolution these assets and liabilities were absorbed by Park Water.



Executive Summary

Process Overview

Western Water and WFS expect to conduct the sale through a targeted two-round process.

First Round

During the First Round, Prospective Bidders will be given an opportunity to review this Confidential Information Memorandum and summary financial forecast (collectively, the "First Round Due Diligence Materials"). All of the First Round Due Diligence Materials will remain subject to the Confidentiality Agreement previously entered into between the Prospective Bidder and Western Water.

Utilizing First Round Due Diligence Materials, Prospective Bidders will be asked to submit a preliminary, non-binding indication of interest ("First Round Bid") in writing to WFS. First Round Bid instructions will be provided by WFS in a separate communication.

Second Round

Western Water and its Advisor will evaluate the First Round Bids based on several factors, including but not limited to valuation and speed/ability to close the Transaction. WFS, on behalf of Western Water, will then invite a small select group of Prospective Bidders ("Final Bidders") to participate in a Second Round. Final Bidders will be given access to an extensive electronic data room including operating, financial, regulatory, commercial, maintenance, environmental, tax and accounting documentation.

The Final Bidders will also have the opportunity to attend a management presentation and conduct detailed due diligence, including site visits to select facilities, and will have the ability to submit diligence questions to WFS. Western Water and WFS will provide the Final Bidders with a draft Purchase and Sale Agreement ("PSA"), of which the Final Bidders will be asked to submit a markup along with their final binding bids ("Final Bids").

Instructions for the submission of the Final Bids will be provided by WFS in a separate communication at a later date.

Upon evaluation of the Final Bids, Western Water expects to promptly execute the PSA and announce the Transaction.

Section II:
INVESTMENT HIGHLIGHTS

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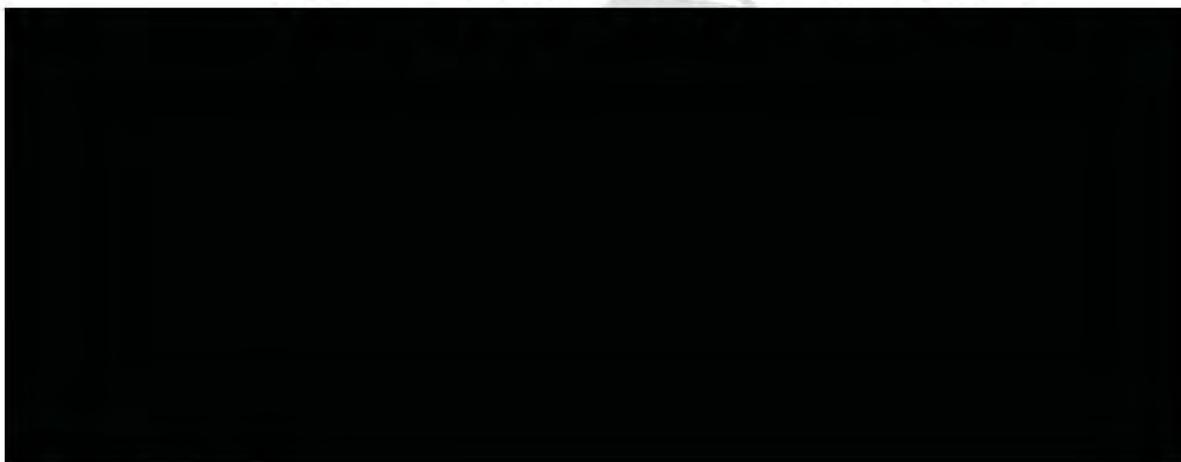
Investment Highlights

Attractive Stable Industry with Strong Fundamentals

Park Water operates in a stable, fully regulated industry with an attractive risk profile characterized by high barriers to entry and strong fundamentals. Investor-owned water utilities are regulated monopolies and face little-to-no competition. Customer rates for water service, which includes recovery of prudently incurred costs as well as a return on invested capital, are established through a regulatory process conducted by the relevant state public utility commission (“PUC”). Water utilities also offer steady organic growth potential related to ongoing and increasing capital investment requirements of water distribution system replacement, improvement and expansion. Moreover, water utilities such as Park Water are well-positioned to benefit from continued consolidation of a highly fragmented industry.

Because of these factors, publicly traded water utilities consistently trade at a premium valuation to their regulated natural gas distribution and electric utility peers.

Figure 6: Publicly Traded Utility Valuation Comparison ³



³ Mid Cap Electric Comps Include: ALE, LNT, AVA, BKH, CNL, CMS, GXP, HE, IDA, TEG, MDU, NWE, OGE, PNW, PNM, POR, SCG, TE, UIL, UNS, VVC, WR; Large Cap Electric Comps Include: AEE, AEP, CNP, D, DTE, DUK, EIX, ETR, EXC, FE, NEE, PCG, PPL, PEG, SO, WEC, XEL; Natural Gas Distribution Comps Include: GAS, ATO, NWN, LG, OGS, PNY, SWX, UGI, WGL; Water Utilities Comps Include: AWR, AWK, WTR, ARTN.A, CWT, CTWS, MSEX, SJW, YORW; LTM defined as last twelve months ending December 31, 2013; Market data as of May 23, 2014



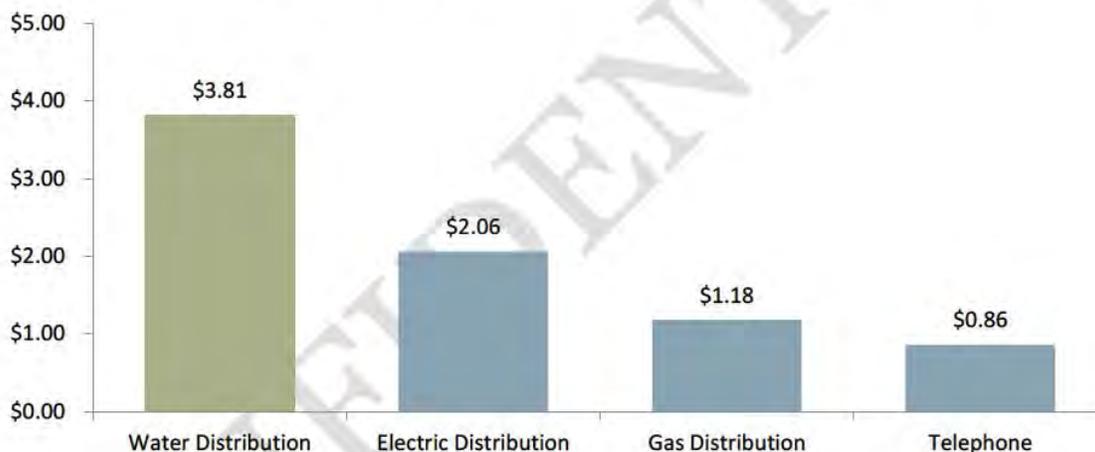
Investment Highlights

Fully regulated industry with significant barriers to entry and financial stability from regulated cash flows

Water utilities are regulated monopolies that generally operate pursuant to certificates of public convenience and necessity issued by the state utility commissions. As of 2005, public and investor-owned water utilities served 86% of the U.S. population, a significant increase from 50% of the population in 1950.⁴

The high construction cost of a new water utility system, the need to secure stable and cost-efficient water sources and the challenge of complying with increasingly complex regulatory requirements inhibit competitive entrants. Water utilities require more capital invested per dollar of revenue than any other regulated industry⁵, limiting the scope of competitors willing to enter the market and enhancing opportunities for incumbents.

Figure 7: Regulated Industries Capital Invested per Revenue Dollar ⁴



Investor-owned water utilities are viewed as having a high degree of financial stability due to predictable customer demand and a revenue model which provides for recovery of approved expenses and return on and of allowed invested capital.

⁴ U.S. Geological Survey, "Estimated Use of Water in the United States in 2005"

⁵ AUS Utility Reports, 2009



Investment Highlights

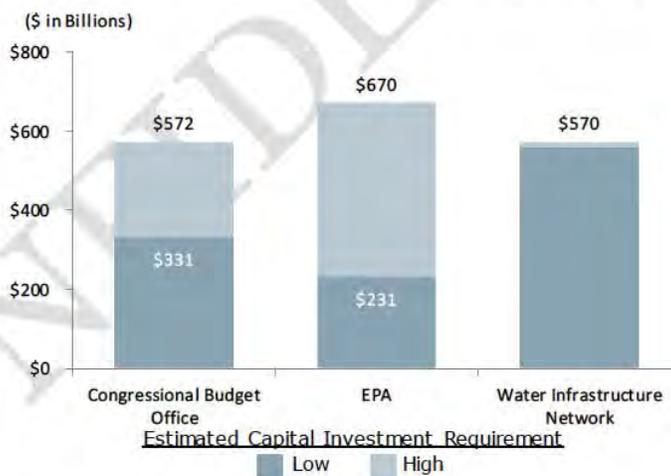
Significant capital investment opportunities driven by replacement of aging infrastructure, system improvement and growth

The occurrence of leaks and main breaks increase as pipelines age and population growth further strains water utility infrastructure. It is estimated that seven billion gallons of treated water (16% of all U.S. treated water) are lost daily due to leaks before reaching the customer. The volume of water leaked is enough to supply California’s daily water needs.⁶

In its most recent report, the American Society of Civil Engineers provided a D+ grade for the overall U.S. drinking water infrastructure and stated that the U.S. water industry should, at a minimum, be spending an additional \$11 billion per year to replace existing infrastructure simply to maintain current service levels. Nearly a quarter of all U.S. water mains are more than 50 years old.⁷

According to the Environmental Protection Agency (“EPA”) ⁸, the nation’s drinking water utilities are expected to require \$231 billion to \$670 billion⁹ in infrastructure replacement over the next 20 years.¹⁰ Investment by investor-owned water utilities with established access to capital, such as Park Water, will be critical to addressing these infrastructure deficiencies.

Figure 8: Water Utility Investment Required Over Next 20 Years



⁶ National Association of Water Companies

⁷ American Society of Civil Engineers, “Infrastructure Report Card,” 2013

⁸ Estimated cost of necessary infrastructure projects January 2011 to December 2030. EPA, “Drinking Water Infrastructure Needs Assessment,” 2011

⁹ Estimated capital costs associated with all investments as well as the interest paid over time on those investments. Water Infrastructure Network, 2000

¹⁰ The EPA Infrastructure Needs Assessment was performed by directly surveying the nation’s drinking water utilities

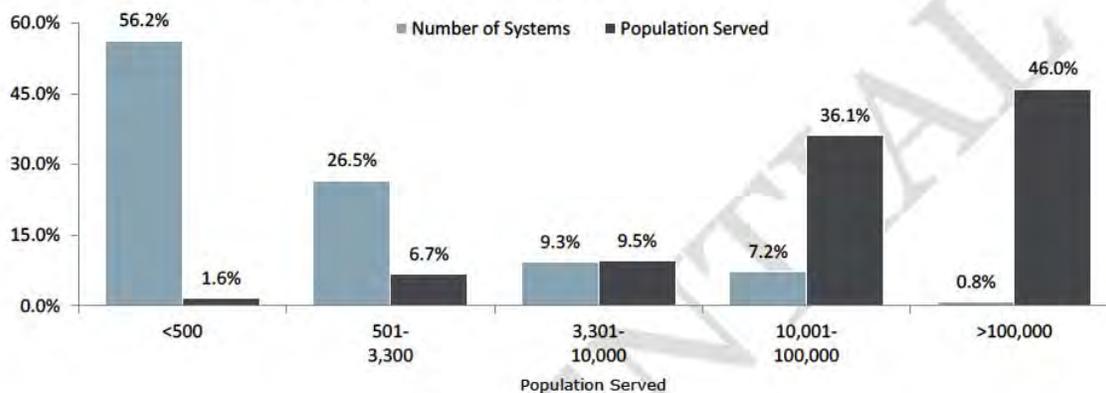


Investment Highlights

Industry fragmentation and economies of scale support ongoing consolidation

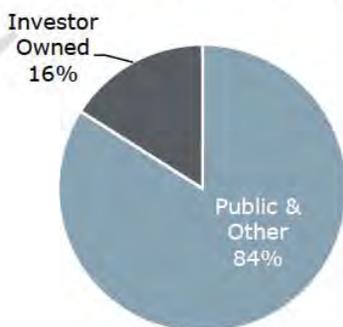
The water utility sector is highly fragmented, providing significant consolidation opportunities for investor-owned water utilities. The U.S. water utility market has 51,651 community water systems with 83% serving fewer than 3,300 people.¹¹

Figure 9: Water Utility Systems



Nearly 84% of water systems are owned and run by local municipal governments. Municipalities facing financial challenges and resource limitations have increasingly looked to investor-owned water utilities to either provide management, operations and infrastructure solutions through innovative partnerships or, in some cases, acquire their utility assets outright.

Figure 10: Water Utility Ownership (Number of Utilities)



¹¹ EPA, "Public Drinking Water Systems by Size of Community Served and Source of Water," 2009



Investment Highlights



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Investment Highlights

Diverse, Balanced and Scalable Water Utility



Rare platform investment opportunity in the water utility sector

Park Water represents an opportunity to acquire a multi-state utility platform with a sizable California footprint (Park Central Basin and Apple Valley) and the largest investor-owned water utility in Montana, proven management team, well-developed capital investment program and substantial organic and strategic growth prospects.

Opportunities to buy a utility of this size and scope are rare due to the large number of municipal utilities and few large investor-owned utilities. Specifically, there are only nine publicly traded water utilities and a limited number of sizeable private investor-owned water utilities in the U.S.

Figure 11: Water Utility Companies by Enterprise Value ¹²



Park Water's cash flow stability is supported by a diverse and balanced business model. The Company's utility operations are organized into three independent business entities. Each business entity operates in a distinct geographic and economic area and as a separate regulated utility for ratemaking purposes.

¹² Market data as of May 23, 2014

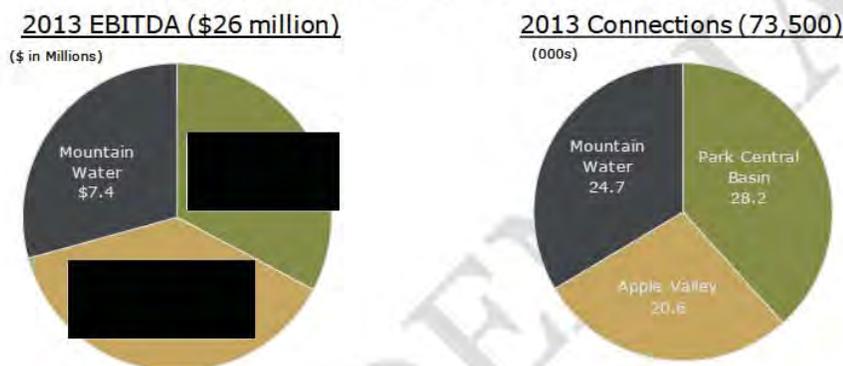


Investment Highlights

Ratemaking diversification represents a key advantage of Park Water’s business model. The three utility operations – Park Central Basin, Apple Valley and Mountain Water – maintain separate rate tariffs and file separate general rate cases, limiting the risk associated with any single regulatory decision.

Additionally, Park Water provides operational and financial balance which limits concentration risk in any single business entity. In 2013, no single utility contributed more than 40% of Park Water’s consolidated EBITDA or total customer count.

Figure 12: Park Water EBITDA and Connection Split ¹³

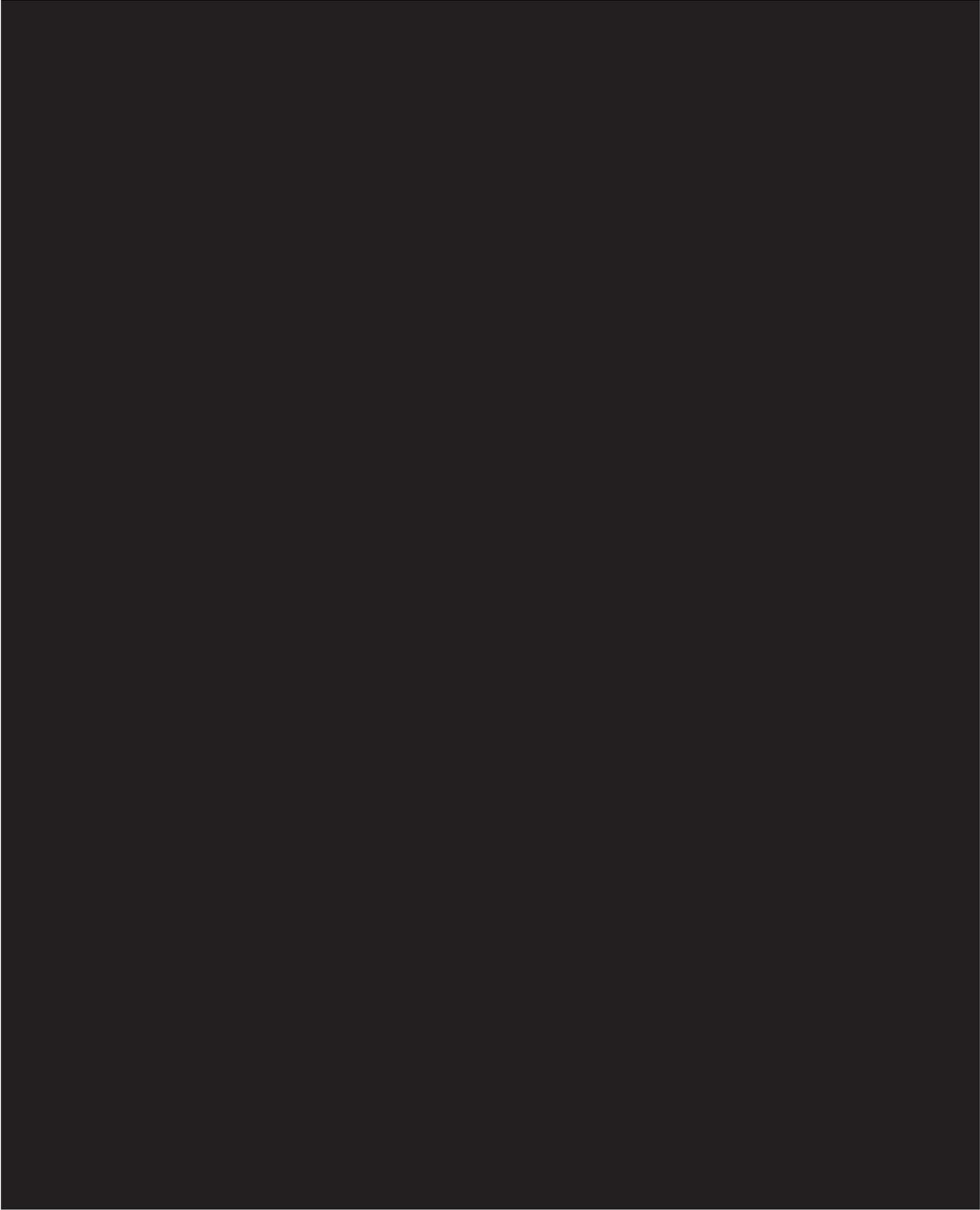


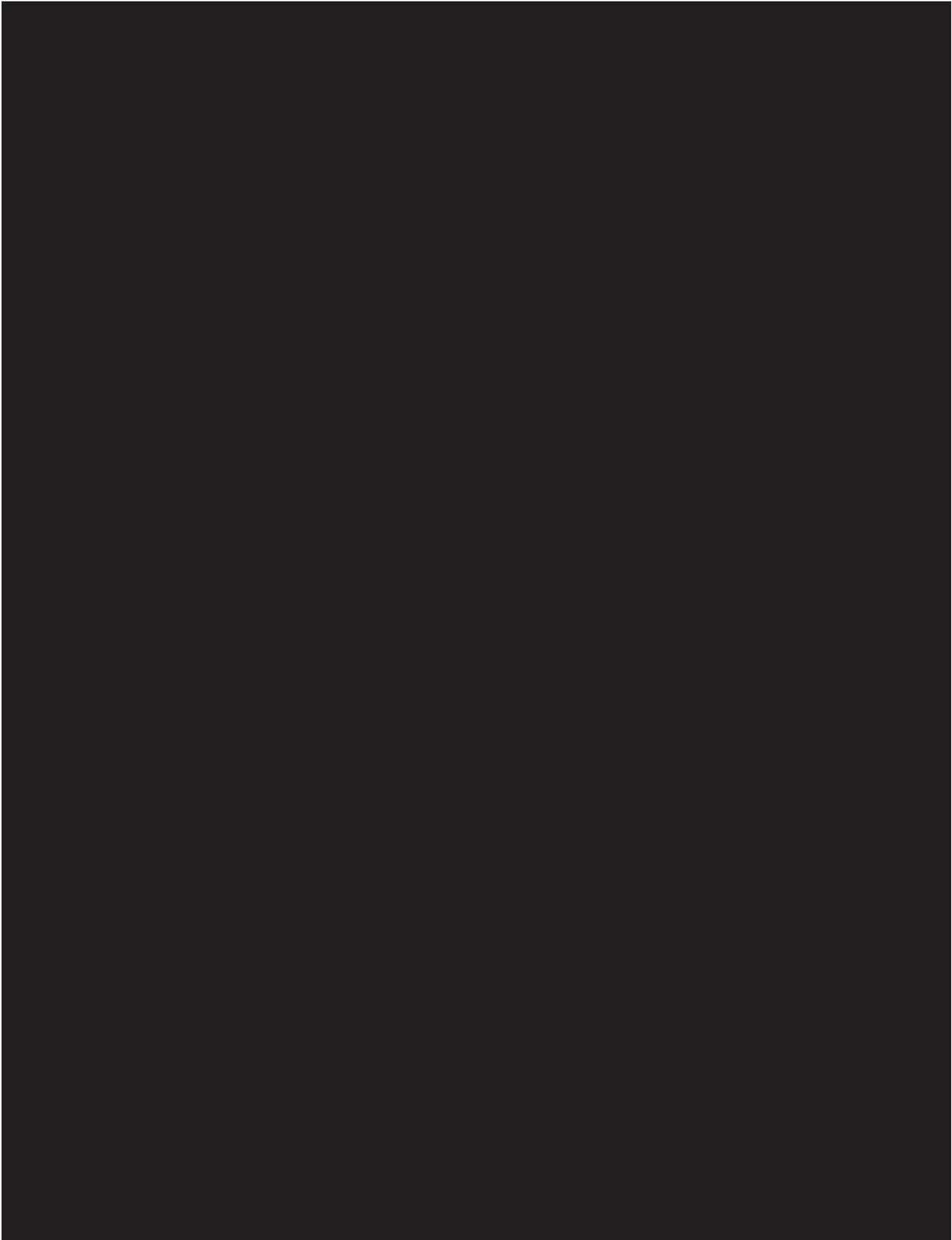
Scalable corporate and IT system supports service territory expansion and strategic growth

Park Water maintains a centralized corporate unit (“Corporate”) that provides corporate services to its utility operations: accounting, engineering, finance, human resources, information technology, legal, risk management, regulatory ratemaking and water quality. Centralized corporate management ensures effective internal control processes and compliance with Company policies and federal and state regulations.

Moreover, Corporate has the ability to scale up to support strategic growth and support the integration of utility acquisitions efficiently and with limited incremental expense or investment.

¹³ Includes \$0.1 million utility non-regulated EBITDA







Investment Highlights

Figure 15: Management Team Overview

| Name | Title | Year Joined Company | Years of Experience |
|-----------------------|--|----------------------------|----------------------------|
| Christopher Schilling | Chief Executive Officer | 2009 | 30 |
| Leigh Jordan | Executive Vice President & Secretary | 1986 | 33 |
| Chris Alario | Sr. Vice President, Corporate Development | 2012 | 20 |
| Jeanne-Marie Bruno | Sr. Vice President, General Manager (Park Central Basin) | 2000 | 36 |
| Douglas Martinet | Sr. Vice President, Chief Financial Officer | 1982 | 37 |
| Mary Young | Sr. Vice President, Administration | 1991 | 36 |
| Gary Lynch | Vice President, Water Quality | 1988 | 33 |
| John Kappes | President, General Manager (Mountain Water) | 1990 | 24 |
| Tony Penna | Vice President, General Manager (Apple Valley) | 2012 | 34 |
| Rick Dalton | Asst. Vice President, Chief Engineer | 1988 | 30 |
| Sam Musgrave | Manager, Risk and Emergency Preparedness | 2013 | 23 |

Note: Complete management biographies are available in the Appendix



Investment Highlights

Strong Growth Through Increased Capital Investment and Service Territory Expansion

Park Water has significantly increased its capital investment program over the last three years to address the replacement requirements of an aging distribution system while making system improvements. Park Water forecasts significant capital investments focused on main replacements, wells, pumping and storage facilities, and other small scale system improvements.

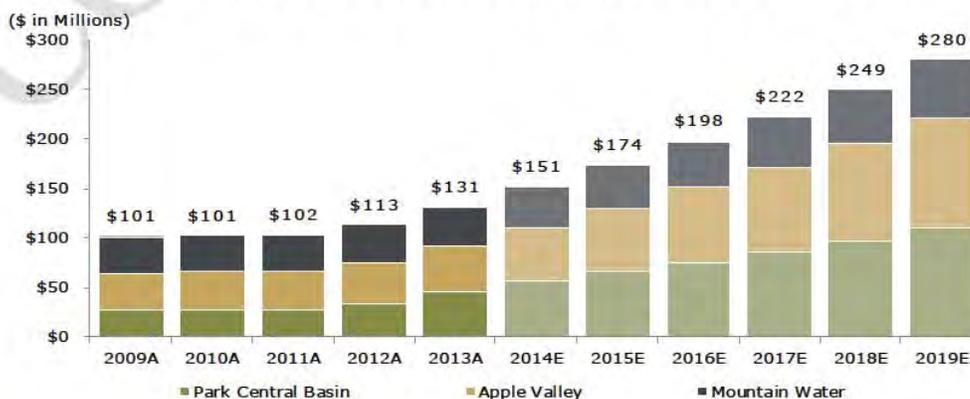
While the economic recession dampened customer growth, signs of strong customer growth are emerging particularly in the Apple Valley and Mountain Water service territories. In light of these factors, Park Water is well-positioned to achieve strong and stable organic growth in the next five years.

Compound annual rate base growth of 13% since 2011 from increased capital investment program for on-going replacement and improvement of distribution systems

Rate base growth in Park Water’s three utilities has largely been driven by increasing capital requirements associated with maintaining and enhancing system safety and reliability and addressing the critical infrastructure replacement and upgrades needs of its aging systems. Moreover, the Company expects continued rate base growth over the next six years across its three utilities, driven by an accelerated main replacement program and a focus on increasing investments to improve supply reliability and diversity.

One of the Company’s top capital priorities is its on-going and successful main replacement program, which is resulting in lower leak rates and improved transmission capabilities for all three utilities. Park Water continues to increase investments in production and pumping facilities and water rights to improve supply reliability and diversity and ensure the Company’s ability to meet current and future demands in all of its service territories. The Company has and will continue to make significant investments in storage facilities to improve system service levels and reliability.

Figure 16: Rate Base by Utility (2009A – 2019E)





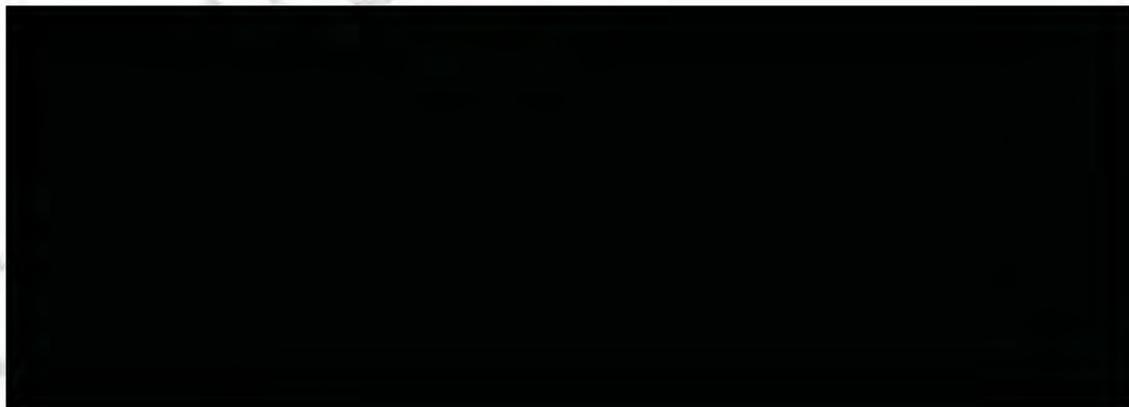
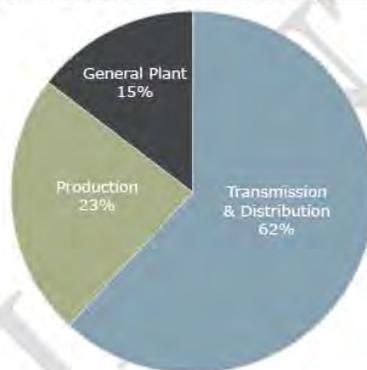
Investment Highlights

Over \$200 million of planned regulated Company-funded capital investment through 2019E

Park Water has increased its annual Company-funded capital investment program from \$9 million in 2011 to a budgeted \$27 million in 2014E. Park Water projects \$200 million of Company-funded capital investment between 2014E and 2019E focused on numerous projects focused on replacing aging distribution systems, expanding groundwater production and storage capacity, enhancing water supply reliability and other system improvements. This base capital investment plan results in an 11% rate base CAGR from 2015E to 2019E. In addition, Park Water plans to opportunistically purchase water rights in support of its water supply rebalancing plan.

Figure 17: 2014E-2019E Company-Funded Capital Investment by Category ⁴⁴

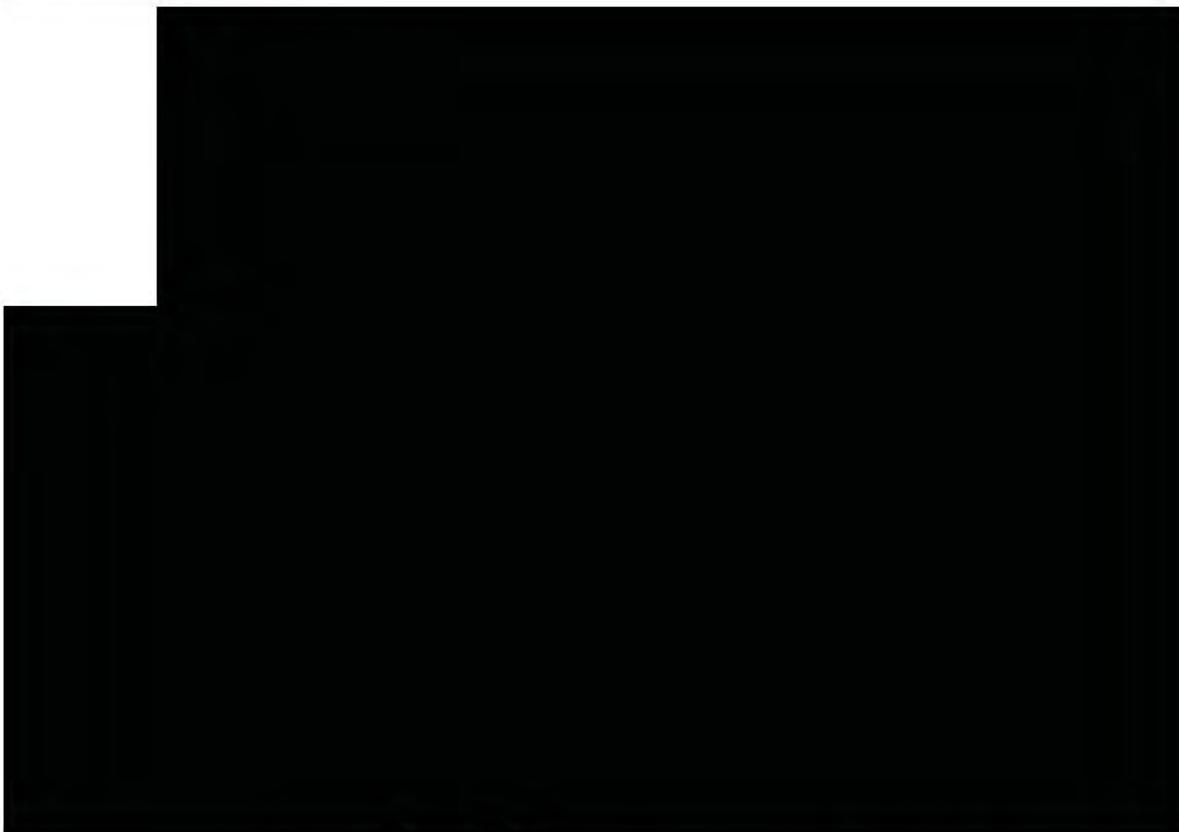
Total Capital Investment (\$204 Million)



⁴⁴ Note: Transmission & Distribution (“T&D”) includes main replacements and extensions, reservoirs and other distribution system-related items. Production includes groundwater wells, booster pumping facilities, water rights, pump and electrical replacements, control systems and treatment equipment. General Plant includes all types of general equipment, transportation and office facilities.



Investment Highlights



Improving economic conditions driving customer growth across each of Park Water's service territories

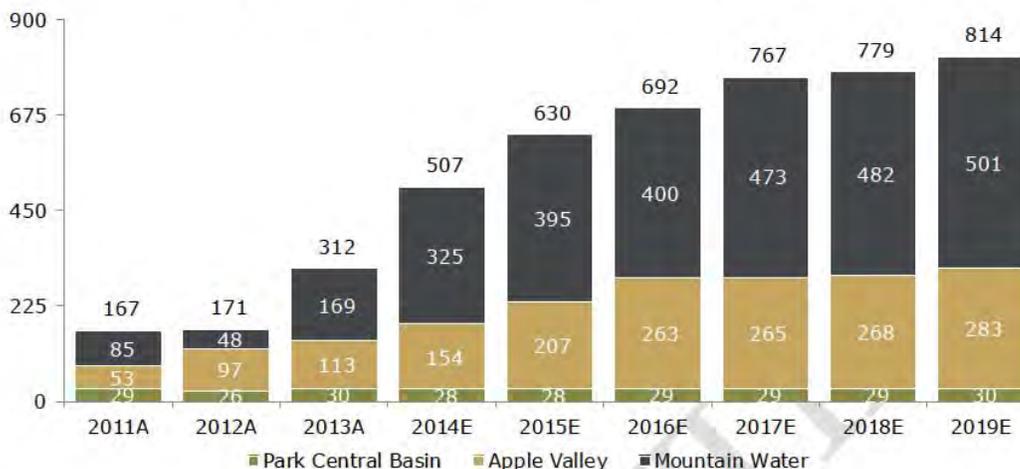
During the recent economic downturn customer growth slowed but remained positive in each of Park Water's service territories. Organic customer growth is expected to return to historical levels given very attractive regional dynamics in all three of Park Water's distinct service territories. Higher customer growth will mitigate customer rate increases associated with Park Water's capital investment program.

Park Water is experiencing increased new connection growth in its three distinct service territories as economic conditions continue to improve in California and Montana. Local management is responding to an increased volume of main extension and new connection requests from commercial and residential developers as well as local property owners. Close to \$28 million in developer-funded (including Advances and CIAC from developers) water distribution projects for new commercial and residential developments are anticipated through 2019E. Park Water is expecting to add approximately 4,200 new service connections (6% aggregate growth) over the next six years.



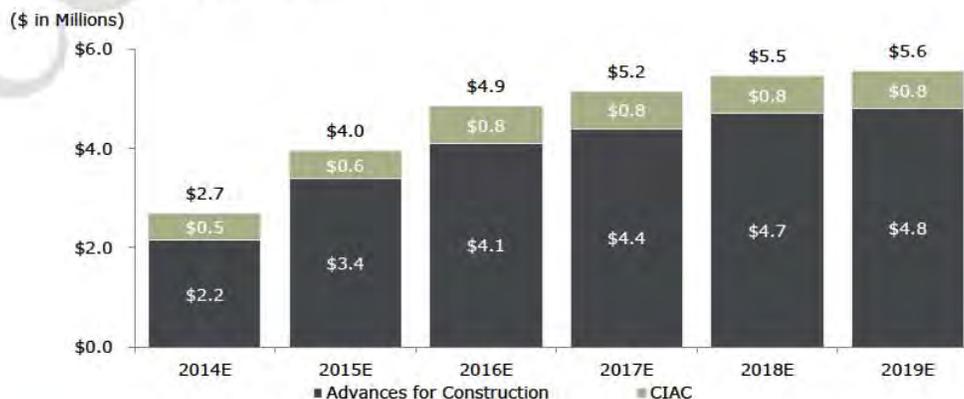
Investment Highlights

Figure 19: New Connections (2011A - 2019E)



Mountain Water is currently tracking 12 development projects within its service territory with a total potential build-out of over 3,200 new connections. In addition, Mountain Water expects to add over 2,500 new connections (10% aggregate growth) over the next six years. The developer-funded capital investment required to serve the new connections is estimated to be \$16.4 million, including \$13.6 million in Advances. Mountain Water expects to complete \$1.4 million of capital investments funded through Advances in 2014.

Figure 20: Forecasted Developer Funded Capital Investment (2014E-2019E)



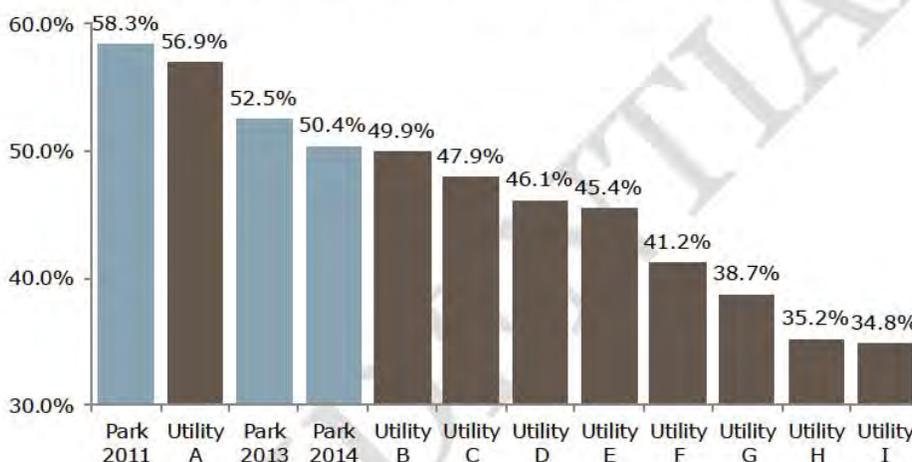


Investment Highlights

Increasing Margins and Improved Business Performance

Over the last several years, Park Water’s management team has improved business and financial performance through a combination of increased operational efficiency, process improvements, organizational enhancements and investments in technology. Consequently, Park Water has realized meaningful cash flow benefits through improved operating margins and a lower O&M efficiency ratio. Cost savings from such efforts have enabled an expanded capital investment program while mitigating customer rate increases.

Figure 21: 2013 Comparable Water Utility O&M Efficiency Ratios ¹⁵



Enterprise-wide strategic initiatives to enhance and improve business performance have increased operating margins and profitability while mitigating customer rate increases

The management team has taken a deliberate and focused approach to improving business performance by emphasizing increased operational efficiency and financial results, while simultaneously developing a more effective, responsive and accountable organization. Additionally, increased focus on long-term operational budgeting has resulted in improved execution of general rate case decisions and more effective expense recovery.

Operational improvements, from process change and technology implementations, have reduced required staffing levels. The use of automatic meter reading (“AMR”) and interactive voice response for

¹⁵ O&M efficiency ratio is defined as regulated O&M expense divided by regulated operating revenue where both O&M expense and operating revenues are adjusted to eliminate purchased water expense. Source: Utility annual filings



Investment Highlights

customer calls have reduced the labor required to achieve equivalent service levels. Staffing levels have been further reduced through department consolidation, employee retirements and normal attrition.

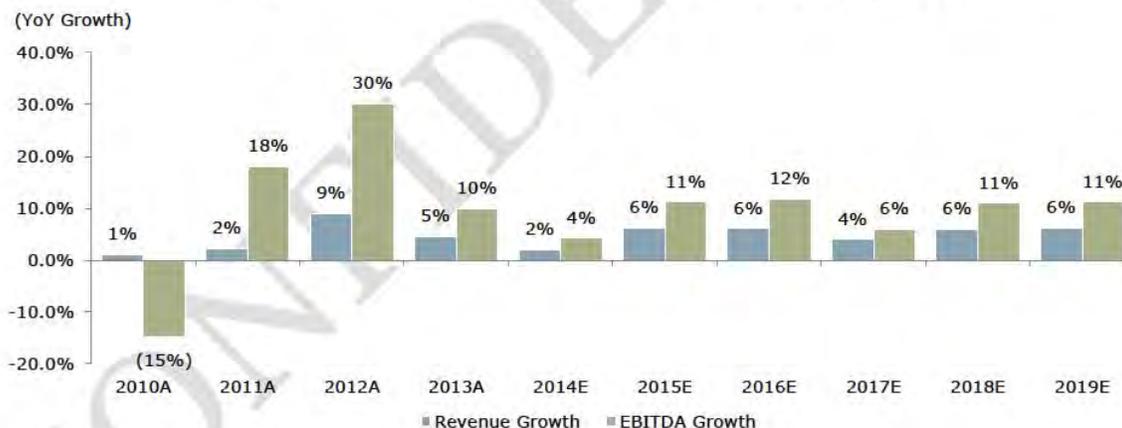
Additional expense savings have been achieved through competitive bidding of employee benefits and general insurance brokerage services, redesign of post-retirement medical benefits, professionalizing pension plan asset management, amending employee policies and better management of customer account receivables.

Through greater use of matrix reporting structures, Park Water has made operations and corporate functions more effective and responsive, focusing on higher value activities and facilitating more collaboration and greater knowledge sharing across the organization.

EBITDA margin improvement from 29% in 2011A to 37% in 2014E with further improvement planned

Park Water's EBITDA growth has significantly outpaced revenue growth as a result of operational efficiencies and expense management. Expense savings and prudent cost management have mitigated increases in customer rates associated with higher capital investment.

Figure 22: EBITDA Growth Outpaces Revenue Growth

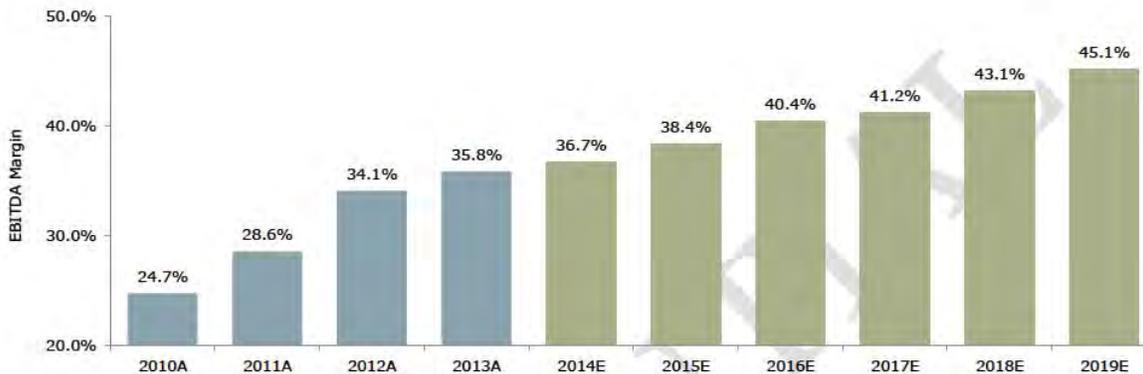




Investment Highlights

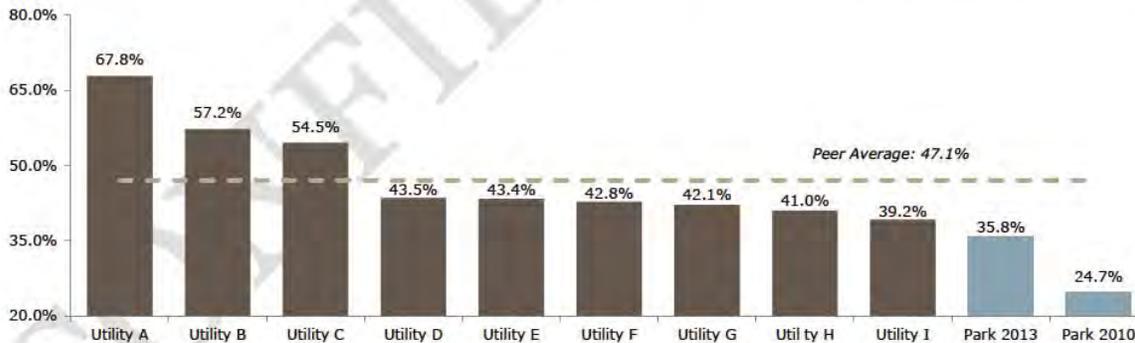
Park Water’s EBITDA margins have increased from 24.7% in 2010A to 36.7% in 2014E.

Figure 23: Park Water EBITDA as % of Revenue



EBITDA margin is expected to increase to 45.1% by 2019E, which still leaves room for improvement relative to Park Water’s peers. The current focus on operational efficiency and technological investment is expected to produce increased EBITDA margins.

Figure 24: Comparable Water Utilities 2013A EBITDA as % of Revenue¹⁶



¹⁶ Source: Utility 10K filings



Investment Highlights

Supportive Regulatory Jurisdictions

Park Water operates in supportive regulatory jurisdictions with constructive rate mechanisms.

Constructive state regulation allows for predictable business planning and capital investment

California and Montana regulatory bodies support the utility and customer alike by promoting needed investment and expense recovery to ensure safe and reliable service at reasonable rates with a commitment to environmental enforcement and a healthy economy.

The California Public Utilities Commission ("CPUC") and Montana Public Service Commission ("MPSC") have enacted regulations allowing Park Water's utilities to receive rate increases each year (multi-year, forward test year cases in California and annual, historical test year cases in Montana). The CPUC and MPSC have also established alternative revenue policies that promote water utility investment and limit cash flow volatility.

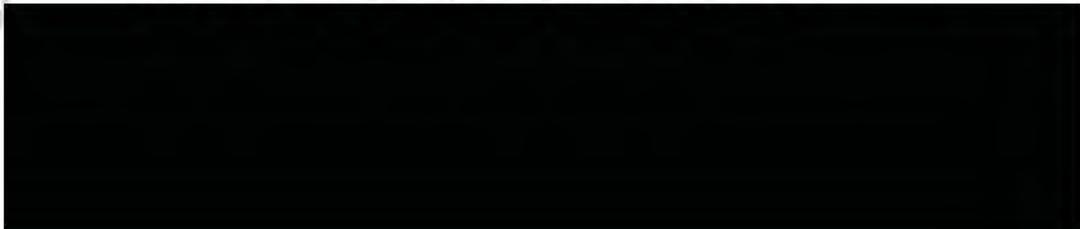
Through Park Water's regulatory expertise and knowledge, the Company has developed and maintains strong and effective relationships with both the CPUC and the MPSC.

Regulatory mechanisms enable timely cost recovery and mitigate risks associated with production costs and conservation

Both the CPUC and MPSC have alternative regulatory mechanisms to reduce risks associated with regulatory lag, sales volume fluctuation and recovery of unforeseen operating costs. Ultimately, the mechanisms provide for a more stable investment environment and lower customer rates while avoiding rate shocks.

California utilities have a number of revenue adjustment and interim cost recovery mechanisms available that provide for predictable revenues and cost recovery. Mechanisms, such as a Water Revenue Adjustment Mechanism ("WRAM"), which allows for revenue decoupling from sales volume, and Modified Cost Balancing Accounts ("MCBA") mitigate potential negative earnings impacts associated with conservation and water supply costs.

In Montana, the MPSC allows for the pass-through of purchased power costs, which are the primary water production expenses.





Investment Highlights



Annual filings with post-test year adjustments in Montana align ratepayer and utility objectives while reducing regulatory lag

In Montana, the MPSC utilizes a historical test year but allows for “known and measurable” charges to test year expenses to be recovered in customer rates. Rate cases in Montana are subject to a nine month decision schedule pursuant to state statute and utilities are allowed to request interim rate increases prior to a final decision. These cases can be filed annually to reduce regulatory lag and reduce the impact of increased bills to the customer.

Montana utilities include Cost of Capital requests in their GRC applications. The authorized ROE for Mountain Water is 9.80%.

Section III:
WATER INDUSTRY OVERVIEW



Water Industry Overview

Overview

Water utilities are involved in the management of water resources and the distribution and delivery of drinking water to households and businesses generally within designated service territories. Water utilities focus on three key operational components: water resource management, water treatment and quality, and distribution of water to the customer.

Water Resource Management

Water resource management consists of monitoring, extraction and collection of water from underground aquifers, surface water sources and water purchased from third party suppliers. Local geology determines whether ground water in sufficient quantity and acceptable quality can be extracted on a sustainable basis to provide adequate and reliable supply. Water may also be supplied from surface water bodies such as rivers, lakes and reservoirs. The extraction of water supplies from both underground and surface water sources is managed to avoid detrimental consequences to the aquifer or overall ecology. Other potential water resources that can be added to a utility water portfolio are reclaimed (or recycled) water and desalinization.

Water Treatment and Quality Management

The extent of water treatment is dependent upon the quality of the source water supply, as well as federal and state water quality regulations. Surface water sources often require more treatment than ground water sources. However, ground water sources are susceptible to natural or man-made contamination that may necessitate treatment technologies to meet drinking water quality standards.

Treatment can include coagulation, sedimentation and filtration, ion exchange, reverse osmosis and advanced oxidation processes like ozone and ultraviolet light to remove particulate matter, chemical contaminants and radionuclides. Advanced oxidation and disinfection is also used to control microbial contaminants. Fluoridation of water is a common treatment addition.

The quality of the raw, treated and distributed water is tested and monitored regularly to ensure compliance with health standards. Treated water is either introduced directly into the distribution system or transferred to storage facilities.

Distribution

Water distribution refers to the operation and maintenance of the system of pipes, pumps and storage facilities for the delivery of potable water to consumers. Customers are connected to the utility distribution system via a service line owned either by the utility or the customer.

Customers are billed for the water service based on metered consumption which can include a periodic service fee, or a flat rate.



Water Industry Overview

Industry Characteristics

Financial Stability

The water utility industry is viewed as having a high degree of financial stability due to limited competition, the essential nature of the service and predictable customer demand. The revenue model for PUC regulated utilities provides for recovery of approved operational expenses and a return on and of allowed invested capital.

Significant Barriers to Entry

Water utilities generally operate as monopolies within their service territories. Often, water utilities operate pursuant to a certificate of public convenience and necessity, a franchise or similar authorization, making the utility the sole provider in that service territory.

While local regulation may permit customers to construct individual wells, the construction, maintenance and operation of such wells are usually expensive. Even where no specific authority is required to construct a water distribution system, the capital cost to build a competing system to serve a community is largely prohibitive.

Ownership of ground water rights which limit production of water from a specific aquifer also provide existing water utilities a significant competitive advantage.

Highly Fragmented Industry

The U.S. water industry is highly fragmented. According to the EPA, there are 51,651 U.S. community water systems, the majority of which serve a population of under 3,300. Nearly 84% of the water systems in the U.S. are owned by municipalities.¹⁷ Only nine water utilities are publicly traded with a combined market capitalization of approximately \$14.4 billion as of May 23, 2014, the largest of which (American Water Works Company, Inc.) has a market capitalization of \$8.5 billion.

Many municipalities in the U.S. are under financial pressure due to budget shortfalls and growing pension liabilities, and are unable to fund capital improvement programs even for necessary services such as water. In cases where municipalities are unable to make necessary repairs and improvements to their water systems, many have pursued privatization alternatives, including a sale or granting a concession to an independent operator.

¹⁷ Environmental Protection Agency (www.epa.gov), May 2014



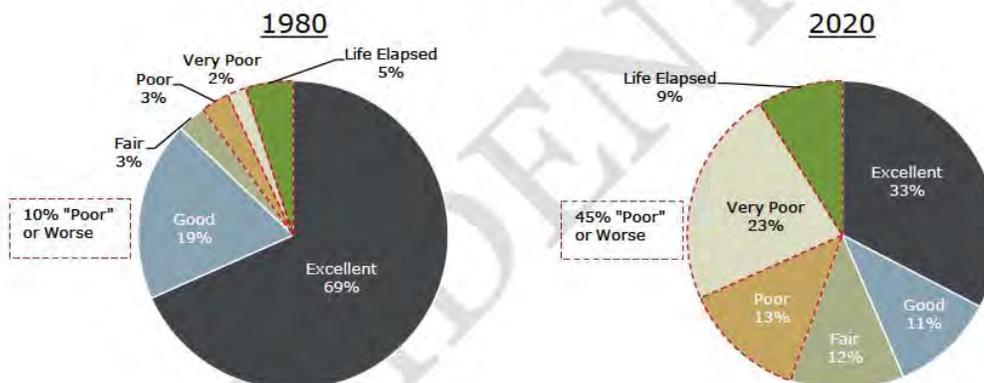
Water Industry Overview

Aging Infrastructure Requiring Significant Capital Investment

Many water utility systems in the U.S. were built in the 1950's. These systems are increasingly at or approaching the end of their reliable service lives and are in need of upgrading and replacement. Prior investment has been below levels needed to maintain adequate service reliability. In addition, increasing regulations on water quality standards are heightening the need for system upgrades and associated capital costs.

Substantial capital investment will be essential over the next 20 years as water systems become obsolete and face increasing risk of failure. According to the American Water Works Association, nearly half of U.S. water infrastructure will be designated as in "poor" condition by 2020 if current spending trends continue. Similar assessments have been conducted by the American Society of Civil Engineers, which graded the nation's water infrastructure "D+".¹⁸

Figure 25: Condition of U.S. Water Pipe¹⁹



It is estimated that \$231 billion to \$670 billion of domestic water infrastructure investment is needed over the next 20 years to maintain safety and quality standards. Roughly \$162 billion (40% of total) has been identified as a need for Medium Community Water systems, the category in which Park Central Basin, Apple Valley and Mountain Water operate.^{20, 21}

¹⁸ American Society of Civil Engineers, "Infrastructure Report Card," 2013

¹⁹ American Water Works Association, "Dawn of the Replacement Era, Reinvesting in Drinking Water Infrastructure"

²⁰ Water utilities serving communities with 3,301-100,000 persons

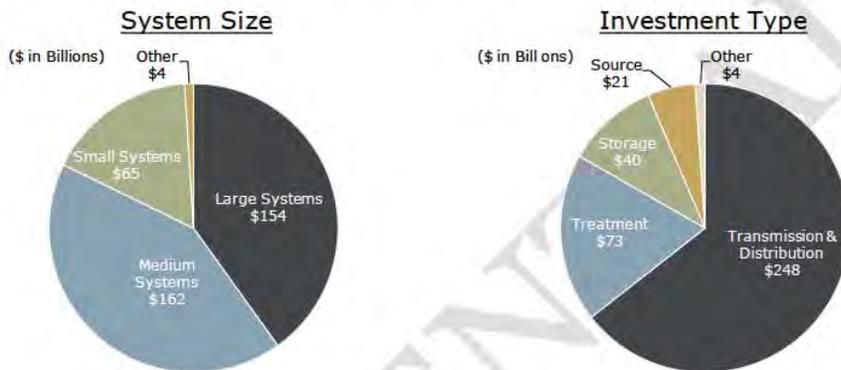
²¹ As of 2013, Drinking Water Infrastructure Needs Survey and Assessment, U.S. Environmental Protection Agency



Water Industry Overview

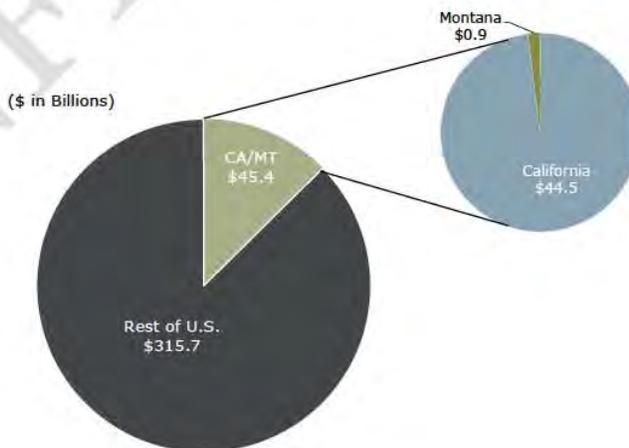
The EPA’s infrastructure investment forecast focuses on maintaining the physical integrity of utility systems. Transmission and distribution rehabilitation comprises \$248 billion (64% of total) of the EPA designated need. Roughly \$60 billion (15% of total) is required for water source and storage updates, including constructing new source water wells and surface access, to support increasing volumes and expanding service territories.

Figure 26: U.S. 20-Year Investment Need



California has the largest estimated water utility investment requirement of any U.S. state, with a total 20-year estimated need of \$45 billion (\$1,161 per capita). Montana is estimated to require \$885 million over the 20-year period (\$872 per capita).

Figure 27: 20-Year Investment Need by State





Water Industry Overview

Additional Growth Opportunities

Service Territory Growth

Service territory expansions allow a utility to grow its customer base and expand its service territory with low incremental operating expense. Service territory expansion may be subject to PUC or local approval.



Universities

Universities are also considering privatizing or outsourcing critical infrastructure, such as their water distribution and wastewater systems, given the capital funding requirements and specialization needed to maintain these systems adequately.

Non-tariff Services

Where the customer owns the service line, the customer is responsible for its repair. For a monthly fee, customers are able to purchase service line protection insurance, warranty programs related to home repairs and internal plumbing protection insurance. These non-regulated services may be offered directly or in partnership with a warranty provider. California has specific rules for non-tariff services provided by utilities, which require the utility to pay incremental costs and share revenue with customers.

Wastewater

Similar to the water industry, the wastewater industry is equally fragmented. According to the EPA, there are 16,000 wastewater systems throughout the nation of which 98% are owned by municipalities.²³ The factors affecting the water industry are having a similar influence on the wastewater industry. In addition to aging wastewater collection systems, more stringent regulation on wastewater discharge is increasing the capital requirements needed for treatment facilities.

²² Utilities Presentation RFP Schedule, Air Force/Army, April 15, 2013

²³ American Society of Civil Engineers, "The Economic Impact of Current Investment Trends in Water and Wastewater Treatment Infrastructure", 2011



Water Industry Overview

Regulation Overview

Investor-owned utilities operate under the oversight of a PUC, the EPA, state departments of environmental protection and health, and various local departments concerning water quality, environmental matters and the handling of hazardous materials. Regulation serves as an additional barrier to entry as those unfamiliar with the regulatory environment are unlikely to be able to effectively and efficiently navigate the regulatory process.

Rate Regulation

Investor-owned water utilities are regulated on a state-by-state basis by a PUC which oversees the rates and services of a public utility. The primary responsibility of PUCs is to promote the overall public interest by balancing the demands of customers and the utility. Utilities are entitled to recover, through rates charged to customers, prudent and reasonable operating costs as well as an appropriate return on and of used and useful capital investment necessary to provide service to customers.

A utility's authorized rates and charges are derived through a combination of the amount of approved invested capital ("rate base"), cost of service and cost of capital as deemed appropriate by the PUC during a given period referred to as a test year. PUCs determine whether a utility uses a forward looking test year (taking into account projected costs) or a historical test year to determine a utility's costs.

In general, the rate base of a regulated water utility is the used and useful gross property, plant and equipment ("PP&E") plus construction work in process ("CWIP") less accumulated depreciation, adjusted down by any contributed or advanced assets or funds, accumulated deferred income taxes and adjusted up by the regulatory working capital allowances.

$$\begin{aligned} \text{Rate Base} = & \text{Gross PP\&E} + \text{CWIP} - \text{Accumulated Depreciation} - \\ & \text{Contributed or Advanced Assets} - \\ & \text{Accumulated Deferred Income Taxes} + \text{Regulatory Working Capital} \end{aligned}$$

Construction Work In Progress

Major facilities take a number of years to complete. CWIP allows a percentage of capital projects not yet completed to be included in rate base and earn a return. In certain states, such as Montana, CWIP is not permissible to be included in rate base and no return can be earned until the specific project is completed.

Contributions in Aid of Construction and Advances for Construction

In certain cases, a customer, homebuilder or real estate developer may fund the capital cost for a new water service connection or convey the assets to the utility in order to extend water service to their property.



Water Industry Overview

Advances are refundable over a limited period, 40 years in both California and Montana. Refunds are made by the utility in accordance with agreements with the contributing party and are based on either a fixed schedule or as a function of new customers/revenue related to the utility plant advanced. CIAC are permanent collections of plant assets or cash for a particular project which are non-refundable.

For ratemaking purposes, the amount of unrefunded Advances and CIAC generally serve as a reduction to rate base as these assets were funded with non-utility supplied funds. Depreciation associated with assets funded by Advances is typically allowed as an expense for ratemaking purposes, providing a source of cash flows to fund refunds.

Deferred Tax Liabilities

Accelerated tax depreciation can cause a timing difference in actual cash taxes paid and book taxes for financial accounting purposes. Where the timing for tax reporting is not "flowed through" for ratemaking tax calculations, most typically for accelerated depreciation, such timing differences result in utilities paying less in cash taxes than they are permitted to recover in rates. These deferred tax liabilities are a source of no-cost capital, therefore the accumulated balances of deferred taxes are generally deducted from rate base for ratemaking purposes.

Capital Structure and Return on Rate Base

State PUCs determine a capital structure of debt and equity, including preferred stock, with which the rate base is deemed to have been funded and an acceptable associated cost of debt and equity to determine a utility's weighted average cost of capital.

The return on debt is typically the actual cost of debt for a utility. Or, in the future test year jurisdictions, the estimated average cost of debt financing for the utility. ROE is a measure of the allowed compensation for the utility's equity providers. The ROE is determined based on the risk evaluation of the utility and well established principles tied to just and fair compensation.

The weighted average cost of capital is applied to a utility's allowed rate base to determine the revenue required to afford the utility the opportunity to earn a fair rate of return on invested capital.

Recoverable Expenses

In addition to a return on rate base, utilities are generally allowed to recover certain expenses in rates.

Operating Expenses: Operating and maintenance expenses for the utility, including, general, and administrative expenses, as approved by the PUC.

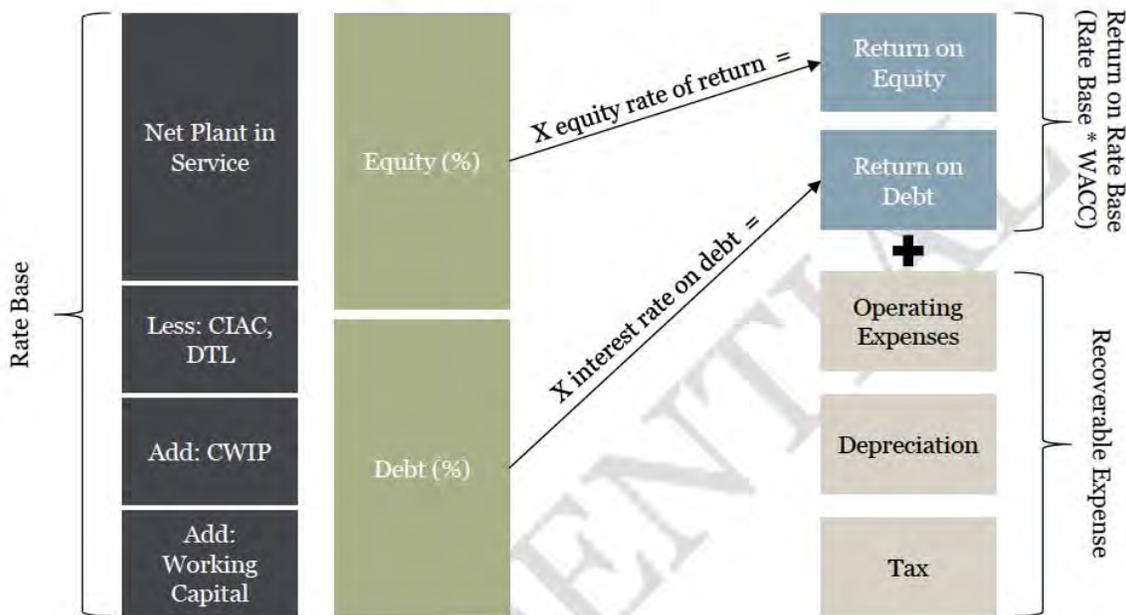
Depreciation: Depreciation on the utility plant in service, as approved by the PUC, net of any depreciation and amortization of CIAC, typically calculated on a straight-line levelized basis.



Water Industry Overview

Taxation: Taxes (including income, payroll and other taxes) incurred or deemed to have been incurred by the water utility.

Figure 28: Rate Structure



Environmental Regulation

Water utilities are subject to various EPA and state regulations pertaining to water quality, infrastructure maintenance and environmental matters.

The main statutes affecting water utilities are the federal Safe Drinking Water Act ("SDWA"), the Clean Water Act, the Public Health Security and Bioterrorism Preparedness and Response Act ("BPR") and laws and regulations issued by the EPA and state environmental regulatory agencies. These laws and regulations establish criteria and standards for drinking water.

These main statutes were drafted by the U.S. Congress, making the EPA the primary environmental oversight agency for water utilities. Most states adopted these laws by reference and assume primacy for these laws while having the right to establish criteria and standards that are more stringent than those established by the EPA.

Safe Drinking Water Act

Congress passed the SDWA in 1974 to protect public health via regulating drinking water supply. The law, amended in 1986 and 1996, establishes criteria and procedures for the EPA to develop national quality standards for drinking water. Regulations issued pursuant to the SDWA and its amendments set standards regarding the amount of microbial and chemical contaminants and radionuclides in drinking water. These rules also prescribe testing requirements for detecting regulated contaminants,



Water Industry Overview

the treatment systems that may be used for removing those contaminants and other requirements.

Federal and state requirements have become increasingly stringent, including increased water testing requirements. To date, the EPA has set standards for approximately 100 contaminants and indicators for drinking water. In addition, testing is being required for other contaminants that are not currently regulated to determine if any of them occur at high enough levels to warrant regulation.

The California Department of Public Health has recently established a maximum contaminant level ("MCL") for hexavalent chromium (chromium-6) at 10 ug/L. This new MCL will take effect July 1, 2014. No wells in Park Central Basin or Apple Valley will be impacted by this new MCL.

The SDWA standards drive increased operational and investment costs through the growing need for certified operators and engineering expertise to service the system as well as infrastructure maintenance and replacement.

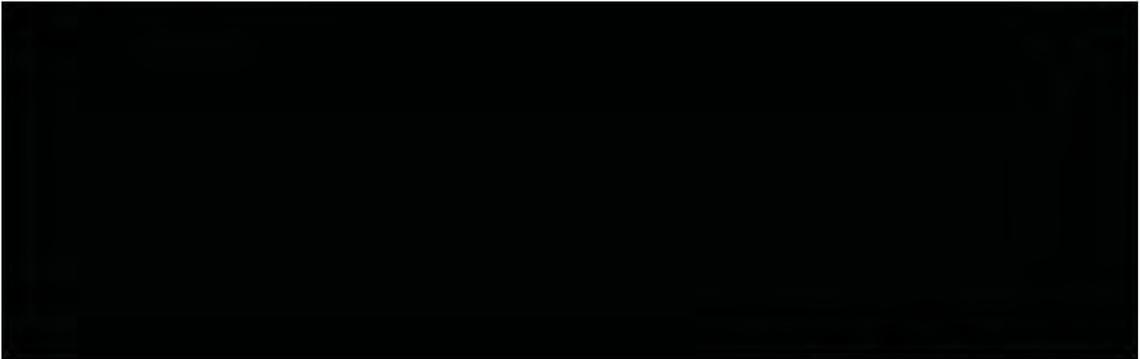
Clean Water Act

The Clean Water Act regulates discharges from drinking water and wastewater treatment facilities into lakes, rivers, streams and ground water. Park Water's California utilities are regulated for potable water discharges by local Regional Water Quality Control Boards. Park Water has working relationships with the owner/operators of Municipal Storm Sewer Systems to prevent environmental impacts of these discharges through the use of best management practices and reporting mechanisms.

Public Health Security and Bioterrorism Preparedness and Response Act

Congress passed the BPR in 2002 in response to the 9/11 attack. The act requires any water utility serving more than 3,300 connections to prepare a Vulnerability Assessment addressing any potential system risks and faults. Park Central Basin, Apple Valley and Mountain Water are in compliance with this Act and no major expenditures are planned for compliance of this Act. In response to the BPR, all three utilities have developed Emergency Response and Recovery Plans, and regularly perform exercises to establish readiness for either natural disasters or terrorist acts.

Water Industry Overview



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Section IV:
BUSINESS OVERVIEW

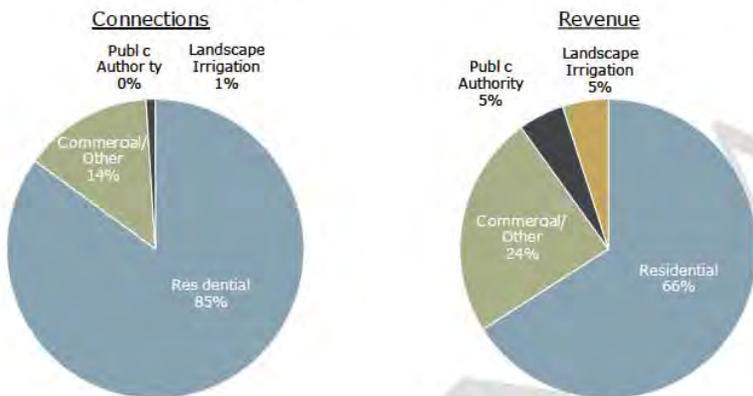


Business Overview

Company Description

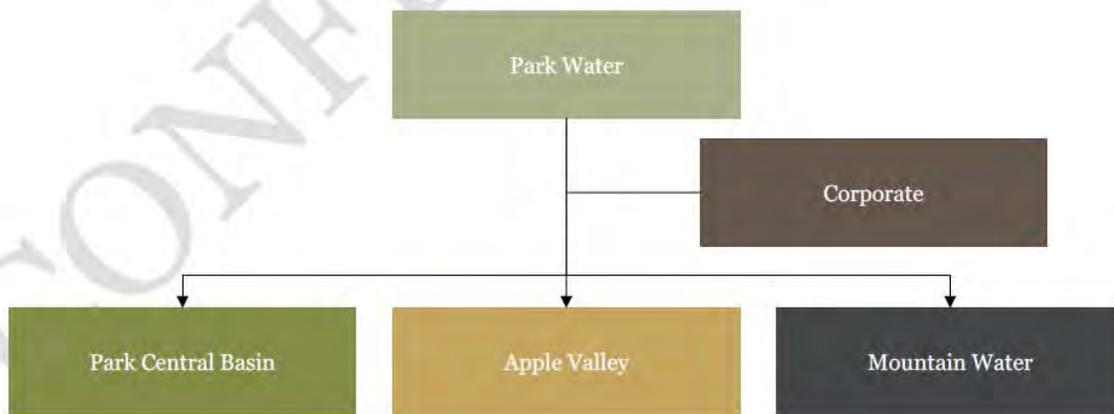
Park Water is a regulated water utility engaged in the production, treatment, storage, distribution and sale of water to 73,500 predominantly residential connections in Southern California and Western Montana, serving a combined population of 266,700 people.

Figure 29: Park Water 2013 Connections by Class



Park Water’s utility platform comprises two Class A utilities (over 10,000 connections) in Southern California (Park Central Basin and Apple Valley) and one utility serving the area consisting primarily of the city of Missoula, MT (Mountain Water). Park Water is wholly-owned by Western Water. All of Western Water’s capital stock is owned by Carlyle Infrastructure.

Figure 30: Park Water Operating Structure





Business Overview

Park Water and its subsidiaries currently employ 166 people. None of the employees are represented by collective bargaining agreements. The Company's corporate headquarters is based in Downey, CA.

Figure 31: Park Water Segment Contribution

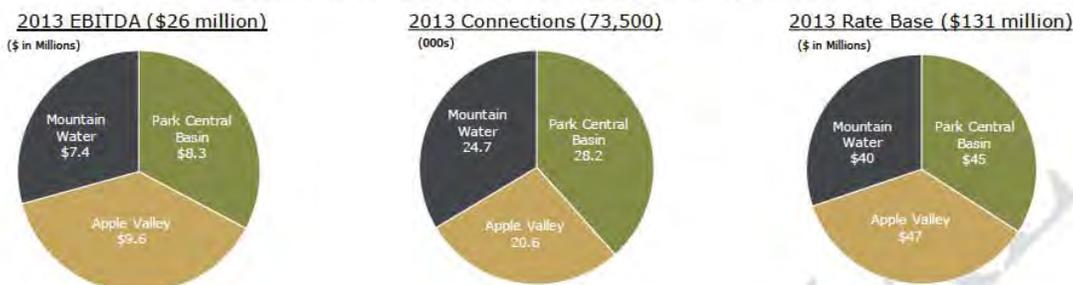


Figure 32: Year End 2013 Summary Utility Statistics

| | Park Central Basin | Apple Valley | Mountain Water | Total |
|---------------------------------------|--------------------|--------------|----------------|---------|
| Service Area | | | | |
| Population | 133,000 | 61,700 | 72,000 | 266,700 |
| Size (sq. mi) | 11 | 51 | 27 | 89 |
| Total Connections | 28,200 | 20,600 | 24,700 | 73,500 |
| Water Infrastructure | | | | |
| Miles of Main | 260 | 465 | 320 | 1,045 |
| Average Age of Pipeline (years) | 52 | 27 | 38 | 39 |
| Operating Wells (Excl. standby wells) | 7 | 21 | 35 | 63 |
| Interconnections | 16 | 6 | N/A | 22 |
| Production Capacity (GPM) | 41,386 | 28,200 | 48,649 | 118,235 |
| Storage Capacity (mg) | 2.6 | 12.0 | 10.1 | 24.7 |
| Hydrants | 1,800 | 2,600 | 1,400 | 5,800 |
| Water Supply | | | | |
| Groundwater | 27.0% | 100.0% | 100.0% | 44.0% |
| Leased Rights | 97.0% | 19.0% | - | 44.0% |
| Owned Rights ¹ | 3.0% | 66.0% | 100.0% | 56.0% |
| Long-term free rights | - | 15.0% | - | - |
| Imported | 70.0% | - | - | 24.0% |
| Recycled | 3.0% | - | - | 1.0% |

¹ Excludes 600 AF of water rights purchased by Park Central Basin in 2014



Business Overview

Operating Strategy

Park Water is focused on providing its customers with safe and reliable service at reasonable rates on a sustainable basis. Since 2011, Park Water has refined its operating strategy to emphasize operational excellence, financial performance, growth and community outreach.

The management team has improved business performance by focusing on increased operational efficiency and financial results, while developing a more effective, responsive and accountable organization. Some examples include continuous review and improvements to customer bill collections resulting in lower write-offs despite challenging economic conditions and improvements in account receivable aging. Increased reliance on Supervisory Control and Data Acquisition (“SCADA”) has also reduced required labor hours and vehicle mileage. Business improvements have resulted in streamlined decision-making, enhanced accountability and greater organization responsiveness. Changes to the Company’s capital investment review and reporting process have allowed for the Company-wide capital investment program to triple while slightly reducing associated head count.

Increased focus on long-term operational budgeting has resulted in improved execution of GRC decisions, thereby allowing for improved expense recovery. Greater engagement from operational staff in the rate case management process has led to more comprehensive identification of future costs for inclusion in rate case filings.

The Company has also made progress in increasing accountability within the organization and is moving towards a more performance-based culture. Recent changes to the performance management system underscore these efforts. The Company is implementing performance dashboards to monitor and track key performance indicators across the business and organization.

Park Water has long recognized the importance of community engagement and responsible corporate citizenship. Maintaining a long standing tradition of local charitable giving, Park Water greatly expanded community outreach activities including greater engagement with local elected officials, city administrators and community based organizations. As part of the Company’s efforts on corporate responsibility, Park Water recently prepared its first Sustainability Report, which highlights some of the many achievements in socially responsible practices across all of its business activities.

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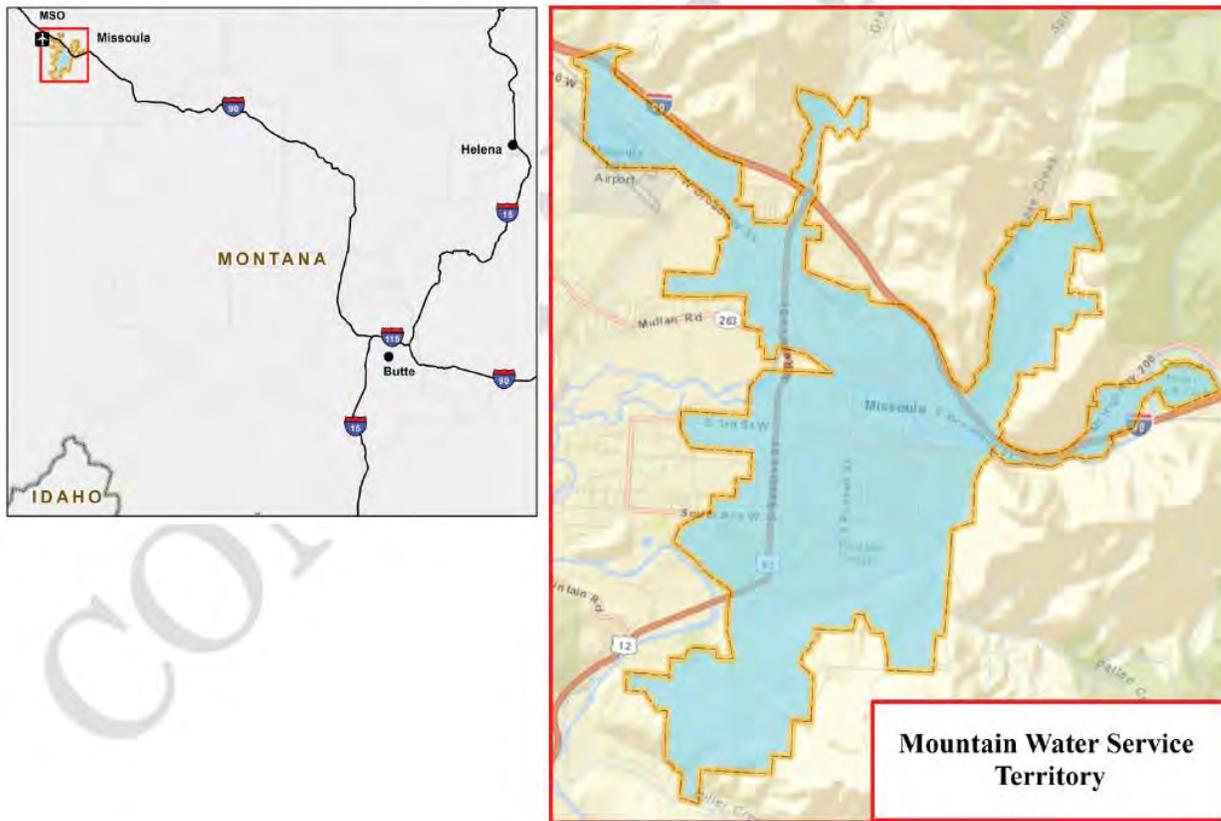
Business Overview

Mountain Water Operations

Park Water acquired Mountain Water from Montana Power Company (now known as Northwestern Corporation), a regulated electric utility, in 1979. Mountain Water has been providing water service in the Missoula Valley area since 1885. Mountain Water currently serves 24,700 total connections in the city of Missoula and surrounding area in western Montana.

Mountain Water’s service territory currently encompasses 27 square miles and has a population of 72,000 people. The service territory associated with Mountain Water’s water rights is considered greater than its current operating service territory and includes most of the developable areas in the Missoula Valley providing further potential expansion. Water utilities in Montana are not constrained to certificated areas and Mountain Water has been able to successfully expand its operations to serve areas within the city limits and the surrounding county.

Figure 53: Mountain Water Service Territory

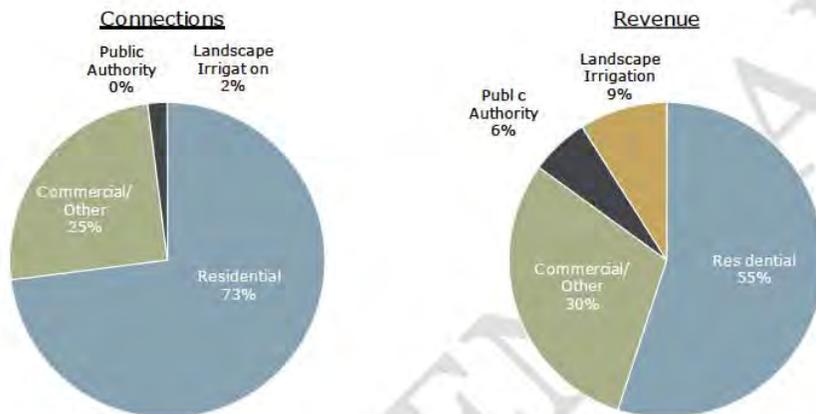




Business Overview

Mountain Water serves predominately residential customers representing 73% of total connections and 55% of total revenue. Mountain Water's commercial customers are highly diversified with no single customer exceeding 5% of total revenues (University of Montana accounts for 4% of total revenues). A portion of Mountain Water's customers maintain seasonal household and commercial landscape irrigation accounts.

Figure 54: Mountain Water 2013 Connections and Revenue by Class



Financial Performance

Mountain Water contributes approximately 26% of Park Water's revenue and 29% of EBITDA. Mountain Water EBITDA has increased to \$7.4 million in 2013 representing an EBITDA CAGR of 7% since 2009 due to increased efficiencies and a 2012 authorized rate increase of \$700,000.

Figure 55: Mountain Water EBITDA and Margin





Business Overview

Service Territory Overview

Missoula, Montana's second largest city, serves as a regional trade and service center for an 11-county area in western Montana with a population of more than 350,000 people. The Missoula economy has ties to healthcare, retail, and tourism-related activities and the city is home to the University of Montana, with current student enrollment of 15,000 and 1,600 faculty, providing economic stability.³¹

Missoula maintains a high quality, service oriented workforce. The healthcare sector, retail trade, professional services and the government, including the University of Montana, underpin the city's favorable demographics. Unemployment has historically been lower than state and national average rates. In March 2014, Missoula's unemployment rate was 4.4% compared with Montana's average of 5.8% and the nation's 6.8%.

Missoula is located at the confluence of three rivers, the Clark Fork, Bitterroot and Blackfoot. The area is popular with outdoor enthusiasts for hiking, horseback riding, fishing and skiing. The area has been further popularized by the novel and subsequent film *A River Runs Through It*, which is a story about Missoula, filmed in Montana.

In addition to outdoor activities, Missoula benefits from many cultural amenities relating to the performing arts, museums and galleries. The University of Montana's athletic teams, including the 2001 football subdivision national champions, enjoy a strong local following. The University of Montana houses the state's only law school. Missoula is also the location of Missoula College, which offers fast-track occupational and technical education covering 35 programs.

In 2011, Missoula established the "Missoula Economic Partnership" with the goal of developing local business and bringing outside operations within city limits. Over the last year, the partnership has helped secure funding for local tech companies that are expected to add over 200 new jobs to the area. Additionally, \$100 million in public and private projects are planned over the course of 2014 alone.³² In 2010, Missoula was rated one of CNN Money's top 100 best places to live and start a company.³³

³¹ As of spring 2013, University of Montana Office of Planning, Budgeting & Analysis

³² Missoula Economic Partnership, 2014 (www.missoulapartnership.com)

³³ CNN Money, 2010



Business Overview

The area has potential for significant regional growth. The Frenchtown Millsite, a site previously owned and managed by Smurfit-Stone Container Corporation, is located approximately 15 miles northwest of downtown Missoula. This 3,200 acre site is under review to be redeveloped as the Frenchtown Technology and Industrial Center. The site, located along four miles of the Clark Fork River, is envisioned to accommodate single and multi-family dwellings, office and commercial sites, and recreational spaces.

According to the United States Census Bureau, the city’s population grew from 33,388 in 1980 to 66,788 in 2010. For the ten year period ending 2010, the population grew 17.1%. The greater Missoula region has seen population increases from 91,272 to 93,291 in the last four years. The population is expected to increase further to 96,642 people by 2018E.³⁴

Figure 56: Forecasted Missoula Population ³⁴



Per capita income in the service territory is forecasted to increase 20.8% through 2018E, which compares favorably to the national average of 10.3%.³⁵

Growth Opportunities

As the economic environment in western Montana recovers post-recession, Mountain Water is seeing renewed signs of stronger customer growth and is well-positioned to achieve increased organic growth over the next five years.

³⁴ Data from ESRI and U.S. Census Bureau for zip codes 59801, 59802, 59803, 59804 and 59808

³⁵ U.S. Bureau of Labor Statistics





Business Overview

Local management is responding to an increased volume of main extension and new connection requests from commercial and residential developers as well as local property owners. Mountain Water is currently tracking twelve new development projects in its service territory with a potential build-out of over 3,200 connections and is projecting to add 2,500 new connections (10% aggregate organic growth) over the next six years. The developer-funded capital investment to serve the new connections is estimated to be \$16.4 million, including \$13.6 million in Advances. Mountain Water expects to complete \$1.4 million of capital investments funded through Advances in 2014.

Currently under construction, the Twite/Maloney subdivision, 44 Ranch and Millsite Subdivision are expected to bring 2,900 new connections to the Missoula operating territory. Developers of 44 Ranch have installed water mains to 141 lots to date.

The Missoula Valley region is highly fragmented, with 134 water utilities serving the area. A significant number of consolidation opportunities are evident as small municipal or mutual owned water utilities seek external sources of capital. As the only large investor-owned water utility in Montana, Mountain Water is well-positioned to acquire small water utilities around Missoula and other parts of the state.

Operations

Mountain Water has approximately 320 miles of pipe with an average age of 38 years and ranging in diameter from 2" to 24". Approximately 28% of the pipe distribution system is comprised of ductile iron, with the remainder steel (28%), PVC (21%), cast iron (13%), Kalamein (4.5%), AC (2.2%) and a mix of other types (3.3%).

Mountain Water has a storage capacity of 10.1 mg and also maintains eight wilderness dams. The Rattlesnake Creek also serves as backup supply. Mountain Water has approximately 1,400 fire hydrants and 5,700 valves. Twenty-three diesel generators are used as a back-up electrical supply to the groundwater wells and office facility in the event of a power outage. Production, treatment, distribution and storage is monitored and controlled remotely through SCADA.

Mountain Water implements the Montana Department of Environmental Quality approved Cross Connection Control Program.

Mountain Water recently updated its Emergency Response Plan and conducted a gap analysis and implementation plan for improvements. Emergency response training is conducted on an annual basis.

Customer Billing

Approximately 80% of customers are on metered service, with the remaining on flat rate service. Customers are billed monthly. Average monthly residential consumption is 10 ccf, resulting in an average residential monthly bill of \$45.87, based on currently authorized service charges and commodity rates. Virtually all customer meters have been converted to AMR.



Business Overview

Addressing Main Leakage

Main leaks at Mountain Water have been relatively constant over time. Water loss due to leakage remains high with non-revenue water production accounting for over 40% of total water production. The system is largely constructed above a shallow aquifer in very rocky and porous soil. Leaked water generally returns readily to the aquifer, with very few main and service line leaks surfacing.

In addition, customers own and are responsible for the service line from the main to their meter. As customers are not billed for service line leaks before their meter, service line repairs do not become a priority until water pressure to the home becomes unacceptable to the customer. High leakage rates are also more common in systems which are located in areas subject to significant seasonal ground movement associated with frost-thaw weather cycles.

Mountain Water prepared a Financial Analysis and Proposed Action Plan for Water Loss Mitigation in its GRC filing for test year 2010. From this document, Mountain Water is developing long-term plans to address leak mitigation with the most cost effective approaches to leak investigations, main repairs and main replacements. As part of this analysis, Mountain Water estimated that water loss costs were approximately \$600,000 annually. The share of costs, including electricity for pumping, chlorine and pump maintenance and leak repair, attributable to Mountain Water totaled \$400,000, with the remainder attributable to leaking customer-owned service lines.

While locating leaks can be challenging, Mountain Water has successfully employed new technologies and techniques, such as using acoustic monitoring and establishing temporary district meter areas to more readily locate and access leaks. Using these techniques, along with targeted capital investments for pipeline replacement, Mountain Water has been able to reduce water loss by 18% since 2007.

Capital Investment Program

To address aging of the distribution system, leakage and to maintain system reliability, Mountain Water has increased its company-funded capital investment program from \$3.1 million in 2010 to \$4.0 million in 2013. The capital investment program is comprised of a wide range of small-scale projects targeting main replacement, production and storage facilities, and other system improvements, including SCADA and technology enhancements.



Business Overview

Figure 57: Mountain Water Historical Capital Investment

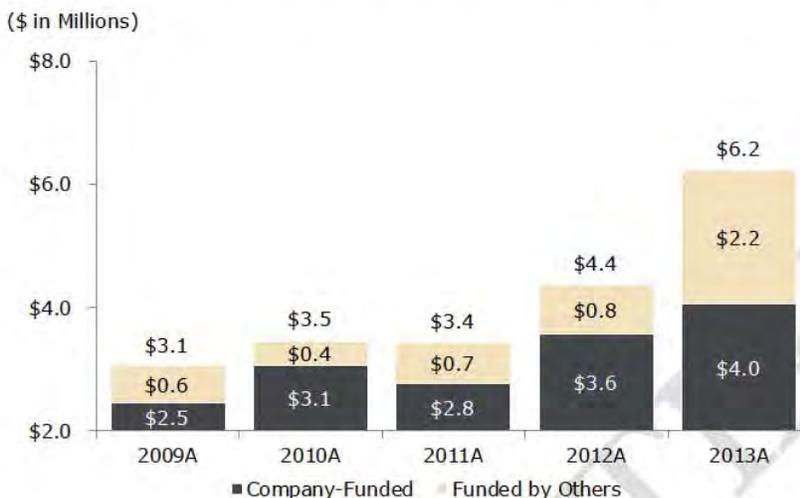
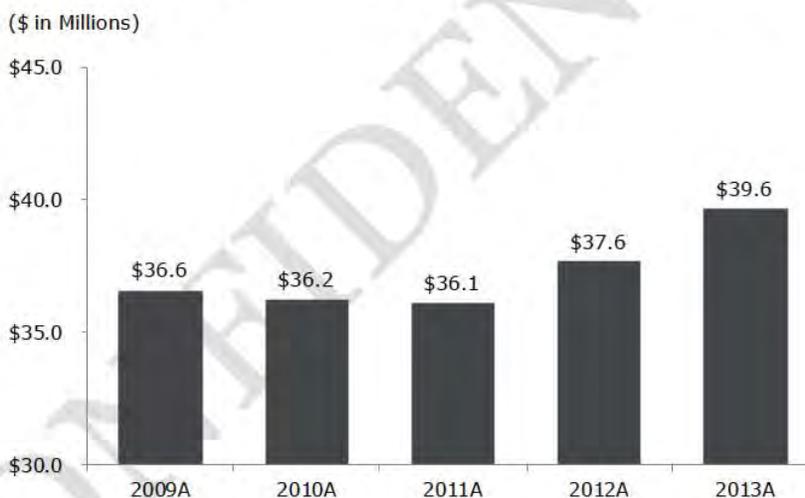


Figure 58: Mountain Water Historical Rate Base



Water Sources

Mountain Water’s water supply is provided entirely from ground water sources, eliminating the need to purchase water from any outside party. Groundwater is drawn from the Missoula Aquifer, which is prolific and naturally recharges quickly.

Mountain Water has 37 active wells with an average age of 43 years and two inactive wells, in addition to 52 booster pumps in 21 booster stations. The distribution system is divided into 43 pressure zones. Ground water produced is disinfected with liquid sodium hypochlorite, which is the only treatment required throughout the system. The eight wilderness lakes and Rattlesnake Dam serve as a surface water backup supply.



Business Overview

Mountain Water's water quality is exceptional due primarily to the excellent quality of the groundwater recharge sources, including the Clark Fork and Bitterroot Rivers. The quality of the aquifer is managed by the local Wellhead Protection Program, which is a community-wide effort to protect the aquifer. The Missoula aquifer is dedicated as a Sole Source Aquifer by the EPA. Mountain Water is in compliance with all federal and state drinking water standards.

Mountain Water has water rights and/or permits for each of its wells, water rights for its surface water sources and storage rights for its wilderness lakes. The water rights and permits are specific in terms of flow and area of service providing for supply in excess of current system demands.

Mountain Water has water rights available to serve the expansion of its service territory in the near term, however additional investments in water rights may be necessary in the next decade. Mountain Water recently obtained its first new large water right under the state's new mitigation requirements, which will be used to serve its newest large development. Importantly, this water right transaction provides a model for securing water rights to serve future large developments.

Local Presence and Community Involvement

Mountain Water maintains a strong local presence and is active in the Missoula and surrounding communities. Staff are involved with local community boards and organizations, including the Chamber of Commerce, City/County Health Board, Missoula Economic Partnership, Missoula College, SHRM, MSAWWA, and others. Additionally, Mountain Water provides charitable donations to a number of local and national organizations, including Missoula Foodbank, Missoula City and Rural Fire Departments, Missoula Economic Partnership, United Way and others.

Mountain Water began its "Hit the Tap"® campaign a few years ago to educate the community regarding the benefits of using the community's tap water, as opposed to bottled water.

Mountain Water contracts primarily with local contractors to provide both new construction and infrastructure replacement services.

Non-Tariff Services

Starting next year, Mountain Water is planning to provide a non-tariff service to customers in its service territory. Mountain Water expects to finalize a licensing agreement with HomeServe to provide Missoula residents the same service available to Park Central Basin and Apple Valley customers.



Business Overview

Engineering Capabilities

Since 2011, Park Water’s engineering group has successfully planned and delivered over \$50 million in capital projects, which vary in terms of size and complexity.

Park Water recently completed two key water production facility projects to support Park Central Basin’s water supply rebalancing initiative. The Company successfully managed the design and construction of a 1,300 Gallons per Minute (“GPM”), variable speed, wellhead treatment plant that removes arsenic and manganese with oxidation and coagulation using a three chambered pressure filter that sits on top of a below grade backwash tank. The Company also completed the design and construction of a new 1,750 GPM groundwater well. Both projects allow Park Central Basin to pump more groundwater, reducing its reliance on imported water.

In Apple Valley, the Company successfully completed the Mockingbird Booster Pump Station. For this project, the Company developed an innovative design for an underground pump station, which is equipped with two 1,400 GPM vertical turbine pumps and facilities to add an additional pump. The project allows for high quality water in a southern pressure zone of the water system to be utilized throughout the entire water system.

The Company maintains a qualified and experienced engineering team with technical staff spread across the three operations.

Figure 59: Engineering Resources and Certifications

| | Corporate | Park Central Basin | Apple Valley | Mountain Water |
|---|------------------|---------------------------|---------------------|-----------------------|
| Professional Engineer - Civil (CA) | 2 | 3 | 1 | - |
| Professional Engineer - Electrical (CA) | 1 | - | - | - |
| Professional Engineer - Civil (MT) | - | - | - | 2 |
| Engineering Technicians | 1 | 1 | 1 | 1 |
| Total | 4 | 4 | 2 | 3 |

Led by corporate engineering, Park Water prepares an annual and well-documented five-year capital budget for each utility through a collaborative process between engineering and operations. While the Company maintains extensive engineering capabilities, it regularly utilizes local engineering consultants to support its planning and design activities and keep projects on schedule.

The Company utilizes in-house staff to manage the execution and delivery of all of its capital projects. Park Water uses a combination of in-house and outside firms for construction management and inspection and maintains a quality control program to ensure all projects are constructed in accordance with sound engineering practices.





Business Overview

Information Technology Overview

Park Water continues to make significant investments in technology to streamline key areas of operations, ensure system safety and reliability, and enhance customer service. The Company maintains a state-of-the-art information technology platform (“IT”) which provides scalability, flexibility and efficiencies as well as timely operating data for management.

Figure 60: Park Water Major Software Applications

| System | Vendor | Location | Notes |
|--------------------------------|---------------------------|-------------|--|
| Customer Information | Harris/Advanced Utilities | Centralized | Comprehensive CIS with numerous modules such as field mobile, web portal, etc. |
| Financial Management | Oracle/JD Edwards | Centralized | 13 modules including AP, GL, AR, Inventory, Purchasing, Job Cost, HR, Fixed Assets, etc. |
| Phone System | Cisco | Centralized | Call center, voicemail, IVR, wallboard |
| Cloud-based Disaster Recovery | Hosting.com | Centralized | Critical system backup to cloud every four hours; ability to switch almost immediately to hot-site |
| Meter Reading (AMR) | Master Meter Systems | Local | |
| SCADA | GE iFix | Local | |
| System Maintenance | iWater | Local | Dig alerts, Valve Turning, Leaks, Hydrants, GIS redlining, etc. |
| GIS / Hydraulic Analysis | ESRI/Innovyze | Local | Mapping, analysis, viewing, editing |
| Cloud-based Vehicle Tracking | Telogis | Centralized | |
| Cloud-based Emergency Dial-out | Everbridge | Centralized | Dial out and messaging to employees and customers (map based) |
| Document Management | Microsoft SharePoint | Centralized | Scanning, Document Management, Team Collaboration, Electronic Workflows |
| Video conferencing | LifeSize | Centralized | Videoconference over our wide area network to all remote offices |

By leveraging technologies such as GIS, SCADA and AMR enterprise-wide, the Company has streamlined areas of its operations, improved decision-making, and reallocated resources to higher-value activities and priorities such as preventive maintenance and capital investment. Park Water continues to add software modules and innovative services to provide customers with more options to review their bills, make payments and enhance the overall customer experience. The Company plans to continue investing to upgrade and expand its IT platform to support its growth plan.



Business Overview

Park Water uses a hybrid of public and private cloud technologies for disaster recovery. The Company has the ability to roll back critical systems to the prior hour's snapshot. All systems are backed up nightly to disk and tape with copies stored offsite. Mission critical applications are backed up to an offsite "hot site" every four hours to maintain business continuity. Should a disaster occur in Park Water's data center, the hot site automatically becomes available to all locations. This disaster recovery solution also provides the ability to work from alternate work sites in the event of an emergency.

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Business Overview

Management Team and Employee Overview

Senior Management

Park Water is led by a strong and committed management team that brings an average of 31 years of industry experience to the Company. Park Water's management team has delivered exceptional financial and operational performance since 2009 when Christopher Schilling joined as CEO. While maintaining the Company's long-standing commitment to safety and service, the management team has improved business performance by enhancing organizational effectiveness and accountability.

Management team members have diverse professional backgrounds, combining extensive operational and financial experience in the water utility sector with strong management and commercial skills and acumen. Park Water's executives actively serve on boards of directors and subcommittees of several key industry groups such as the National Association of Water Companies, American Water Works Association, California Water Association and U.S. Environmental Protection Agency's Federal Advisory Committee and Technical Work Group and the National Drinking Water Advisory Council.

Management meets regularly with elected officials and other key local stakeholders. In addition, each of the utilities actively sponsor and support community events and local charities.

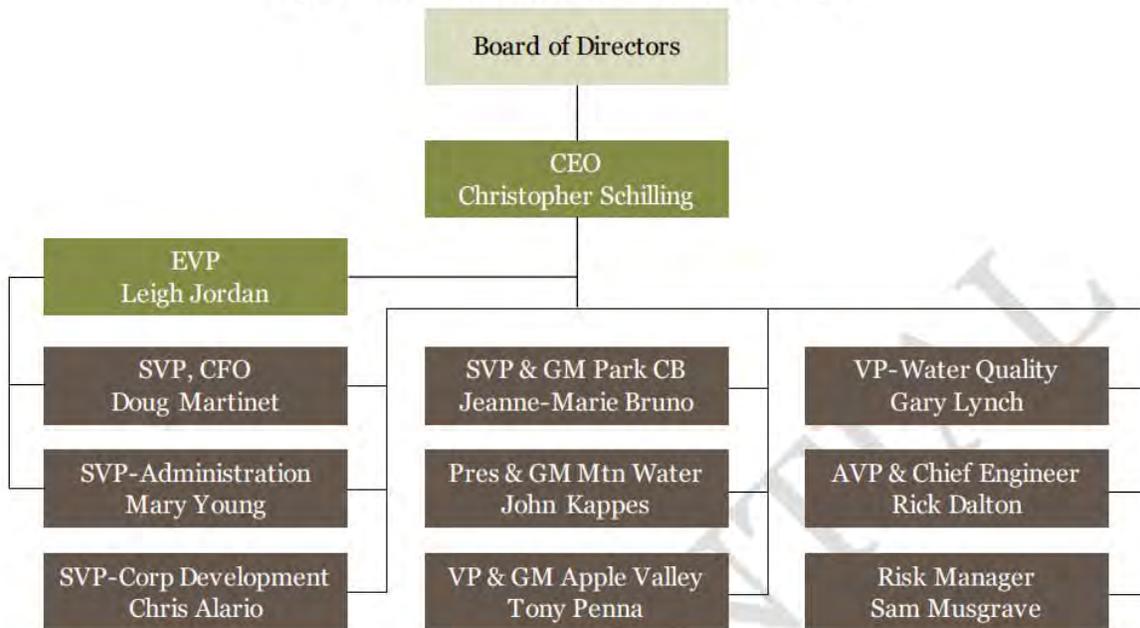
Figure 61: Park Water Management

| Name | Title | Years at Park Water | Profile |
|-----------------------|----------------------|---------------------|---|
| Christopher Schilling | CEO | 5 | <ul style="list-style-type: none"> 33 years management, finance and investment banking experience Responsible for management of Park Water NAWC Board Member |
| Leigh Jordan | EVP & Secretary | 28 | <ul style="list-style-type: none"> 33 years regulatory and management experience Responsible for revenue requirements and corporate governance Professional Civil Engineer (CA) and CWA Board Member |
| Chris Alario | SVP-Corp Development | 2 | <ul style="list-style-type: none"> 20 years commercial, management and regulatory experience Responsible for corporate business development and strategy |
| Jeanne-Marie Bruno | SVP & GM-Park CB | 14 | <ul style="list-style-type: none"> 36 years of utility operations and engineering experiences Management of Park Central Basin operations Professional Civil Engineer (CA); CDPH T5 and D5 Certifications AWWA Water Utility Council & USEPA National Drinking Water Advisory Council |
| Douglas Martinet | SVP & CFO | 32 | <ul style="list-style-type: none"> 37 years financial management and regulatory experience Responsible for corporate finance, accounting and insurance California Water Association - Regulatory and Accounting Committees National Association of Water Companies - Finance/Accounting/Tax Committee |
| Mary Young | SVP-Administration | 23 | <ul style="list-style-type: none"> 36 years of information technology, administration and human resources experience Responsible for corporate information technology and human resources |
| John Kappes | Pres. & GM-Mtn Water | 24 | <ul style="list-style-type: none"> 24 years utility operations and regulatory experience Responsible for management of Mountain Water operations Certified Public Accountant (MT) |
| Tony Penna | VP & GM-Apple Valley | 2 | <ul style="list-style-type: none"> 34 years operations, engineering and project management experience Responsible for management of Apple Valley operations Retired U.S. Navy |
| Gary Lynch | VP-Water Quality | 26 | <ul style="list-style-type: none"> 39 years water quality compliance and research experience Responsible for corporate water quality and compliance AWWA Perchlorate Technical Advisory Workgroup Chairperson |
| Rick Dalton | AVP & Chief Engineer | 26 | <ul style="list-style-type: none"> 29 years engineering, construction and project management experience Responsible for corporate engineering and capital improvements and planning Professional Civil Engineer (CA) |
| Sam Musgrave | Risk Manager | 1 | <ul style="list-style-type: none"> 23 years emergency preparedness and disaster response experience Responsible for corporate risk management and emergency preparedness |



Business Overview

Figure 62: Park Water Reporting Structure

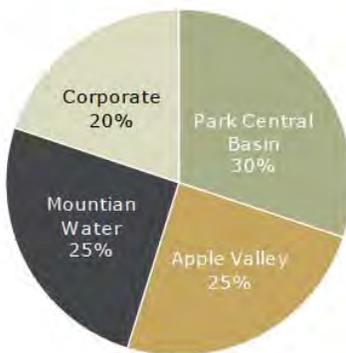


Employee Overview

Park Water currently has 166 full-time employees enterprise-wide. The Company has been successful in recruiting and retaining qualified staff. The 2013 employee turnover rate was 1.2% for Park Water (including Park Central Basin), [REDACTED] and 0% for Mountain Water. None of the Company's employees are represented by collective bargaining agreements.

Park Water has a number of organizational development activities in process such as professional development and organizational design enhancements. This culture of improvement enables the recruiting and retention of Park Water's employees.

Figure 63: Park Water Employee Composition





Business Overview

Figure 64: Park Water Employee Overview

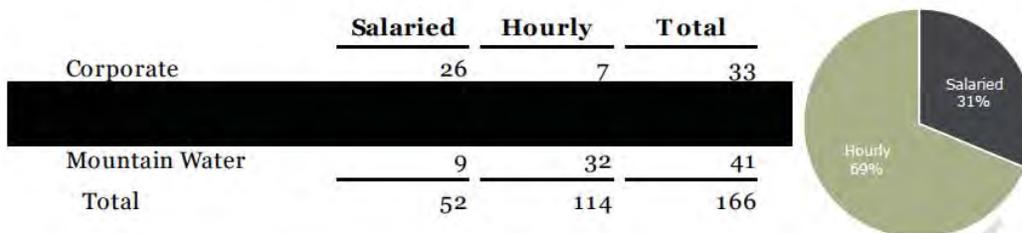


Figure 65: Park Water Employee Information

| (\$ in 000s) | Park Central Basin | Apple Valley | Mountain Water | Corporate | Total |
|------------------------|--------------------|--------------|----------------|-----------|------------|
| Executive | | | 1 | 6 | 9 |
| Administrative | | | 4 | 3 | 11 |
| Finance/Accounting | | | 3 | 6 | 16 |
| Revenue Requirements | | | - | 3 | 3 |
| Human Resources | | | - | 2 | 2 |
| Information Technology | | | 1 | 8 | 10 |
| Engineering | | | 4 | 4 | 13 |
| Customer Service | | | 7 | - | 23 |
| Operations | | | 20 | - | 75 |
| Risk Management | | | 1 | 1 | 4 |
| Total | | | 41 | 33 | 166 |
| 2013 Connections | | | 24,700 | | 73,500 |
| 2013 Revenue | | | \$18,559 | | \$71,264 |
| Connections / Employee | | | 602 | | 443 |
| Revenue / Employee | | | \$453 | | \$429 |

Note: Executive includes General Manager
 Note: Other includes water quality, conservation, garage and maintenance

Figure 66: Park Water Employee Certification

| | Corporate | Park Central Basin | Apple Valley | Mountain Water |
|----------------------------------|-----------|--------------------|--------------|----------------|
| Distribution (CA) | 5 | | | - |
| Treatment (CA) | 1 | | | - |
| Backflow / Cross Connection (CA) | 1 | | | - |
| Distribution (MT) | - | | | 19 |
| Treatment (MT) | - | | | 18 |
| Backflow (MT) | - | | | 2 |
| Total | 7 | | | 39 |

The Company offers a comprehensive and competitive employee benefits package and periodically benchmarks these benefits against market data. Some of these benefits are paid entirely by the Company and, for some, the costs are shared between the Company and the employee. The employee benefits package is not offered to part-time employees.





Business Overview

Figure 67: Park Water Employee Benefits

| | |
|--------------------------|---|
| Insurance | <ul style="list-style-type: none"> • Health Insurance: Medical (PPO and HMO in California, PPO in Montana), Dental & Vision • Life and Accidental Death & Dismemberment and Supplemental Life Insurance • Long Term Disability, Employee Assistance, Wellness, Educational Assistance and Catastrophic Illness Reserve Programs • Some Post-Retirement Medical & Alternative Benefits, subject to eligibility, date of hire, age and other provisions |
| Financial and Retirement | <ul style="list-style-type: none"> • Defined Benefit Retirement Plan (Pension), subject to eligibility and vesting requirements • 401K Plan with company match (50% of first 6% up to IRS limit) • Section 125 (premium and spending accounts) and Section 529 (college savings) plans |
| Paid Time Off | <ul style="list-style-type: none"> • Paid Time Off and paid leave for jury duty and bereavement • 12 Paid Holidays |

Retirement Plan

The Company offers employees a Defined Benefit Retirement Plan (“Retirement Plan”). The Retirement Plan benefit to employees is based upon Company career earnings subject to the federal compensation limit and does not include an escalation factor. As such the Retirement Plan is not exposed to “benefit spiking” or inflation. A participant is 100% vested upon five years of eligible service.

The projected benefit obligation of the Retirement Plan as of December 31, 2013 is \$36.9 million.

The Retirement Plan assets are managed by Bank of America Merrill Lynch pursuant to the Company’s investment guidelines. As of December 31, 2013, the Retirement Plan assets were 70% invested in fixed income, 22% equity and 8% other. The market value of Retirement Plan assets, prior to contributions receivable for plan year 2013, as of December 31, 2013 were \$26.5 million; with the contributions receivable for plan year 2013 the market value of assets were \$29.1 million.

As of December 31, 2013, the Company had regulatory assets of \$10.8 million to reflect the future recovery through customer rates of the unfunded obligation.

The Company also offers employees a 401k match of 50% up to 6% of compensation subject to the IRS plan limitations.

Postretirement Benefit Other than Pension

The Company offers a Postretirement Benefit Other than Pension (“PBOP”) that primarily covers medical and dental expenses for eligible retirees hired before May, 2005. In 2013, the Company’s Postretirement Benefit other than Pension Plan was amended to provide a comparable benefit that was significantly more cost effective. Primarily as a result of the plan changes the Accumulated Postretirement Benefit Obligation has been reduced from \$18.7 million to \$6.8 million for December 31, 2012 and 2013, respectively. The plan assets as of December 31, 2013 are \$7.5 million and are in excess of the Accumulated Postretirement Benefit Obligation. The Company maintains the right to change PBOP at any time.

Employees hired after May 2005 receive an annual contribution, which is subject to vesting, to their 401k in lieu of PBOP.

Section V:
LEGAL OVERVIEW



Legal Overview

From time to time, Park Water or its subsidiaries are named as a defendant in lawsuits. Other than the condemnation proceeding pertaining to the assets of Mountain Water and a challenge by the Montana Consumer Counsel to a rate order issued by the Montana Public Service Commission, there are currently no material pending or anticipated lawsuits involving Western Water, Park Water or its subsidiaries.

Montana Condemnation Requirements

The laws of the State of Montana provide for the acquisition of public utility property by a governmental agency through their power of eminent domain, also known as condemnation, when doing so is necessary and in the public interest. In addition, these laws provide that the owner of the utility property may contest or require the government agency to prove whether the condemnation is actually necessary and in the public interest. If the property is ultimately taken, the owner is entitled to receive fair market value of its property.

Under Montana law, a city must prove that both 1) the contemplated use as a municipally owned utility system is more necessary than is the current use as a privately owned utility operation, and 2) the city is more qualified to own and run the utility system than is the current owner. In Montana, unlike other states, the burden of proof is on the condemning party (e.g. a city).

Also, under Montana Law the condemnor is responsible for the utility's legal fees in the event the condemnor fails in its attempt. The condemnor must also pay the utility's legal fees if it prevails in establishing necessity for the taking but the court-determined compensation is greater than the condemnor's initial offer.

Prior Mountain Water Condemnation Attempt

Mountain Water has faced municipalization threats by the city of Missoula (the "City") in the past. In the mid-1980s, the City attempted to acquire Mountain Water through a failed eminent domain proceeding in which the Montana Supreme Court ruled unanimously against the City.

In its prior condemnation attempt, the City failed in its argument that municipal ownership of Mountain Water is more necessary than its current use. The City was required to pay Mountain Water's legal fees.

Current City of Missoula Condemnation Proceedings

On April 2, 2014, the City filed a complaint, which was subsequently amended and served to Mountain Water on May 5, 2014, for order of condemnation (the "Complaint") under Montana's law of eminent domain in the Montana Fourth Judicial District Court (Missoula County). The City is seeking a judicial determination entitling the City to acquire by eminent domain Missoula's water supply and distribution system currently owned and operated by Mountain Water.



Legal Overview

The Complaint follows the City's recent unsolicited offers to purchase Mountain Water. The following is a summary of key events that have transpired so far:

- October 29, 2013: the City submitted an offer to purchase the stock of Mountain Water for \$65 million. The offer was declined.
- January 28, 2014: the City, following City Council approval, submitted an offer to acquire the assets of Mountain Water for \$50 million on a cash-free, debt-free basis. As part of its offer, the City would not assume any of Mountain Water's liabilities. The offer was declined.
- On April 2, 2014: the City filed complaint for order of condemnation to acquire the water system owned by Mountain Water.
- On May 5, 2014: the City filed an amended complaint seeking condemnation of Mountain Water's water system.
- On May 27, 2014: Mountain Water filed brief in support of motion for more definite statement and motion to strike certain portions of the amended complaint.
- On May 28, 2014: Mountain Water employee group filed a Motion of Intervention.

Mountain Water believes the City will have great difficulty proving either public necessity or that the City is a more capable operator of Mountain Water's water system.

Carlyle Infrastructure and City of Missoula 2011 Agreement

Upon Carlyle Infrastructure's acquisition of Park Water (and its indirect acquisition of Mountain Water), and in an effort to gain support for the change in control of Park Water, the City, the Clark Fork Coalition and Carlyle Infrastructure entered into a Letter Agreement dated September 22, 2011 (the "Agreement") in which Carlyle Infrastructure agreed to the following:

1. Notify the City if, after receiving an offer to purchase Mountain Water, Mountain Water is proposed to be sold. If disclosure is not prohibited by a confidentiality agreement, the notice shall include the proposed offer price, terms and conditions. The City shall be allowed 120 days to submit its own proposal to purchase Mountain Water. If the City's proposed price meets or exceeds the third party price for a like transaction on substantially similar or preferable terms and conditions, in Carlyle Infrastructure's judgment, then Carlyle Infrastructure shall accept the City's proposal. As Carlyle Infrastructure is preparing to sell Park Water, not Mountain Water, this condition does not apply.
2. Notify the City if either Park Water or Western Water is proposed to be sold. Provided that the City agrees to a reasonable nondisclosure agreement, the City shall be granted 120 days after the notice of intention to sell, during which period the City may submit its own proposal to purchase Mountain Water and Carlyle Infrastructure will



Legal Overview

consider in good faith any offer from the City. The City was provided 120 days notice on May 21, 2014.

3. Consider in good faith any offer from the City to purchase Mountain Water at any time. Prior offers from the City were received and declined after careful consideration in good faith.

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Section VI:
REGULATORY OVERVIEW

CONFIDENTIAL



Regulatory Overview

Investor-owned water utilities are regulated on a state-by-state basis by a PUC which oversees the rates and services of a public utility. The primary responsibility of PUCs is to promote the overall public interest by balancing the interests of customers and the utility. The PUC serves the public interest by protecting consumers and ensuring that investor-owned utilities deliver clean, safe and reliable service to their customers at reasonable rates, with a commitment to environmental enhancement and a healthy economy.

Park Water's California utilities are regulated by the CPUC and the CDPH. Park Water's Montana utility is regulated by the MPSC and the Montana Department of Environmental Quality. Investor-owned water utilities are also regulated by whichever departments of Health or Environmental Quality regulate the water providers.

Although specific regulation varies between states, certain principles are generally consistent. Utilities are entitled to recover, through customer rates, prudent and reasonable operating costs and earn an appropriate return on, and recovery of, used and useful capital investment necessary to provide service to customers.

California Regulation

California utilities are regulated by the CPUC. The CPUC consists of five individuals who serve six-year terms, each appointed by the Governor of California, with the commissioners requiring State Senate confirmation. The Governor appoints one of the five to serve as Commission President.

Figure 68: California Public Utilities Commission

| Name | Political Affiliation | Appointed | Term Ends |
|--------------------|-----------------------|-----------|-----------|
| Michael R. Peevey* | Democrat | 03/2002 | 01/2015 |
| Catherine Sandoval | Democrat | 01/2011 | 01/2017 |
| Mike Florio | Democrat | 01/2011 | 01/2017 |
| Carla Peterman | Democrat | 01/2013 | 01/2019 |
| Michael Picker** | Democrat | 01/2014 | 01/2015 |

* President

** Full term subject to State Senate Confirmation

California's regulatory construct for water utilities is considered generally constructive. Regulatory Research Associates ("RRA") currently rates the CPUC as Average/1, however this rating is due primarily to the lack of consistent fuel and capital investment recovery for electric and gas utilities. The water utility environment is viewed as being more constructive due to the necessary nature of the service, availability of water supply and progressive adjustment mechanisms.

The current regulatory construct applied by the CPUC to water utilities is designed to ensure California water utilities remain viable in fulfilling their responsibilities, continue to invest in needed water infrastructure and promote efficient use of water through conservation programs. The construct works to mitigate possible negative implications associated with the rising cost of water supplies and declining sales.



Regulatory Overview

The California regulatory procedure separates the ratemaking process into three types of proceedings: General Rate Case, Cost of Capital and Offset Rate Adjustment. The CPUC regulatory rules also allow for the filing of balancing accounts and memorandum accounts for the ultimate recovery of certain costs.

General Rate Case Filing

California water utilities are required to file a GRC every three years according to a schedule determined by the CPUC. GRC's typically include an increase in the first test year with escalation adjustments for expenses in the second and third years of the GRC cycles.

For capital projects, there are two test years, with the third year an attrition year based on the difference between the two test years. The GRC process utilizes a forward-looking test year which allows utilities the opportunity to recover costs and return on actual invested capital on a more current basis.

Escalation rate increases, which are subject to a request by the utility between GRC filings, allow the utility to recover increased costs, primarily from inflation and incremental investment. Escalation rate increases are subject to a weather-normalized earnings test, which may reduce the requested escalation increase if applying the earnings test indicates that earnings for the prior 12-months exceeded what the CPUC previously authorized.

GRCs are normally filed and processed during the last year covered by the most recent GRC in order to avoid gaps in the regulatory decisions on general rate adjustments. Delays in decisions are addressed through interim rates and memorandum accounts which allow for retroactive recovery. This structure is designed to provide greater long-term clarity of rate increases, enable effective capital planning and reduce regulatory lag on expense recovery.

Park Water files separate GRC's in Park Central Basin and Apple Valley. Request for cost recovery for Park Water Corporate Division, or General Office ("GO"), is filed with the Apple Valley GRC, and changes to adopted GO costs are incorporated for Park Central Basin in its next GRC filing.

GO expenses are corporate costs not directly associated with utility operations, primarily centralized administrative support functions. To recover authorized GO costs, including return on invested capital, these costs are allocated on a "four factor" basis of O&M expense, plant in service, direct payroll and customer count at each utility. Corporate expenses are then allocated to each utility using the average of the aforementioned four factors at each utility.

Cost of Capital Filing

California water utilities are separately required to file a Cost of Capital application. The filing is made every three years (typically on a staggered year from the GRC) and establishes the reasonable rate of return on capital investments. The decision establishes a rate-making capital structure of debt and equity, and the weighted average cost of capital with an embedded cost of debt and authorized ROE. Park Central Basin and Apple



Regulatory Overview

Valley file a joint consolidated Class A (utilities with more than 10,000 customers) cost of capital filing, simultaneous with two other Class A water utilities.

California's Cost of Capital calculation has an automatic adjustment mechanism whereby a water utility's authorized ROE may annually adjust up or down depending on prevailing yields of a benchmark utility bond index.

Park Central Basin and Apple Valley were scheduled to file their next Cost of Capital application in 2015. The CPUC approved a request, along with other investor-owned California water utilities, to delay the Cost of Capital filing by one year, allowing each utility to continue using the rates of return most recently approved.

Offset Rate Adjustments

The purpose of an offset rate adjustment is to compensate utilities for changes in specific pre-authorized offset-able capital investments or expenses, primarily for purchased water, groundwater extraction charges and purchased power, when the increase is over 1% of revenues.

Balancing accounts must be maintained for each expense item for which such revenue offsets have been authorized. The purpose of the balancing account is to track the under-collection, or over-collection, associated with expense changes.

These adjustments are implemented by advice letters, which are ministerial filings generally approved within a short timeframe, rather than by application. Applications can also be filed between GRCs for significant non-pre-approved capital investments. These constructive adjustment mechanisms enable effective capital investment and cost recovery.

Park and Apple Valley file offset advice letters for production and capital cost as applicable.

Balancing Accounts

In pursuit of the CPUCs water conservation goals, the CPUC authorized water utilities to decouple their revenues from customer consumption levels by establishing WRAMs and MCBAs.

The WRAM, a balancing account, tracks the difference between the adopted level of water quantity revenues authorized by the CPUC and the actual amount of water quantity revenue recovered in customer rates.

The MCBA tracks the difference between adopted and actual expense levels for purchased water, purchased power and related pump taxes and fees, as established by the CPUC.

The WRAM and MCBA ensure that a utility recovers all of the commodity quantity revenues authorized by the CPUC (net of any difference between authorized and actual production costs), and no more, regardless of customer consumption. This removes the utility's historical disincentive to promote customer water conservation.



Regulatory Overview

Through an annual advice letter filing, a utility recovers any uncollected revenue amounts authorized, or refunds over-collected quantity revenues, via surcharges or surcredits. The advice letter addresses the net WRAM/MCBA. These mechanisms provide a water utility with more predictable net revenue and mitigate potential negative impacts associated with the conservation of water.

The CPUC may authorize balancing accounts for certain other expenses. Apple Valley has balancing accounts for medical and pension expenses.

Memorandum Accounts

Between GRCs, utilities may file by advice letter to request memorandum accounts to track costs for future recovery, providing the costs are significant and arise from circumstances that were not foreseeable in the prior GRC and are outside the utility's control.

Recovery of amounts tracked in memorandum accounts are subject to reasonableness review and a future CPUC decision or resolution. Such mechanism allows for recovery of costs, which would otherwise reduce earnings.

Drought Management

In 2013, California experienced the driest year on record. On January 17, 2014 the Governor of California proclaimed a drought emergency requesting a 20% state-wide reduction in water use and directed State agencies to take necessary steps to prepare for a drought. In response, the CPUC ordered water utilities to provide customer notification calling for voluntary conservation measures. The CPUC at a future date can order mandatory rationing in which case utilities will file for revised rates and other provisions including customer water allocations and compliance instrumentations. Expenses, and lost revenue for utilities without a WRAM, could be tracked in a memorandum account for future recovery.

Park Water believes that it is able to meet near-term customer demand from its various sources of water supply. Each of Park Water's operations actively educate customers on responsible water use practices which has resulted in significant reduction in per capita consumption. This demand reduction improves the availability of limited supplies to meet customer needs.



Regulatory Overview

Montana Regulation

Montana utilities are regulated by the MPSC, consisting of five elected commissioners. Each commissioner serves a four-year term (limited to two terms), with a chairperson elected by fellow commissioners for a two-year term.

Figure 69: Montana Public Service Commission

| Name | Political Affiliation | Elected | Term Ends |
|-----------------|-----------------------|---------|-----------|
| Bill Gallagher* | Republican | 01/2011 | 01/2015 |
| Bob Lake | Republican | 01/2013 | 01/2017 |
| Travis Kavulla | Republican | 01/2011 | 01/2015 |
| Roger Koopman | Republican | 01/2013 | 01/2017 |
| Kirk Bushman | Republican | 01/2013 | 01/2017 |

* Chairperson

RRA currently rates the MPSC as Below Average/1 due to a lack of purchased power recovery, revenue decoupling and new capital investment recovery mechanisms for electric and gas utilities. The regulatory environment for water utilities is more supportive than the RRA electric and gas standards, leading to a more favorable view of the water utility space.

The MPSC utilizes a historical test year model, but water utilities are able to include forward-looking changes to expenses that will occur in the year following the test year which are “known and measurable”. This allows for more effective recovery of anticipated expenses and reduces regulatory lag generally associated with historical test year filings.

Montana has a separate state consumer advocate agency, Montana Consumer Counsel (“MCC”) which participates in MPSC proceedings. Montana utilities file GRCs which include a Cost of Capital request.

By statute, the Montana utilities are allowed to self-implement a rate increase, but subject to refund, if the MPSC does not act on GRC filings within nine months. After filing a GRC, utilities may request interim rates prior to the final order, however, such requests are typically not granted until after MCC review and only in the amount that is uncontested.

In Montana, there is no specified required filing period. Mountain Water has historically filed rate cases every two years. Historically, increased revenue from growth of customers has helped to offset increased costs between GRCs.

Along with rate case filings, Montana utilities are able to utilize tracking mechanisms, which function like balancing accounts in California, for some expenses to facilitate expense recovery. Mountain Water currently has two tracking mechanisms, a rate case cost tracker and a purchased power tracker. The rate case cost tracker allows for the recovery of the actual cost of GRCs with the balancing accomplished in the GRC filing. Montana utilities are allowed to recover power purchased to operate the system. Mountain Water’s purchased power tracker allows it to track



Regulatory Overview

purchased power cost changes between GRC's and adjust rates each year to reflect the actual costs of purchased power.

Regulatory Assets and Liabilities

Deferred costs and credits are reflected on the balance sheet as regulatory assets or liabilities when it is probable that these costs and credits will be recognized in the ratemaking process in a period different from when the costs and credits were incurred.

Regulatory assets and liabilities typically recorded primarily relate to the recognition of deferred taxes for ratemaking versus tax accounting purposes, balancing and memorandum accounts, and postretirement benefits. Related regulatory assets can offset postretirement benefit obligations associated with the accrual of expected costs of providing postretirement pension, health and life insurance benefits.

Certain expenses or credits are realized in rates charged to customers and deferred and amortized during future periods as permitted by the relevant PUC. The amortization time period varies based on the underlying expense or credit. For utilities operating in California, this includes WRAM and MCBA accounts. The amortization of these accounts results in a positive or negative cash flow effect.

For Park Water, these accounts are significant. The net positive cash flow Park Water anticipates collecting in future periods is approximately \$11 million (excluding Pension and PBOP), primarily related to recovery of the WRAM/MCBA and interim rates accounts. As this revenue has already been recognized, no additional income taxes will be due on these recoveries. The table below summarizes the regulatory assets and liabilities.

Figure 70: Park Water Regulatory Account Balances

| (\$ in 000s) | Year Ended December 31, 2013 | | |
|--------------------------------|------------------------------|-----------|----------|
| | Current | Long-Term | Total |
| Interim Rates | \$1,979 | \$2,029 | \$4,008 |
| Low Income Discount | 436 | 633 | 1,069 |
| Miscellaneous | 281 | 247 | 529 |
| Production (Incl. WRAM/MCBA) | 5,444 | 1,056 | 6,500 |
| Sub-total Regulatory Assets | 8,141 | 3,965 | 12,106 |
| Pension & PBOP | 239 | 9,958 | 10,196 |
| Total - Regulatory Assets | \$8,379 | \$13,923 | \$22,302 |
| Pension & Health | \$62 | \$- | \$62 |
| Tax Memorandum | 134 | - | 134 |
| ITC & Depreciation | - | 199 | 199 |
| Conservation | - | 277 | 277 |
| Cost of Capital | - | 270 | 270 |
| Total - Regulatory Liabilities | \$195 | \$746 | \$942 |



Regulatory Overview

Ratemaking Execution and Performance

Historical Ratemaking

In the past five years, in accordance with the schedule set by the CPUC, Park Central Basin and Apple Valley each filed two GRCs, covering three-year periods. Park Central Basin filed its last GRC in 2012 covering the years 2013, 2014 and 2015 while Apple Valley filed its last GRC in 2011 covering the years 2012, 2013 and 2014.

Both Park Central Basin and Apple Valley also filed two Cost of Capital applications, in 2009 for the years 2010, 2011 and 2012, and in 2012 covering 2013, 2014 and 2015. For 2010-2012, the CPUC adopted an ROE of 10.2% for both companies, maintaining Park Central Basin's previous authorized ROE and increasing Apple Valley's ROE by five basis points.

For 2013-2015, the CPUC adopted an ROE of 9.79% for both Park Water and Apple Valley. The changes to Cost of Capital are incorporated in the GRC (Park Central Basin) or escalation year increase (Apple Valley) for the period covered by the Cost of Capital proceeding.

Mountain Water has filed two GRCs in the last five years, in 2010 for Test Year 2009, and in 2012 for Test Year 2011. These filings included Cost of Capital. Mountain Water's current authorized ROE is 9.80%.

The percentage rate and dollar increases requested and granted by the CPUC or MPSC are shown in the table below.

Figure 71: Rate Case Overview

| (\$ in 000s) | 2010A | 2011A | 2012A | 2013A | 2014E | 2015E |
|---------------------------|---------|--------|---------|---------|---------|---------|
| Park Central Basin | | | | | | |
| Requested Increase | \$1,480 | \$503 | \$644 | \$6,491 | \$1,182 | \$1,802 |
| % Increase | 5.9% | 1.9% | 2.4% | 26.2% | 3.8% | 5.5% |
| Granted Increase | \$187 | \$378 | \$283 | \$5,001 | \$547 | N/A |
| % Increase | 0.7% | 1.4% | 1.0% | 21.0% | 1.8% | - |
| % of Requested | 12.6% | 75.1% | 43.9% | 77.0% | 46.3% | - |
| Apple Valley | | | | | | |
| Requested Increase | \$187 | \$280 | \$3,897 | \$547 | \$786 | \$3,127 |
| % Increase | 0.9% | 1.3% | 20.0% | 2.6% | 3.3% | 14.9% |
| Granted Increase | \$141 | \$581 | \$2,875 | \$273 | \$516 | N/A |
| % Increase | 0.7% | 2.7% | 14.7% | 1.2% | 2.2% | - |
| % of Requested | 75.4% | 207.5% | 73.8% | 49.9% | 65.6% | - |
| Mountain Water | | | | | | |
| Requested Increase | \$1,991 | - | \$919 | - | - | - |
| % Increase | 11.9% | - | 5.1% | - | - | - |
| Granted Increase | \$1,500 | - | \$693 | - | - | - |
| % Increase | 8.8% | - | 3.9% | - | - | - |
| % of Requested | 75.3% | - | 75.4% | - | - | - |

Note: Final determination of CPUC authorized increases for years two and three of the GRC are based on latest available escalation factors in November of the prior year



Regulatory Overview

Planned Ratemaking

Park Central Basin

Park Central Basin is currently in the second year (2014) of its recently completed GRC, which covers the 2013-2015 ratemaking years (2013 Test Year). The utility's next GRC is scheduled to be filed January 1, 2015 and utilize a 2016 Test Year.

As small Class A water utilities, Park Central Basin and Apple Valley are required to file a Cost of Capital request along with the small Class A pool. Park Central Basin and Apple Valley have elected to delay their cost of capital filings, along with other small Class A utilities, from 2014 to 2016, and thereby maintain the current 9.79% allowed ROE for rate recovery in 2015.

Apple Valley

Apple Valley filed its latest rate case on January 2, 2014 with a 2015 test year. The utility requested rate increases of 14.9%, 8.5% and 8.2% for 2015, 2016 and 2017, respectively. The CPUC is scheduled to issue a decision on this request by December 2014.

Mountain Water

Mountain Water has historically filed rate cases every two years. Following Mountain Water's next rate case filing, the utility intends to begin filing annual rate cases with the MPSC. Mountain Water had originally planned to file its next rate case by April 2014 using a 2013 test year, however given issues around the condemnation proceedings, the rate case filing timing for 2014 is under review.

Mountain Water is able to file rate cases annually to address regulatory lag associated with historical test years. More frequent rate case filings will result in lower customer rate increases which can be viewed more favorably.

Mountain Water's understanding of the Montana regulatory environment and its long-term history of prudent investment has proven to be successful; no capital investment has been denied from rate recovery in Mountain Water's history.

Management believes they maintain favorable relationships built upon the principles of integrity and transparency with the CPUC, the MPSC and their respective professional staffs.

Section VII:
FINANCIAL INFORMATION

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Financial Information

Historical Financials

Operating Revenues

Since 2009, Park Water's operating revenues have grown by a 3.7% CAGR due primarily to rate increases for recovery of operating expenses and capital investments. Fiscal year 2014E operating revenues are projected to increase by \$1.4 million to \$72.7 million (a 2.0% increase), which is primarily driven by rate increases.

Park Water's revenue is driven primarily by charges related to consumption and readiness to serve. The California utility customers are primarily billed bi-monthly while Mountain Water customers are billed monthly.

In 2013, the Company changed its accounting practices and restated its financial statements for the year 2012. This restatement was made in order to recognize unbilled revenues in accordance with Generally Accepted Accounting Principles.

Figure 72: Park Water Operating Revenue



Operating Expense

Since 2009, Park Water's operating expenses have increase by a 1.8% CAGR primarily due to increases in water supply, payroll and O&M expenses, offset by decreases in employee benefits and administration and general expenses.

Fiscal year 2014E operating expenses are projected to increase by \$0.3 million to \$46.1 million.



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Figure 73: Park Water Historical Operating Expense



Figure 74: Historical Operating Expense Details

(\$ in millions)

| | Calendar Year Ended December 31 | | | | | |
|---------------------------------|---------------------------------|---------------|---------------|---------------|---------------|---------------|
| | 2009A | 2010A | 2011A | 2012A | 2013A | 2014E |
| Water Supply | \$12.2 | \$12.1 | \$12.3 | \$13.1 | \$13.9 | \$14.5 |
| Payroll | 10.5 | 10.3 | 10.7 | 10.7 | 11.0 | 10.7 |
| Payroll Related | 4.5 | 4.9 | 5.4 | 5.8 | 5.6 | 4.6 |
| Administrative & General | 3.4 | 3.8 | 3.7 | 3.0 | 2.5 | 2.8 |
| Operations & Maintenance | 3.9 | 4.0 | 4.0 | 3.8 | 4.2 | 4.5 |
| Taxes Other Than Income | 1.5 | 1.6 | 1.8 | 1.8 | 1.9 | 2.0 |
| Park Corporate Allocations | 6.1 | 6.6 | 6.6 | 6.8 | 6.7 | 6.4 |
| Utility Non-Regulated | - | - | - | - | - | 0.6 |
| Total Operating Expenses | \$42.2 | \$43.4 | \$44.4 | \$44.9 | \$45.8 | \$46.1 |



Financial Information

EBITDA

Since 2011, Park Water's EBITDA has grown by \$7.6 million to \$25.5 million in 2013 due to effective and timely ratemaking, increased capital investment and expense controls. Fiscal year 2014E EBITDA is projected to grow by \$1.0 million to \$26.6 million.

Figure 75: Park Water Historical EBITDA



Figure 76: Historical Consolidated Statement of Income

(\$ in Millions)

| | Year Ended December 31, | | | | | |
|--------------------------------|-------------------------|---------------|---------------|---------------|---------------|---------------|
| | 2009A | 2010A | 2011A | 2012A | 2013A | 2014E |
| Revenue | \$60.5 | \$61.2 | \$62.6 | \$68.2 | \$71.3 | \$72.7 |
| Operating Expenses | (42.2) | (43.4) | (44.4) | (44.9) | (45.8) | (46.1) |
| Other Income (Expense) | (0.5) | (2.6) | (0.3) | (0.0) | 0.1 | (0.6) |
| Total EBITDA | \$17.8 | \$15.1 | \$17.9 | \$23.3 | \$25.5 | \$26.6 |
| % Margin | 29.4% | 24.7% | 28.6% | 34.1% | 35.8% | 36.7% |
| Depreciation & Amortization | (6.7) | (6.9) | (7.2) | (7.2) | (7.9) | (8.8) |
| EBIT | 11.1 | 8.3 | 10.7 | 16.1 | 17.7 | 17.9 |
| Interest Expense | (4.0) | (4.0) | (4.1) | (3.9) | (4.3) | (4.8) |
| Amortization of Financing Fees | (0.2) | (0.2) | (0.2) | (0.2) | (0.2) | (0.2) |
| Earnings Before Taxes | 6.8 | 4.1 | 6.5 | 12.0 | 13.2 | 12.9 |
| Tax Expense | (2.7) | (3.2) | (2.8) | (4.5) | (6.4) | (5.2) |
| Net Income | \$4.1 | \$0.9 | \$3.7 | \$7.5 | \$6.8 | \$7.6 |



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Figure 77: Historical Consolidated Balance Sheet

| (\$ in Millions) | Year Ended December 31, | | | | |
|--|-------------------------|----------|----------|----------|----------|
| | 2009A | 2010A | 2011A | 2012A | 2013A |
| Assets | | | | | |
| Current Assets | | | | | |
| Cash and Cash Equivalents | \$10.2 | \$9.7 | \$8.2 | \$0.6 | \$5.9 |
| Receivables | 3.6 | 3.5 | 4.1 | 9.1 | 9.1 |
| Other Current Assets | 9.7 | 10.3 | 12.1 | 13.1 | 12.9 |
| Total Current Assets | 23.4 | 23.5 | 24.4 | 22.8 | \$27.9 |
| Utility Plant | 241.5 | 248.7 | 257.6 | 275.1 | 299.8 |
| Less: Accumulated Depreciation | (66.1) | (71.7) | (77.5) | (82.6) | (86.1) |
| Goodwill | 0.4 | 0.3 | 0.2 | 0.0 | - |
| Net Utility Plant | 175.8 | 177.3 | 180.3 | 192.5 | \$213.7 |
| Construction Work In Progress | 1.4 | 1.9 | 3.7 | 5.2 | 1.7 |
| Total Utility Plant | 177.2 | 179.2 | 184.0 | 197.7 | \$215.4 |
| Non-Utility Property | 3.9 | 1.7 | 1.1 | 0.8 | 0.8 |
| Net Property Plant and Equipment | 181.1 | 180.9 | 185.1 | 198.4 | \$216.2 |
| Regulatory Assets | 14.8 | 19.0 | 22.2 | 29.9 | 13.9 |
| Other Assets | 6.3 | 6.2 | 5.7 | 6.2 | 6.5 |
| Total Assets | \$225.7 | \$229.6 | \$237.4 | \$257.4 | \$264.5 |
| Capitalization and Liabilities | | | | | |
| Total Stockholder's Equity | \$66.4 | \$65.2 | \$68.7 | \$76.2 | \$79.6 |
| Total Long-Term Debt | 54.4 | 54.7 | 52.2 | 52.1 | 66.1 |
| Short-Term Borrowings | 0.0 | 1.1 | 1.8 | 3.0 | 3.9 |
| Current Portion of Long-Term Debt | 0.0 | 0.1 | 1.8 | 0.1 | 1.1 |
| Accounts Payable & Other Liabilities | 11.2 | 12.2 | 9.7 | 11.3 | 11.8 |
| Total Current Liabilities | 11.3 | 13.3 | 13.3 | 14.4 | 16.8 |
| Accrued Pension and OPEBs | 11.8 | 14.7 | 17.6 | 24.3 | 9.7 |
| Deferred Income Taxes | 22.8 | 23.6 | 27.2 | 30.4 | 31.1 |
| Advances for Construction | 49.1 | 48.3 | 48.0 | 47.1 | 47.4 |
| Other Liabilities | 9.9 | 9.7 | 10.6 | 12.9 | 13.8 |
| Total Other Liabilities and Deferred Credits | 93.6 | 96.3 | 103.3 | 114.7 | 102.0 |
| Total Liabilities | 159.3 | 164.4 | 168.7 | 181.2 | 184.9 |
| Total Stockholder's Equity and Liabilities | \$225.68 | \$229.58 | \$237.41 | \$257.42 | \$264.50 |
| Debt / Total Capitalization | 45.1% | 46.2% | 44.8% | 42.0% | 47.2% |
| Debt / EBITDA | 3.0x | 3.1x | 3.1x | 2.4x | 2.8x |
| Interest Coverage | 2.5x | 1.9x | 2.5x | 3.9x | 4.0x |



Financial Information

Figure 78: Historical Consolidated Statement of Cash Flows

(\$ in Millions)

| | Year Ended December 31, | | | | |
|---|-------------------------|-------|--------|--------|--------|
| | 2009A | 2010A | 2011A | 2012A | 2013A |
| Net Income | \$4.1 | \$0.9 | \$3.7 | \$7.5 | \$6.8 |
| Depreciation & Amortization | 6.8 | 6.9 | 7.2 | 7.2 | 7.9 |
| Impairment Loss | 0.1 | 2.1 | - | (0.2) | (1.3) |
| Change In Working Capital | 1.9 | (0.7) | (1.4) | (0.6) | 3.6 |
| Other Operating Activities | (0.3) | (0.1) | 0.2 | - | 0.1 |
| Cash Flow From Operations | 12.6 | 9.0 | 9.7 | 13.9 | 17.1 |
| Gross Capital Investment | (8.5) | (9.0) | (12.3) | (20.5) | (24.3) |
| Net Proceeds from Marketable Securities | (1.6) | (0.6) | 1.0 | 7.0 | (4.6) |
| Other Investing Activities | 0.2 | 0.0 | 0.6 | (0.0) | (0.1) |
| Cash Flow From Investing | (9.8) | (9.5) | (10.7) | (13.6) | (29.0) |
| Dividends Paid | (0.3) | (2.0) | (0.3) | (2.0) | (4.0) |
| Net Proceeds of Short-Term Debt | (0.9) | 1.1 | 0.7 | 1.2 | 0.9 |
| Proceeds of Long-Term Debt | - | 0.3 | - | - | 15.0 |
| Retirement of Long-Term Debt | (0.0) | (0.0) | (0.8) | (1.8) | (0.1) |
| Other Financing Activities | (0.7) | 0.1 | 0.8 | 1.7 | 0.8 |
| Cash Flow From Financing | (1.9) | (0.5) | 0.4 | (0.9) | 12.6 |
| Cash at Beginning of Period | 1.9 | 2.8 | 1.8 | 1.1 | 0.5 |
| Change in Cash | 0.9 | (1.0) | (0.6) | (0.6) | 0.8 |
| Cash at End of Period | \$2.8 | \$1.8 | \$1.2 | \$0.5 | \$1.3 |



Financial Information

Capital Structure

As of December 31, 2013 Park Water had \$71.0 million of total debt outstanding, including \$67 million of first mortgage bonds (“FMBs”) and \$3.9 million unsecured indebtedness drawn on bank credit facilities. FMBs have a weighted average interest rate of 6.7% and have mandatory repayments of \$1 million per annum through 2019.

The Company maintains strong lending relationships and access to committed credit facilities of \$23 million. The facilities consist of a Park Water \$12 million revolving credit line maturing in 2016, a Park Water \$10 million revolving credit line maturing in 2015 and a Mountain Water \$1 million revolving credit line maturing in 2014. Park Water had, as of May 23, 2014, \$8.7 million outstanding on its revolving credit facilities.

Interim funding requirements for 2014E and 2015E are expected to be met through shorter term secured or unsecured borrowings.

Park Water’s FMBs are expected to remain outstanding after the close of the Transaction.

Figure 79: Park Water Current Capitalization

(\$ in Millions)

| | <u>As of 12/31/2013</u> | <u>% of Total</u> | <u>Leverage¹</u> |
|-----------------------------|-------------------------|-------------------|-----------------------------|
| Credit Facility | \$3.9 | 2.6% | 0.2x |
| Notes Payable | 0.1 | 0.1% | 0.0x |
| Long-Term Debt | 67.0 | 44.5% | 2.6x |
| Total Debt | \$71.0 | 47.2% | 2.8x |
| Stockholder's Equity | \$2.9 | | |
| Retained Earnings | 76.8 | | |
| Total Equity | \$79.6 | | |
| Total Capitalization | \$150.7 | | |

¹ Debt/2013A EBITDA of \$25.5 million

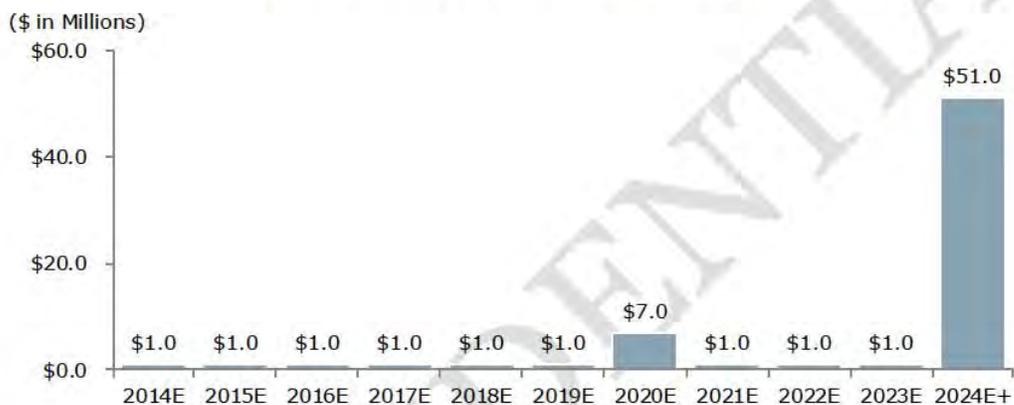


Financial Information

Figure 80: First Mortgage Bond Detail

| | Interest | | |
|--------------|---------------|-------|-----------|
| | Amount | Rate | Maturity |
| Series A | \$7.0 | 8.82% | 6/1/2020 |
| Series B | 10.0 | 7.59% | 8/31/2025 |
| Series C | 15.0 | 5.99% | 1/27/2036 |
| Series D | 10.0 | 7.56% | 10/6/2033 |
| Series E | 10.0 | 7.65% | 10/6/2038 |
| Series F | 7.5 | 4.53% | 6/4/2043 |
| Series G | 7.5 | 4.53% | 6/4/2043 |
| Total | \$67.0 | | |

Figure 81: Long-Term Debt Maturity Profile

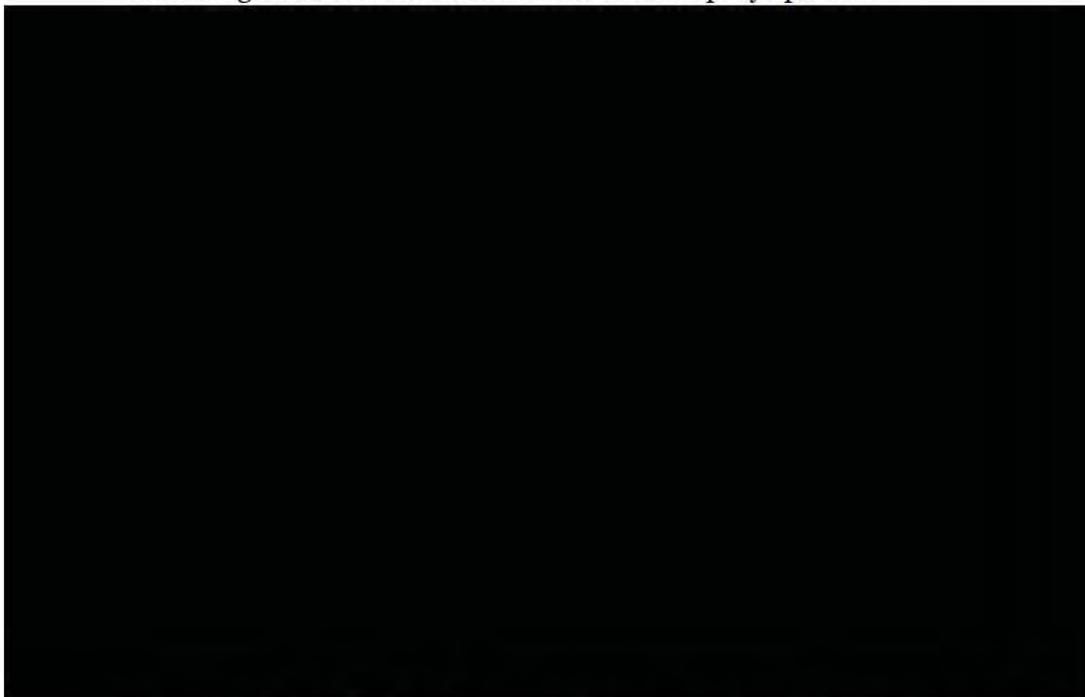




Financial Information

Key Assumptions and Financial Projections

Park Water’s forecast for the years 2014E-2019E is based on management’s operating plan, long-term capital budget, planned rate cases and knowledge of the environment in which the Company operates.



Mountain Water files a rate case, including cost of capital, with the MPSC every year from 2014 – 2019.

- For modeling purposes, current 9.80% allowed return on equity is maintained through 2019 per latest rate case
- Although ROEs are held constant for modeling purposes, Park Water management recognizes higher ROEs are warranted in the current and forecasted period
- Current allowed cost of debt of 8.37% decreases with each annual rate case decision to reach 6.18% by 2019 based on forecasted debt issuances

Figure 82: Rate Case and Cost of Capital Effective Dates

| | 2015E | 2016E | 2017E | 2018E | 2019E |
|--|-------|-------|-------|-------|-------|
| <u>General Rate Case Effective Date</u> | | | | | |
| Park Central Basin | | ✓ | | | ✓ |
| Apple Valley | ✓ | | | ✓ | |
| Mountain Water | ✓ | ✓ | ✓ | ✓ | ✓ |
| <u>Cost of Capital Proceeding Effective Date</u> | | | | | |
| Park Central Basin | | | ✓ | | |
| Apple Valley | | | ✓ | | |





Financial Information

Capital Structure

As of December 31, 2013, Park Water had \$67 million of FMB debt with an effective weighted average interest rate of 6.7%. Debt capital is maintained at the Park Water intermediate holding company level (no operating company debt).

The Company's forecast operating cash needs are funded with:

- First, cash on the balance sheet is utilized while maintaining a \$1.0 million minimum cash balance
- Second, Park Water draws on a capital investment facility until consolidated debt reaches 48% of total capitalization
- Last, Park Water raises equity for any remaining cash needs

Capital Investment

Capital investment for the years 2014E-2018E is based on Park Water management's latest capital budget. The 2019E capital investment forecast is based on an estimated 7.0% increase from 2018E.

Figure 83: Company-Funded Segment Capital Investment Forecast

| (\$ in Millions) | 2013A | 2014E | 2015E | 2016E | 2017E | 2018E | 2019E | Total 2014E-2019E |
|-----------------------------------|--------|--------|--------|--------|--------|--------|--------|----------------------|
| Park Central Basin | \$11.3 | \$13.2 | \$12.0 | \$13.0 | \$14.0 | \$15.0 | \$16.1 | \$83.3 |
| Apple Valley | 7.5 | 7.7 | 13.5 | 14.2 | 14.5 | 16.0 | 17.1 | 83.0 |
| Mountain Water | 4.0 | 4.0 | 4.5 | 5.0 | 5.5 | 7.0 | 7.5 | 33.5 |
| Main Office | 0.4 | 1.7 | 0.4 | 0.4 | 0.4 | 0.6 | 0.6 | 4.0 |
| Company-Funded Capital Investment | \$23.2 | \$26.6 | \$30.3 | \$32.6 | \$34.4 | \$38.6 | \$41.2 | \$203.7 |

Figure 84: Park Water Forecasted Company-Funded Capital Investment





Financial Information

Operating Expenses

- 2014E operating expenses for all utilities are based on management budget
- Mountain Water operating expenses are forecasted to increase by 2.5% annually for the years 2015E-2019E
- Corporate operating expenses are allocated to each utility based on the four factor general office allocation mechanism as filed with the CPUC

Figure 85: Segment Operating Expense Forecast

| (\$ in Millions) | 2013A | 2014E | 2015E | 2016E | 2017E | 2018E | 2019E | CAGR |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-------------|
| | | | | | | | | 2014E-2019E |
| Park Central Basin | | | | | | | | n/a |
| Apple Valley | | | | | | | | n/a |
| Mountain Water | | | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% | n/a |
| Utility Non-Regulated | | | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% | n/a |
| Park Central Basin | | | | | | | | |
| Apple Valley | | | | | | | | |
| Mountain Water | (11.1) | (11.3) | (11.6) | (11.9) | (12.2) | (12.5) | (12.8) | 2.5% |
| Utility Non-Regulated | - | (0.6) | - | - | - | - | - | n/a |
| Total Operating Expenses | (\$45.8) | (\$46.1) | (\$47.8) | (\$49.1) | (\$50.6) | (\$51.8) | (\$53.1) | 2.9% |

EBITDA

EBITDA is forecasted to grow at a 9.9% CAGR through 2019E due to continued capital investment and full recovery through rate case decisions.

Figure 86: Park Water Forecast EBITDA





Financial Information

Depreciation

Straight line depreciation for existing and new assets based on the following current blended rates:

Figure 87: Depreciation Rate by Segment

| | Rate | Avg. Years |
|--------------------|------------|------------|
| Park Central Basin | [REDACTED] | [REDACTED] |
| Apple Valley | [REDACTED] | [REDACTED] |
| Mountain Water | 2.8% | 35.3 |

Taxes

Park Water’s tax rate for the years 2014E-2019E is weighted based on the EBITDA contribution from each of the three utilities.

- [REDACTED]
- Mountain Water: 39.4% effective tax rate (6.8% State and 35.0% Federal)

Growth

Park Water customer connections are forecasted to steadily increase throughout the projection period.

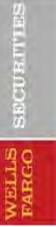
- Mountain Water projects customer connection growth between rate cases which increases annual revenue by an incremental 1%
- [REDACTED]
- The capital investment plan does not include investment for acquisitions



Financial Information

Figure 88: Historical and Projected Operating Metrics

| | Historical | | | | | | | | | | Forecasted | | | | | |
|-------------------------------------|------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|------------|--|--|--|--|--|
| | 2009A | 2010A | 2011A | 2012A | 2013A | 2014E | 2015E | 2016E | 2017E | 2018E | 2019E | | | | | |
| (\$ in Millions) | | | | | | | | | | | | | | | | |
| Park Central Basin | 16.6 | 16.0 | 17.5 | 18.2 | 18.6 | 18.5 | 19.3 | 19.6 | 20.3 | 21.0 | 22.0 | | | | | |
| Apple Valley | \$60.5 | \$61.2 | \$62.6 | \$68.2 | \$71.3 | \$72.7 | \$77.1 | \$81.8 | \$85.1 | \$90.1 | \$95.8 | | | | | |
| Mountain Water | 10.6% | 1.1% | 2.2% | 9.0% | 4.5% | 2.0% | 6.1% | 6.1% | 4.0% | 5.9% | 6.2% | | | | | |
| Total Revenue | | | | | | | | | | | | | | | | |
| Growth | | | | | | | | | | | | | | | | |
| Park Central Basin | (10.9) | (11.0) | (11.3) | (11.2) | (11.1) | (11.3) | (11.6) | (11.9) | (12.2) | (12.5) | (12.8) | | | | | |
| Apple Valley | (\$42.2) | (\$43.4) | (\$44.4) | (\$44.9) | (\$45.8) | (\$46.1) | (\$47.8) | (\$49.1) | (\$50.6) | (\$51.8) | (\$53.1) | | | | | |
| Mountain Water | 3.8% | 2.9% | 2.1% | 1.3% | 2.1% | 0.5% | 3.7% | 2.8% | 2.9% | 2.5% | 2.5% | | | | | |
| Total Operating Expenses | | | | | | | | | | | | | | | | |
| Growth | | | | | | | | | | | | | | | | |
| Park Central Basin | 5.7 | 5.0 | 6.2 | 7.0 | 7.4 | 7.2 | 7.7 | 7.8 | 8.1 | 8.6 | 9.2 | | | | | |
| Apple Valley | (0.5) | (2.6) | (0.3) | (0.0) | 0.1 | 0.0 | 0.2 | 0.4 | 0.5 | 0.5 | 0.6 | | | | | |
| Mountain Water | | | | | | | | | | | | | | | | |
| Utility Non-Regulated | | | | | | | | | | | | | | | | |
| Total EBITDA | \$17.8 | \$15.1 | \$17.9 | \$23.3 | \$25.5 | \$26.6 | \$29.6 | \$33.0 | \$35.0 | \$38.9 | \$43.2 | | | | | |
| % Margin | 29.4% | 24.7% | 28.6% | 34.1% | 35.8% | 36.7% | 38.4% | 40.4% | 41.1% | 43.1% | 45.1% | | | | | |
| Growth | (14.9%) | 18.0% | 18.0% | 30.1% | 9.9% | 4.3% | 11.1% | 11.7% | 6.0% | 11.0% | 11.2% | | | | | |
| Park Central Basin | (2.2) | (2.3) | (2.4) | (2.5) | (2.6) | (2.8) | (2.8) | (2.9) | (3.0) | (3.2) | (3.4) | | | | | |
| Apple Valley | | | | | | | | | | | | | | | | |
| Mountain Water | | | | | | | | | | | | | | | | |
| Total Depreciation and Amortization | (\$6.7) | (\$6.9) | (\$7.2) | (\$7.2) | (\$7.9) | (\$8.8) | (\$8.9) | (\$9.7) | (\$10.5) | (\$11.4) | (\$12.4) | | | | | |
| EBIT | \$11.1 | \$8.3 | \$10.7 | \$16.1 | \$17.7 | \$17.9 | \$20.7 | \$23.4 | \$24.5 | \$27.5 | \$30.8 | | | | | |
| Interest Expense | (4.0) | (4.0) | (4.1) | (3.9) | (4.3) | (4.8) | (5.2) | (5.7) | (6.4) | (7.1) | (7.9) | | | | | |
| Amortization of Financing Fees | (0.2) | (0.2) | (0.2) | (0.2) | (0.2) | (0.2) | (0.2) | (0.2) | (0.2) | (0.2) | (0.2) | | | | | |
| Earnings Before Taxes | \$6.8 | \$4.1 | \$6.5 | \$12.0 | \$13.2 | \$12.9 | \$15.3 | \$17.5 | \$17.9 | \$20.2 | \$22.7 | | | | | |
| Tax Expense | (2.7) | (3.2) | (2.8) | (4.5) | (6.4) | (5.2) | (6.2) | (7.1) | (7.3) | (8.2) | (9.2) | | | | | |
| Net Income | \$4.1 | \$0.9 | \$3.7 | \$7.5 | \$6.8 | \$7.6 | \$9.1 | \$10.4 | \$10.6 | \$12.0 | \$13.5 | | | | | |





Financial Information

Figure 89: Park Water Capital Structure Summary

| (\$ in Millions) | Forecasted | | | | | | |
|---------------------------------|------------|--------|--------|---------|---------|---------|---------|
| | 2013A | 2014E | 2015E | 2016E | 2017E | 2018E | 2019E |
| Shareholder's Equity | \$79.6 | \$82.3 | \$93.6 | \$105.8 | \$117.9 | \$134.1 | \$147.6 |
| Long-Term Debt | 67.1 | 66.0 | 65.0 | 64.0 | 63.0 | 62.0 | 61.0 |
| Credit Facility | 3.9 | 8.9 | 18.1 | 30.9 | 44.4 | 56.8 | 73.3 |
| Total Debt | \$71.0 | \$74.9 | \$83.1 | \$94.9 | \$107.4 | \$118.8 | \$134.3 |
| Debt-to-Capital (end of period) | 47.1% | 47.7% | 47.0% | 47.3% | 47.7% | 47.0% | 47.6% |
| Debt / EBITDA | 2.8x | 2.8x | 2.8x | 2.9x | 3.1x | 3.1x | 3.1x |

Figure 90: Park Water Cash Flow Summary

| (\$ in Millions) | Forecasted | | | | | |
|----------------------------------|------------|--------|--------|--------|--------|--------|
| | 2014E | 2015E | 2016E | 2017E | 2018E | 2019E |
| Net Income | \$7.6 | \$9.1 | \$10.4 | \$10.6 | \$12.0 | \$13.5 |
| Depreciation & Amortization | 8.9 | 9.1 | 9.9 | 10.7 | 11.6 | 12.6 |
| Change in Working Capital | (0.1) | (0.3) | (0.4) | (0.2) | (0.4) | (0.5) |
| Change in Regulatory Accounts | 7.9 | 3.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| Change in Deferred Tax | (0.2) | 0.4 | 0.8 | 1.2 | 1.7 | 2.1 |
| Total Cash Flow from Operations | 24.2 | 21.5 | 20.6 | 22.3 | 24.8 | 27.7 |
| Capital Investment | (29.3) | (34.3) | (37.4) | (39.5) | (44.0) | (46.8) |
| Total Cash Flow from Investing | (29.3) | (34.3) | (37.4) | (39.5) | (44.0) | (46.8) |
| Retirement of Debt | (1.0) | (1.0) | (1.0) | (1.0) | (1.0) | (1.0) |
| Advances for Construction & CIAC | 2.7 | 4.0 | 4.9 | 5.2 | 5.5 | 5.6 |
| Refunds on Advances | (1.6) | (1.6) | (1.7) | (1.8) | (1.9) | (2.0) |
| Debt Issuance | 5.0 | 9.2 | 12.8 | 13.4 | 12.4 | 16.5 |
| Dividends | (5.0) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Equity Issuance | 0.0 | 2.3 | 1.8 | 1.4 | 4.3 | 0.0 |
| Total Cash Flow from Financing | 0.1 | 12.8 | 16.8 | 17.2 | 19.2 | 19.1 |
| Beginning Cash | 5.9 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Change in Cash | (4.9) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Ending Cash | \$1.0 | \$1.0 | \$1.0 | \$1.0 | \$1.0 | \$1.0 |



Financial Information

Figure 91: Park Water Regulated Summary

| | Forecasted | | | | | | |
|--------------------------------------|------------|---------|---------|---------|---------|---------|---------|
| | 2013A | 2014E | 2015E | 2016E | 2017E | 2018E | 2019E |
| (\$ in Millions) | | | | | | | |
| PP&E, Gross | \$289.7 | \$317.3 | \$351.2 | \$388.3 | \$427.4 | \$470.9 | \$517.1 |
| CWIP | 1.7 | 2.5 | 2.9 | 3.1 | 3.3 | 3.6 | 3.9 |
| Accumulated Depreciation | (79.4) | (88.3) | (97.7) | (107.9) | (118.9) | (130.8) | (143.8) |
| Advances for Construction | (49.0) | (49.6) | (51.3) | (53.7) | (56.3) | (59.2) | (62.0) |
| CIAC | (12.6) | (12.6) | (12.6) | (12.9) | (13.1) | (13.3) | (13.5) |
| Other | (19.2) | (18.2) | (18.5) | (19.3) | (20.5) | (22.1) | (21.4) |
| Year End Rate Base | \$131.3 | \$151.1 | \$174.0 | \$197.7 | \$221.9 | \$249.2 | \$280.3 |
| Equity % of Capitalization | | 56.2% | 56.0% | 56.0% | 52.4% | 52.5% | 52.4% |
| Equity in Rate Base | | 85.0 | 97.4 | 110.7 | 116.2 | 130.8 | 146.8 |
| <u>Year End Rate Base by Segment</u> | | | | | | | |
| Park Central Basin | | | | | | | |
| Apple Valley | | | | | | | |
| Mountain Water | 39.6 | 42.0 | 44.4 | 47.2 | 50.2 | 54.6 | 59.6 |
| <u>Average Rate Base by Segment</u> | | | | | | | |
| Park Central Basin | | | | | | | |
| Apple Valley | | | | | | | |
| Mountain Water | | 40.8 | 43.2 | 45.8 | 48.7 | 52.4 | 57.1 |
| <u>Authorized ROE</u> | | | | | | | |
| Park Central Basin | | | | | | | |
| Apple Valley | | | | | | | |
| Mountain Water | | 9.80% | 9.80% | 9.80% | 9.80% | 9.80% | 9.80% |

CONFIDENTIAL

APPENDIX

Appendix



Management Biographies

Christopher Schilling, Chief Executive Officer

Mr. Schilling joined Park's corporate staff in 2009 as the Co-Chief Executive Officer having previously served as an Independent Board Advisor for Park since 1999. Mr. Schilling became Chief Executive Officer in 2011, and is currently a member of the Board of Directors for the National Association of Water Companies.

Mr. Schilling has spent most of his professional career at Bank of America, where in 2003 he became a Managing Director/Head of International Private Placements. At Bank of America, Mr. Schilling provided capital markets advisory services working extensively with regulated gas, electric and water companies in the U.S. and globally including Australia, Asia, Canada and Europe. In his prior role as an Independent Advisor to Park's Board of Directors, Mr. Schilling provided consultation on capital structure, funding arrangements, pension plan, strategic initiatives, and other matters.

Mr. Schilling holds a Bachelor of Arts in Economics and a Master of Business Administration in Finance from Columbia University.

Leigh K. Jordan, Executive Vice President & Secretary

Mr. Jordan joined Park in 1986, was promoted to Vice President of Revenue Requirements in 1987, Sr. Vice President in 1993, and assumed his present position in 1999. As Executive Vice President of Park and its utility subsidiaries, Apple Valley and Mountain Water, he is generally responsible for all aspects of the Companies' operations. From 1982 to 1986, Mr. Jordan was employed by the California Public Utilities Commission as a Utilities Engineer, during which time he prepared exhibits, testified before the Commission, and served as a technical advisor providing support to Administrative Law Judges in the preparation of decisions.

Mr. Jordan is a member of the Board of Directors of the California Water Association, currently also serving as Treasurer/General Secretary and a member of the Executive Committee and the Regulatory Committee, and for over ten years served as a member of the National Association of Water Companies Rates and Revenues Committee.

Mr. Jordan holds a Bachelor's degree in Geology and a Master's degree in Engineering Science from the University of California at Berkeley. He has attended the National Association of Regulatory Utility Commissioners (NARUC) Utility Rate Seminar co-sponsored by the University of Utah and the NARUC Regulatory Studies Program co-sponsored by Michigan State University. He is a licensed Civil Engineer in the State of California and was granted a Grade D2 Water Distribution Operator certification from the State of California Department of Health Services in 2002.

Douglas Martinet, Sr. Vice President & Chief Financial Officer

Mr. Martinet joined Park in 1982, became the Chief Financial Officer in 1985, and was promoted to Sr. Vice President/CFO in 1993. He is currently responsible for the accounting, financial reporting, treasury, income tax



Appendix

and risk management functions and previously had responsibilities for revenue requirements, information systems, human resources and customer service functions.

Mr. Martinet is an active member of Financial Executives International, the California Water Association (serving on both the regulatory and finance/accounting committees), and the National Association of Water Companies, having served on the latter's Finance/Accounting/Taxation Committee since 1986.

Mr. Martinet holds a Bachelor of Science degree in Business Administration (Accounting) from San Diego State University and a Masters in Business Administration from Pepperdine University. He has attended the National Association of Regulatory Utility Commissioners Utility Rate Seminar co-sponsored by the University of Utah.

Mary A. Young, Sr. Vice President of Administration

Ms. Young came to Park as an Information Technology (IT) consultant in 1991, and was hired as Director of Management Information Systems in 1993. She was promoted to her current position later that year. As Sr. Vice President of Administration, she is responsible for the IT and Human Resources departments as well as some administrative functions. Prior to joining Park, Ms. Young held the position of Vice President/CIO of First Family of Travel, a large tour operator conglomerate where she was employed since 1980. In that position, her team was responsible for converting over 20 new acquisitions to the IT systems of the holding company.

Ms. Young is a member of the Association of Information Technology Professionals (AITP) and spearheaded the formation of the California Water Technology Group. Ms. Young holds a Bachelor's degree in Mathematics from Dickinson College (Carlisle, PA), and acquired a Senior Professional in Human Resources (SPHR) certification in 2011. She has also attended the National Association of Regulatory Utility Commissioners Utility Rate Seminar cosponsored by the University of Utah.

Jeanne-Marie Bruno, Sr. Vice President & General Manager

Ms. Bruno joined Park in 2000 and became the Senior Vice President and General Manager of Park's Central Basin Division. Prior to her current position, she was Acting Associate Director of Water Quality for the Metropolitan Water District of Southern California where she was employed for twelve years. She also worked for Montgomery Watson as a water treatment design engineer.

Ms. Bruno has been an active member of the American Water Works Association over 30 years. She served as Chair of the 7,500 member California-Nevada Section of AWWA and has served as an International Board Director representing the Section. She is currently serving on AWWA's Water Utility Council that responds to legislative and regulatory issues which directly affect water utilities. Ms. Bruno serves on the EPA's National Drinking Water Advisory Council, a strategic committee devoted to safe drinking water.



Appendix

Ms. Bruno holds a Bachelor's of Science degree in Civil Engineering from the Massachusetts Institute of Technology and a Master of Environmental Engineering from Stanford University. She is a registered Civil Engineer in California, a Grade 5 California Water Treatment Operator, and a Grade 5 Water Distribution Operator.

Chris Alario, Ph.D., Sr. Vice President of Corporate Development

Chris Alario joined Park's corporate staff in 2012 as Sr. Vice President of Corporate Development. Dr. Alario is responsible for the corporate business development program and strategic initiatives. In his prior position, Dr. Alario served as Vice President for AECOM Technical Services, Inc. and managed the firm's water engineering consulting business in Southern and Central California.

Dr. Alario also worked in the investor-owned water utility industry from 1996 to 2009. Dr. Alario worked for 10 years in various senior business development roles for American Water Works Company and served as a corporate officer for several of its operating subsidiaries in the Western United States. Prior to American Water, Dr. Alario served as Finance Manager for Dominguez Water Corporation for three years and was responsible for rates and revenues, business development and strategic initiatives.

Dr. Alario holds a Bachelor of Arts in Political Science from University of California, San Diego and a Masters of Arts and Doctor of Philosophy in Politics from Catholic University of America.

Gary R. Lynch, Vice President of Water Quality

Mr. Lynch has been with Park for 25 years and is currently Vice President of Water Quality. Prior to coming to work for Park, he worked 12 years for the Los Angeles County Department of Health Services and was the Assistant Program Director for the Small Water System Program.

Mr. Lynch recently completed a three year term as a Director on the American Water Works Association (AWWA) Board of Directors representing the California-Nevada Section of AWWA. He is past-Chair of the CA-NV Section of AWWA, as well as past chair of the CA-NV Water Quality Division, System Water Quality Committee and the CA-NV Section Government.

Mr. Lynch has given numerous technical presentations at both Section and national conferences. He has authored and co-authored numerous journal articles and handbooks. He recently completed a 1 ½ year effort with USEPA's Revised Total Coliform Rule Federal Advisory Committee (FAC) and the Technical Work Group that supported the FAC. In 2004-05 he also completed 1 ½ year appointment to the National Drinking Water Advisory Council Contaminant Candidate List workgroup. He is chair of the AWWA Perchlorate Technical Advisory Workgroup (TAW) and participates in the AWWA Contaminant Candidate List and Total Coliform Rule/Distribution System Rule TAW's.

Appendix



Mr. Lynch holds a Bachelor's degree in Biology and Bachelor and Master's degrees in Environmental Health, all from California State University Northridge.

John Kappes, President & General Manager (Mountain Water)

Mr. Kappes joined Mountain Water in 1990. In his current position, Mr. Kappes is responsible for all aspects of Mountain Water's operations. He has overseen the preparation and has been an expert witness in the last two general rate filings. He was also Mountain's expert witness in its transaction proceeding for the sale of Park Water in 2011. Prior to this position, he worked as Coordinator of Rates and prepared six general rate filings to the Montana Public Service Commission and was an expert witness in five.

Mr. Kappes is a graduate of the University of Montana with a Bachelor of Science Degree in Business, with an emphasis in accounting. He holds a current Montana CPA license and is a member of the American Institute of Public Accountants and Montana Society of CPAs. In addition to his regular CPE training requirements, he has attended the National Association of Regulatory Utility Commissioners Utility Rate Seminar co-sponsored by Florida State University, the Utah State University Business Institute's Mastering Management Training Program, co-sponsored by AWWA, the University of Montana's MBA Essentials Certification Program, and is also a DDI trained facilitator. He is currently serving his last year on the Chamber of Commerce Board where he has been a member for five years, including a member of its Executive Board. He also is a member of the Missoula Economic Partnership's finance committee.

Tony Penna, Vice President & GM (Apple Valley)

Mr. Penna joined Apple Valley Ranchos Water in 2012. In his current position, Mr. Penna is responsible for all aspects of Rancho's operations. He oversaw the preparation of the current general rate filings and will be a witness in the upcoming CPUC hearings.

Mr. Penna spent most of his career in the nuclear and fossil energy industry. He was Senior Project Manager and a Plant Engineer for Constellation Energy, before leaving to become the Vice President of Development for the Inland Energy Group.

Mr. Penna holds a Bachelor's of Science degree in Business from the University of Maryland and a Master's of Science Degree in Management from Florida Institute of Technology. Mr. Penna sits on the Mojave Desert Air Quality Management District Hearing Board

Rick Dalton, Associate Vice President & Chief Engineer

Mr. Dalton joined Park Water, in 1988 as Company Engineer in the Corporate Engineering Department. He was promoted to Director of Engineering in 2000 and in 2010 was promoted to Corporate Chief Engineer/Assistant V.P.

During his 26 years with Park Rick has gained an expertise in such areas as water facility design, master planning and water system operations and maintenance. He has demonstrated technical expertise in areas such as



Appendix

hydraulic analysis, control systems, SCADA systems, and wellhead treatment. He has participated in such organizations as AWWA, ASCE, and SSPC throughout his career. He is past Chairman of the California/Nevada Section AWWA Water Distribution Division and Corrosion Control Committee. As head of Corporate Engineering, he is responsible for providing direction and control of the capital budgeting and expenditure process. He provides engineering oversight and services for all three of the Park subsidiaries.

Mr. Dalton is a registered Civil Engineer in the state of California with a Bachelor of Science Degree in Civil Engineering from the University of Southern California. He has attended the National Association of Regulatory Utility Commissioners Utility Rate Seminar co-sponsored by the University of Utah.

Sam Musgrave, Manager of Risk and Emergency Preparedness

Mr. Musgrave joined Park Water Company in 2013 as Manager of Risk and Emergency Preparedness. Mr. Musgrave is responsible for mitigating the operational risks and liabilities of the water utility and its subsidiaries through risk management, business continuity, emergency preparedness, safety and O&M programs.

Prior to joining Park, Sam was employed as an Emergency Management and Disaster Response Analyst for the Department of Homeland Security (DHS), Federal Emergency Management Agency (FEMA). Prior to that position, he was employed by the State of California's Emergency Management Agency.

Sam holds a Bachelor's degree from Los Angeles Harbor College, and has instructor certifications in several emergency response systems.



Appendix

Figure 92: Common Terms

| Term | Definition |
|-------|---|
| AF | Acre-Feet |
| AMR | Automated Meter Reading |
| BAP | Base Annual Production |
| BRPA | Bioterrorism Preparedness and Response Act |
| CAGR | Compound Annual Growth Rate |
| CBMWD | Central Basin Municipal Water District |
| CCF | Hundred Cubic Feet (748 gallons) |
| CIAC | Contributions in Aid of Construction |
| CPDH | California Department of Public Health |
| CPUC | California Public Utility Commission |
| CWA | Clean Water Act of 1972 |
| CWIP | Construction Work in Process |
| DSIC | Distribution Service Investment Charge |
| EH&S | Environmental Health & Safety |
| EPA | Environmental Protection Agency |
| FMB | First Mortgage Bond |
| FPA | Free Production Allowance |
| GOA | General Office Application |
| GO | General Office |
| GPCD | Gallons Per Capita Per Day |
| GPM | Gallons Per Minute |
| GRC | General Rate Case |
| IOU | Investor-Owned Utility |
| MCBA | Modified Cost Balancing Account |
| MCC | Montana Consumer Counsel |
| MCL | Maximum Containment Level |
| MDEQ | Montana Department of Environmental Quality |
| MG | Million Gallons |
| MGD | Million Gallons Daily |
| MPSC | Montana Public Service Commission |
| MWA | Mojave Water Agency |
| MWD | Metropolitan Water District of Southern California |
| NTM | Next Twelve Months |
| PSA | Purchase and Sale Agreement |
| RRA | Regulatory Research Associates |
| T&D | Transmission and Distribution |
| UWMP | Urban Water Management Plan |
| WFS | Wells Fargo Securities, LLC |
| WRAM | Water Revenue Adjustment Mechanism |
| WRD | Water Replenishment District of Southern California |



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CONFIDENTIAL



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July 2, 2014

Re Park Water Company
C/O: Mr. Hugh D. Babowal
Managing Director
Energy & Power Mergers & Acquisitions
Wells Fargo Securities, LLC
550 South Tryon Street
Charlotte, NC 28202

VIA E-MAIL: hugh.babowal@wellsfargo.com

Dear Mr. Babowal

RE: Indicative Bid for the Proposed Purchase of Western Water Holdings LLC's 100% equity interest in Park Water Company

Liberty Utilities Co. ("Liberty"), an indirect wholly owned subsidiary of Algonquin Power & Utilities Corp. ("APUC") and the holder of all of APUC's regulated utility assets, is pleased to submit this indicative bid (the "Bid") in respect of the proposed acquisition of Western Water Holdings LLC's ("Western Water" or the "Seller") 100% equity interest in Park Water Company ("Park Water") (the "Transaction").

It is understood that the Seller is seeking bids from qualified buyers who are interested in the acquisition of Park Water. We understand that Park Water, through its wholly owned subsidiaries Apple Valley Ranchos Water Company ("AVRWC") and Mountain Water Company ("MWC"), operates three regulated water distribution utilities two of which are in California with the third in Montana (collectively, the "Business"), and that it is the sole provider of water utility services in its respective service area. In total, the Business serves approximately 73,500 connections.

Liberty has based the valuation contained in the Bid on the confidential information memorandum dated June 2014 (the "CIM") supplied by the Seller through intermediary Wells Fargo Securities LLC.

Liberty advises that this Bid and the proposed terms and conditions contained herein are being provided to the Seller on a confidential basis and are not to be disclosed to anyone other than the Seller and its advisors. This Bid does not constitute a binding offer to purchase Park Water and is intended as a preliminary indication of value and it may be withdrawn or rescinded by Liberty at any time for any reason.

WWH000899

1. Identity of Buyer

The proposed purchaser of Park Water would be Liberty Utilities Co., a Delaware corporation and an indirect wholly owned subsidiary of APUC. Liberty will receive the full support of its direct parent, APUC, as may be necessary to consummate the Transaction proposed herein, including either providing customary assurances to the Seller in respect of financing to Liberty so as to permit a timely closing of the Transaction or other pre-closing performance assurances.

APUC owns and has interests in a diverse North America wide portfolio of sustainable infrastructure assets and renewable power generation, including 30 regulated water/gas/electric utility systems serving approximately 480,000 customers and 39 contracted renewable and clean energy facilities with more than 930 MW of net capacity. APUC's common and preferred shares are traded on the Toronto Stock Exchange under the symbols AQN, AQN.PR.A and AQN.PR.D. APUC currently has a market capitalization of C\$1.7B and an enterprise value of C\$3.6B. APUC's corporate credit is rated BBB by S&P and BBB (low) by DBRS.

APUC conducts its regulated utility businesses through Liberty, its wholly owned subsidiary. Liberty's regulated assets currently include water distribution and wastewater collection and treatment utilities located throughout Arizona, Arkansas, Texas, Missouri and Illinois, electricity distribution utilities located in California and New Hampshire and natural gas distribution utilities located in New Hampshire, Massachusetts, Missouri, Iowa, Illinois and Georgia.

APUC, through Liberty, has a stated strategy and objective to aggressively grow its regulated utility business footprint. It has successfully executed on this strategy over the past eight years, closing 6 US utility acquisitions since 2010, more than any other acquirer in this space. The capital markets have been highly supportive of APUC's strategies as is evidenced by APUC's strong stock price performance, which has outperformed the broader stock market indices including the US utility stock index.

Through the successful accumulation of its existing portfolio of regulated utility assets, Liberty has demonstrated that it is a highly experienced acquirer, with the proven ability to complete due diligence and negotiate the acquisition of regulated utility businesses. Additionally, Liberty's record of successfully consummating every announced utility acquisition demonstrates a capacity and commitment to successfully secure the requisite regulatory approvals for the acquisition of the Business. Through Liberty's regulated utility experience in California, APUC has developed a constructive relationship with the state regulatory body, the California Public Utilities Commission ("CPUC"), and currently does not foresee any issues with the proposed acquisition. APUC and Liberty have previously evaluated acquisitions in Montana and are comfortable doing business in the state. Liberty has retained Montana regulatory counsel and anticipates that relations with the MPSC will be constructive, consistent with our regulatory dealings in other states. Liberty's track record of providing reliable and quality regulated utility services is an important element of obtaining the necessary regulatory approvals for its utility acquisitions.

Liberty's philosophy and business practice respecting its regulated utility operations is predicated on a decentralized operating model. Consistent therewith, each of its individual utility

operations is resourced and staffed so as to permit a near standalone operation with the requisite operating staff located within the service territory. Customer service functions, regulatory affairs management, and senior decision makers are located within the service territory. Liberty's objective is to allow the stakeholders in its utility operations to opt for a local person-to-person interaction to resolve their particular issue.

Consistent with its management philosophy, Liberty anticipates retaining all the employees currently engaged in the management and or operation of the Business. To the extent that additional staff are necessary to maintain a standalone utility capability, additional local job opportunities would be created within the service territory.

In its past interactions with prospective employees, regulators, community leaders, customers and other stakeholders, Liberty has found that its local, responsive and caring utility management model as outlined above is compelling. All stakeholders have been supportive of creating additional local employment, greater local employee decision making and empowerment, expanded local personal interaction options, and in-jurisdiction regulatory interface.

2. Purchase Price

Liberty proposes to acquire Park Water for an equity purchase price (the "Purchase Price") of **Two Hundred and Forty Million US Dollars (US\$240,000,000)**, payable in cash at Closing (as defined herein) of the Transaction.

Liberty will also assume the US\$65 million of existing first mortgage bonds outstanding and US\$18 million of estimated credit facility borrowings, as estimated at Closing in the CIM's financial forecast. For the purposes of this Bid, closing has been assumed to occur on December 31, 2015 (the "Closing").

The Purchase Price also assumes that, as at signing, the Business will have net working capital equal to the amount reflected in the rate base as set out in the CIM (the "Target W/C"). To the extent that the working capital of the Business as at closing is greater than or less than the Target W/C, the Purchase Price shall be increased or decreased, dollar for dollar.

3. Key Assumptions

The assumptions underlying Liberty's Bid and Purchase Price include, but are not limited to, the following:

- The total rate base of Park Water and its subsidiaries as at December, 31, 2015 will be approximately US\$174 million;
- The Closing is assumed to occur on December 31, 2015;
- Pro forma cash flows generated by Park Water will be materially consistent with the financial forecasts set out in the CIM
- Quantum and timing of capital expenditures will be consistent with normal levels as might be expected of a regulated water utility of the characteristics depicted in the CIM both prior to and following the Closing and that the financial forecasts are reasonable representations thereof;

- Proposed Purchase Price is predicated on the anticipated account balances as at December 31, 2015 and to the extent that more rate base-able type assets are added or exist within Park Water prior to or at Closing beyond the net account values set out in the CIM as of the above date, the respective Purchase Price would be adjusted accordingly dollar for dollar.

4. Consideration and Financing

Liberty, with the support of APUC, has strong access to financing. In the past several years, Liberty has completed a series of debt and equity issuances as the sources of financing for its completed utility acquisitions. The capital markets have been very supportive and have provided the required financing at a competitive cost of capital. Liberty is working with the Bank of Nova Scotia on the financing strategy for the acquisition. We anticipate that the definitive agreement will not be subject to financing.

Liberty anticipates that future capital expenditures associated with the Business will be financed with a combination of operating cash flows generated from the Business, from Liberty's other operations and with additional debt and or equity capital provided by APUC as may be necessary from time to time.

In addition to its own financial resources, in 2011 APUC entered into a strategic partnership agreement with Emera Inc. ("Emera"). Pursuant to that arrangement Emera, has acquired a 25% equity ownership position in APUC through purchases of shares from treasury. APUC has benefited from this strategic partnership as an equity source for supplemental funding to facilitate the acquisition of several utilities over the past few years. Emera is traded on the Toronto Stock Exchange (TSX: EMA) and has a market capitalization of approximately CUS\$4.8 billion.

5. Due Diligence Requirements and Timing

Prior to execution of binding documents respecting the Transaction, certain confirmatory due diligence investigations will be undertaken by and at the expense of Liberty. It is expected that Liberty can complete such investigations on a schedule consistent with the Seller's expectations for this divestiture process. Such due diligence investigations are anticipated to focus on the following:

- Review of historical financial, operating and particularly regulatory filings and affairs records and operating and capital projections for the Business;
- Verification, by way of inspection of a number of the major assets/facilities, that the assets have been operated and maintained in a manner consistent with prudent industry practices and that the projected maintenance/preservation capital expenditures contained in the CIM and data room are appropriate and sufficient; and
- Verification that operation of the Business has been conducted in compliance with all applicable environmental and regulatory laws and that any material real property used in

the business is free of any material environmental impairment; provided, however, that no Phase II environmental investigations will be undertaken without the Seller's prior written consent.

As an experienced acquirer of regulated utilities businesses, Liberty has sufficient understanding of the due diligence process and the operation of regulated utility businesses to appreciate that much of the required due diligence information is routinely and exhaustively compiled by various regulators (economic, environmental, etc). As a consequence, a Seller supported review of regulatory records beyond that already completed by Liberty in preparation for this Bid would be beneficial in expediting any future due diligence investigations.

6. Authorization and Approvals

To date, the acquisition proposed herein has been reviewed by the senior management of Liberty and APUC and has been socialized to the members of the APUC Board of Directors. During subsequent stages of the Transaction process and as due diligence progresses, APUC would typically engage the members of its Board more fully. Board of Directors approval is not anticipated to have a notable effect impacting the timing of the Transaction.

APUC will not require any shareholder approval in order to consummate the Transaction.

Liberty does not anticipate the need for any additional regulatory or other third-party approvals for this transaction beyond those required by the Seller.

7. Contact Information

Please direct any correspondence regarding this Bid to our financial advisor:

Mr. Boyd Nelson
Director, Co-Head of US Power and Utilities
Scotia Capital Inc. (USA)
Tel: (212) 225-6816
Email: boyd.nelson@scotiabank.com

as well as the following contacts at Liberty and APUC, provided below:

Mr. Edmund Pamatat
Vice President, Utility Planning
APUC – Liberty Utilities
Tel: (905) 465-4551
Email: ed.pamatat@algonquinpower.com Liberty and APUC intends to appoint legal, tax, accounting and other transaction advisors in the subsequent round of the transaction process.

We look forward to consummating a transaction expeditiously that benefits all parties.

Sincerely,



Ian Robertson
Chief Executive Officer
ALGONQUIN POWER & UTILITIES CORP.

Cc: Ed Pamatat, Vice President, Utility Planning, Liberty Utilities

Wells Fargo Securities, LLC

550 South Tryon Street
Charlotte, NC 28202



August 13, 2014

STRICTLY CONFIDENTIAL VIA EMAIL

Mr. Edmund Pamatat
Algonquin Power & Utilities Corp.
2845 Bristol Circle
Oakville, ON L6H 7H7

Dear Mr. Pamatat:

On behalf of Carlyle Infrastructure Partners, LP ("Carlyle Infrastructure"), Wells Fargo Securities, LLC ("Wells Fargo") would like to thank you for your interest in the potential acquisition of Western Water Holdings, LLC ("Western Water"), which wholly owns Park Water Company (together with its subsidiaries, "Park Water") (the "Transaction").

After you have completed your remaining due diligence, and discussed any questions with representatives of Wells Fargo, we invite you to submit your written final and binding proposal to Wells Fargo by **5:00PM Eastern Time on Friday, September 5, 2014** (the "Final Bid Date"). The proposal must be executed by an officer authorized to bind your organization to its terms and submitted via email to Hugh Babowal and Aaron Smith.

Mr. Hugh D. Babowal
Managing Director
Energy & Power Mergers & Acquisitions
Tel: 212-214-8403
Email: hugh.babowal@wellsfargo.com

Mr. Aaron D. Smith
Director
Energy & Power Investment Banking
Tel: 704-410-1244
Email: aaron.smith@wellsfargo.com

While Carlyle Infrastructure reserves the right to consider all factors in evaluating proposals, it will place the greatest importance on the following: (i) the amount and form of consideration; (ii) the timing and certainty of closing; and (iii) the extent and nature of any revisions to the Merger Agreement. Please carefully review the following guidelines for your proposal.

1. Your proposal should indicate the total cash consideration in U.S. dollars that you are prepared to offer to acquire 100% of the stock in Western Water (the "Purchase Price"). Your proposal should include a specific Purchase Price to be paid, not a range. Western Water is an LLC being treated as a C-Corp for tax purposes. For the avoidance of doubt, Carlyle Infrastructure is contemplating a sale of 100% of the stock in Western Water as opposed to the sale of assets or a sale of the stock with a 338(h)(10) election. Proposals for one or more individual utilities owned by Western Water or Park Water will be considered non-conforming and will be rejected. Your proposal should represent your best offer.



WWH000905

The following items should be factored into the computation of the Purchase Price:

- (a) **Existing Debt.** The Purchase Price should assume that Western Water is transferred with Park Water's existing \$66.0 million of existing First Mortgage Bonds. The First Mortgage Bonds have \$1.0 million of annual repayment on June 1, 2015 through 2020. All borrowings under Park Water's bank credit facilities will be repaid or refinanced by the buyer at Transaction close. As of the June 30, 2014 Interim Balance Sheet, Park Water had \$11.0 million outstanding under its bank credit facilities. Park Water is currently in the process of executing a new \$30 million five year First Mortgage Bond credit facility with CoBank, ACB ("CoBank Facility") to fund capital investments. Similar to Park Water's existing bank credit facilities, the CoBank Facility can be repaid by the buyer at Transaction close.
- (b) **Cash and Net Working Capital.** As per the Plan and Agreement of Merger ("Merger Agreement"), your proposal should be based on the Interim Balance Sheet dated June 30, 2014. From June 30, 2014 and until Transaction close, (a) other than \$2.5 million as indicated in the Merger Agreement, there will be no dividend or interim distribution due to Carlyle Infrastructure, and (b) all benefits of operation, including changes in net working capital, rate base growth, regulatory assets and liabilities, capital spending and associated funding, will be for the benefit of the buyer. Park Water had \$10,150,000 of net working capital (defined as \$21,451,000 total current assets less the \$11,301,000 total current liabilities, excluding short-term debt and current maturities) as of the Interim Balance Sheet.
2. Your submission should include a copy of the Merger Agreement, marked to reflect any proposed changes, together with a statement that you are prepared to execute the Merger Agreement promptly in the form submitted by you. We ask that you provide your mark-up of the Merger Agreement in both red-lined and clean electronic files, in each case in Microsoft Word® format. All changes should be in the form of specific language changes; general comments will not be accepted. Your willingness to accept the Merger Agreement without significant modification will be an important factor in the evaluation of your proposal.
3. Please be specific about the terms and conditions of your proposal. In addition to a description of the consideration to be paid using the assumptions outlined above, please include in your proposal:
- (a) **Purchasing Entity.** Clearly identify the proposed or existing entity which will be the purchaser of Western Water as well as a general description of the structural location of the purchasing entity within your organization. Please also describe any regulated or nonregulated utility systems you own or control, including but not limited to water, wastewater and reuse systems, as well as any experience you have with utility regulators.
- (b) **Financing.** Please describe the sources of capital you propose to utilize to consummate a 100% cash Transaction and the availability of such capital. If your proposal will require third-party financing that is not already available and committed under an existing credit facility, please include copies of commitment letters from these sources and relevant contact information, so that they may be contacted to verify financing. If you will fund the cash necessary to consummate the Transaction pursuant to an existing credit facility or cash on hand, please



include copies of documents evidencing sufficient availability under such facility or documentation supporting that you have sufficient cash on hand.

(c) **Remaining Due Diligence.** We anticipate that your entire exploratory due diligence will be finished prior to the submission of your proposal, with only very limited customary, confirmatory due diligence remaining to be completed. Please detail any remaining or confirmatory due diligence that you need to complete, along with your proposed timetable for completing such work. Any significant remaining due diligence will place your proposal at a disadvantage.

(d) **Approvals and Consents.** Please provide a description of the approval processes required within your organization and confirmation that your proposal has received all necessary internal approvals. Please also provide a description of any governmental or regulatory approvals that your proposal would be subject to, along with a description of your strategy to obtain such approvals. These approvals should include, at a minimum, any Hart-Scott-Rodino filing, California Public Utilities Commission, and any other Governmental Entity that may be necessary to complete the Transaction.

(e) **Closing Timeline.** It is our intent to close the Transaction within 12 months of signing the Merger Agreement. Please confirm your ability to close on this timeline, including obtaining any necessary regulatory approvals (or having any applicable waiting period expire).

(f) **Contact Information.** Please provide a primary contact we can call in the event we need to clarify any aspects of your proposal. Please also provide a list of all parties that will be working with you should Carlyle Infrastructure elect to move forward with your proposal, including financial advisors, legal counsel, consultants and other advisors, if any.

(g) **Other Terms and Conditions.** Please provide a description of further terms or conditions, if any, to your proposal that are not reflected in your mark-up of the Merger Agreement that you envision being relevant to the Transaction. Please also include any other information you consider relevant to assessing your proposal.

Carlyle Infrastructure's objective is to obtain the best possible Transaction and value for Western Water. Thus, Carlyle Infrastructure expressly reserves the right at any time, in its sole discretion, to: (i) amend or terminate the procedures set forth in this letter; (ii) negotiate with one or more prospective purchasers; (iii) terminate discussions with any or all prospective purchasers; (iv) accept any proposal or enter into a definitive agreement; (v) evaluate the qualifications of any potential purchaser or the terms and conditions of any proposal; (vi) reject any or all proposals; or (vii) modify or supplement any information made available to prospective purchasers, all without notice and without assigning any reasons therefore. Carlyle Infrastructure shall have no obligation to consider any proposal regardless of whether, in its own discretion, it deems it advantageous to Carlyle Infrastructure or whether the proposal represents the highest proposed valuation.

Unless and until the Merger Agreement between Carlyle Infrastructure and you has been executed, none of Carlyle Infrastructure, Western Water, Park Water nor Wells Fargo Securities, nor any of their



respective officers, managers, partners, members (or their respective officers, directors, managers, partners, members or affiliates), affiliates, agents or representatives will have any liability to your, or any prospective purchaser, as a result of the rejection of any or all proposals or the acceptance of any other proposal, or have any obligation or any liability to any prospective purchaser other than the obligations contained in the confidentiality agreement previously entered into between you and Western Water (the "Confidentiality Agreement"). Following any execution of the Merger Agreement, the only obligations of the parties thereto will be those set forth in the Merger Agreement.

Carlyle Infrastructure, its affiliates and their respective representatives, including counsels, disclaim any and all liability for information supplied to you, either written or oral, and no representation or warranty, other than those contained in the executed Merger Agreement, is made as to the accuracy or completeness of such information. By submitting a proposal, a prospective purchaser acknowledges that it is relying on its own independent investigation of Western Water and understands and agrees to the terms contained in this letter.

If, at any time, you decide not to proceed with this process, you are reminded to treat all information provided to you during this sale process as confidential in accordance with the terms of the Confidentiality Agreement, and you acknowledge that you continue to be bound by the terms of the Confidentiality Agreement, irrespective of whether a proposal is submitted, or once submitted, is rejected.

Your proposal must state that the enclosed terms will remain open at least through 5:00 P.M. Eastern Time on the date three weeks from the date of the proposal, unless rejected in writing by Carlyle Infrastructure prior to that time. While you may be contacted as necessary to clarify your proposal, we can give you no assurances that there will be any contact or communication with you following submission of your proposal.

We appreciate your continued interest in Western Water. Should you have any questions concerning this material, please do not hesitate to contact the Wells Fargo team. Under no circumstances are you to directly contact Carlyle Infrastructure's, Western Water's, or Park Water's officers, employees, shareholders, customers or suppliers. We look forward to receiving your proposal.

Sincerely,
WELLS FARGO SECURITIES, LLC

Hugh D. Babowal
Aaron Smith



WWH000908



2845 Bristol Circle
Oakville, Ontario
Canada L6H 7H7
Tel: 905.465.4500
Fax: 905.465.4514

September 5, 2014

Wells Fargo Securities, LLC
555 South Tryon Street
Charlotte, NC 28202
Attention: Hugh Babowal, Managing Director and Aaron Smith, Director

VIA E-MAIL hugh.babowal@wellsfargo.com ; aaron.smith@wellsfargo.com

Dear Sirs,

RE: Final bid respecting the proposed acquisition of all issued and outstanding shares of Western Water Holding, LLC (the "Shares")

Algonquin Power & Utilities Corp. ("APUC") is pleased to submit this final bid (the "Final Bid") in respect of the proposed acquisition of the Shares. We believe our proposed purchase price represents a compelling valuation for the Shares and we are confident that our Final Bid provides the Seller with a high degree of transactional certainty, both in terms of our financial capability and our history of success in completing regulatory approval processes. Our successful operating track record for regulated utility businesses has been key to securing regulatory approval for utility acquisitions; we believe that our philosophy of locally-empowered management teams tasked with creating constructive and transparent relationships with customers, regulators, employees and other stakeholders is well suited to Park Water Company. We are very enthusiastic about this opportunity and are committed to deploying our full resources to this transaction.

This Final Bid is based on our due diligence completed to date, including review of the confidential information memorandum dated June 2014 and contents of the electronic data room, attendance at the management presentation, site visits, review of the proposed merger agreement and related transaction documentation as well as other information made available to us by Seller's advisors or secured from public sources.

We advise that this Final Bid and the proposed terms and conditions contained herein are being provided to you on a confidential basis and are not to be disclosed to anyone other than the seller(s) of the Shares and its advisors.

1. Purchase Price

Liberty proposes to acquire the Shares for an aggregate purchase price of Two Hundred Forty Five Million U.S. dollars (US\$245,000,000) (the "Purchase Price"). The Purchase Price shall be paid in immediately available funds at the time of closing.

This Final Bid and the Purchase Price are based on assumptions including but not limited to the following:

- Valuation is based on the balance sheet information as at June 30, 2014;
- Financial close of the transaction is assumed to occur on or about June 30, 2015;

For the purposes of arriving at the Purchase Price, we have made certain additional assumptions related to customer count, demand growth, operating expenses, capital expenditures, and regulatory and rate-related outcomes based on the due diligence we have conducted and our experience operating similar regulated utility assets.

2. Plan and Agreement of Merger

As requested, please find attached electronic copies of the merger agreement (in both red lined and clean form) which reflects our proposed amendments to the draft provided by your team. We have endeavored to minimize the scope of our proposed amendments and trust this approach confirms our commitment to make negotiation of the final merger agreement expeditious and predictable. We believe that the majority of our proposed changes are intended to provide clarity rather than make changes to fundamental business terms.

3. Identity of Purchaser, Financing and Contact Information

Identity of Purchaser

The acquisition of the Shares is proposed to be undertaken by way of merger with our newly created subsidiary Liberty WWH, Inc. (“Merger Sub”). Merger Sub will receive the full and complete support of APUC to complete the proposed transaction including with respect to financing and warranty support.

APUC owns a diverse North America wide portfolio of renewable power generation and regulated utility assets. APUC’s common and preferred shares are traded on the Toronto Stock Exchange under the symbols AQN.TO and AQN.PR.A, respectively.

APUC has a stated strategy to aggressively grow its regulated utility business footprint. It has successfully executed on this strategy over the past eight years and now serves close to 500,000 regulated utility customers. Through the successful accumulation of our existing portfolio of regulated utility assets, we have demonstrated our experience as an acquirer and our proven ability to complete the acquisition of regulated utility businesses.

Financing

Merger Sub will be provided with sufficient capital by APUC to fund the Purchase Price. Sufficient liquidity is available under existing APUC and subsidiary credit facilities to fund the Purchase Price.

With respect to the ultimate capitalization of the acquisition, we intend to fund the purchase of the Shares through internally generated cash flow together with a combination of additional debt and equity. APUC's strong investment grade credit profile confirms our continuing access to capital. APUC recently completed an equity financing of approximately \$220 million including \$70 million from its largest institutional shareholder, Emera Inc., which owns a 25% equity ownership position in APUC.

Remaining Due Diligence

We have completed all the due diligence required to proceed with the transaction proposed herein.

Approvals and Consents

The submission of this Final Bid has been approved by the Board of Directors of APUC. No approval from the shareholders of APUC is required.

Closing Timeline

We would expect the consummation of the transaction to proceed on an expeditious timetable, subject only to the required regulatory approval process. We are committed to a regulatory strategy that prioritizes local constituencies and we have a demonstrated track record of approaching state regulators and successfully earning their approval for our prior regulated acquisitions.

Contact Information

Any questions and clarification respecting this Final Bid can be directed to;

Liberty Utilities Co. / Algonquin Power & Utilities Corp.
Ed Pamatat, Vice President, Utility Planning
Tel: 905-465-4551
Email: ed.pamatat@libertyutilities.com

We have retained advisors in connection with this transaction, including the financial and legal advisors, respectively, listed below.

| | |
|---|---|
| Scotia Capital Inc. | Husch Blackwell LLP |
| Boyd Nelson | Jim Goettsch |
| Tel: 212-5225-6816 | Tel: 816-983-8257 |
| Email: boyd.nelson@scotiabank.com | Email: jim.goettsch@huschblackwell.com |

4. Other Information

In its past interactions with prospective employees, regulators, community leaders, customers and other stakeholders, we have found that our local, responsive and caring utility business management model is compelling. All stakeholders have been supportive of maintaining local employment, maintaining local employee decision making and empowerment, maintaining local customer personal interaction options, and retaining in-jurisdiction regulatory and stakeholder interface. We believe that these approaches have eased the regulatory approval process in all previous regulated utility acquisition transactions. Consistent with our management philosophy, we anticipate maintaining Park Waters operations on terms and conditions substantially consistent with those preceding acquisition.

We look forward to consummating a transaction expeditiously that benefits all parties.

Sincerely,



Ian Robertson
Chief Executive Officer
ALGONQUIN POWER & UTILITIES CORP.

Cc: Ed Pamatat, Vice President, Utility Planning

PLAN AND AGREEMENT OF MERGER

by and among

~~[PURCHASER]~~, **LIBERTY UTILITIES CO.**,
a ~~+~~ Delaware corporation,
("Purchaser");

~~[MERGER SUB]~~
LIBERTY WWH, INC.
a ~~+~~ Delaware corporation,
("Merger Sub");

and

WESTERN WATER HOLDINGS, LLC
a Delaware limited liability company,
("Holdings")

Dated as of September [•], 2014

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Exhibit 1.43 — Escrow Agreement
Exhibit 2.3(b) — Certificate of Formation of the Surviving Entity
| Exhibit 2.3(c) — ~~LLC Agreement of the Surviving Entity~~

PLAN AND AGREEMENT OF MERGER

This Plan and Agreement of Merger (this “Agreement”) is entered into as of September [●], 2014, by and among ~~[PURCHASER]~~, a ~~[●]~~ LIBERTY UTILITIES CO., a Delaware corporation, (the “Purchaser”), ~~[MERGER SUB]~~, a ~~[●]~~ LIBERTY WWH, INC., a Delaware corporation (the “Merger Sub”); and WESTERN WATER HOLDINGS, LLC, a Delaware limited liability company (the “Holdings”).

WHEREAS, Holdings owns, beneficially and of record, all of the issued and outstanding capital stock in Park Water Company, a California corporation (“Park Water”) and Park Water owns all of the issued and outstanding capital stock of each of Apple Valley Ranchos Water Co, a California corporation and Mountain Water Company, a Montana corporation (collectively with Park Water, the “Operating Companies”);

WHEREAS, the respective Boards of Directors of Purchaser, Merger Sub and Holdings have determined that it is advisable and in the best interests of their respective stockholders that the businesses and operations of Purchaser and Holdings be combined and have, by resolutions duly adopted, approved and adopted this Agreement and the merger of Merger Sub with and into Holdings (the “Merger”), with Holdings being the surviving corporation of such Merger, all upon the terms and subject to the conditions set forth herein;

WHEREAS, Purchaser, Merger Sub and Holdings desire to make certain representations, warranties, covenants and agreements in connection with the Merger as described herein.

NOW, THEREFORE, in consideration of the foregoing and the respective representations, warranties and covenants set forth in this Agreement and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

Section 1. DEFINITIONS

1.1 “Affiliate” means, as to any Person, any other Person that, directly or indirectly through one or more intermediaries, controls, is controlled by or is under common control with such Person. For purposes hereof, the term “control” means possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through ownership of equity interests, by contract or otherwise.

1.2 “Agreement” has the meaning specified in the first paragraph hereof.

1.3 “Assets” means, collectively, all of the tangible and intangible assets, rights and properties held for use or owned by any of the Companies, including all Leased Real Property and Intellectual Property.

1.4 “Basket” has the meaning set forth in Section 8.3(a)(i).

1.5 “Books and Records” means the books, records, files, data and information of the Companies (including customer and supplier lists, financial and accounting records, purchase orders and invoices, sales orders, and credit and collection records).

1.6 “Business Day” means each day other than a Saturday, Sunday or other day on which banks in Los Angeles, California, are not required by Law to be open.

1.7 “Capital Investment Program” means that certain capital investment program, the description of which is attached on Schedule 1.7 hereto and incorporated herein by reference.

1.8 “CAPEX Plan” means that certain capital expenditure program and its related funds, the terms and description of which are attached on Schedule 1.8 hereto and incorporated herein by reference.

1.9 “Capital Stock” has the meaning set forth in Section 4.3(a).

1.10 “Certificate of Merger” has the meaning specified in Section 2.2.

1.11 “CIP” has the meaning specified in Section 8.5(a).

1.12 “Claims Period” has the meaning specified in Section 8.1(b).

1.13 “Class A Holder” has the meaning set forth in the LLC Agreement.

1.14 “Class B Holder” has the meaning set forth in the LLC Agreement.

1.15 “Closing” has the meaning specified in Section 3.1.

1.16 “Closing Date” means (a) the date that is three (3) Business Days after satisfaction of the conditions set forth in Section 7.1 and 7.2 (or waiver thereof in writing by the party benefited by the condition being received), excluding those conditions that by their nature are to be satisfied at the Closing, but subject to the fulfillment or waiver of those conditions, or (b) such other date on which the Closing shall occur as the parties hereto may mutually agree in writing.

1.17 “COBRA” has the meaning set forth in Section 4.18(b).

1.18 “Code” means the Internal Revenue Code of 1986, as amended.

1.19 “Companies” means collectively Holdings and the Operating Companies.

1.20 “Company Employee Plan” means any (i) material “employee benefit plan” as defined in Section 3(3) of ERISA, (ii) material employment, severance, change in control, transaction bonus, retention or other similar agreement or plan or (iii) other material plan, agreement or arrangement providing for compensation or other forms of incentive or deferred compensation, fringe benefits, perquisites, disability or sick leave benefits, supplemental unemployment benefits or post-employment or retirement benefits, in each case that, as of the date hereof, is sponsored, maintained, administered, contributed to or entered into by any Company for the benefit of any Company Employee.

1.21 “Company Intellectual Property” means any Intellectual Property that is owned by or licensed to any Company.

1.22 “Company Licensed Software” means all software licensed by any Company.

1.23 “Company Registered Intellectual Property” means all of the Registered Intellectual Property owned by or licensed to any Company.

1.24 “Confidential Communications” has the meaning set forth in Section 10.21.

1.25 “Constituent Entities” has the meaning specified in Section 2.1.

1.26 “Continuing Employee” has the meaning set forth in Section 6.8.

1.27 “Contracts” means any loan or credit agreement, debenture, note, bond, mortgage, indenture, deed of trust, license, lease, contract, agreement or any other agreement, instrument, obligation, or arrangement, whether written or oral, to which any Company is a party or is bound.

1.28 “CPUC” has the meaning set forth in Section 6.5(a).

1.29 “Debt” means, without duplication, all monetary obligations of the Companies:

(a) for borrowed money;

(b) evidenced by bonds, debentures, indentures, notes or similar instruments;

or

(c) secured by any Lien (other than Permitted Liens) on Assets and granted by any Company.

1.30 “~~Debt Commitment Letters~~” ~~has the meaning specified in Section 5.6(b)~~. [Reserved].

1.31 “Defending Party” has the meaning specified in Section 8.5(a).

1.32 “DGCL” has the meaning specified in Section 2.1.

1.33 “DLLC Act” has the meaning specified in Section 2.1.

1.34 “DOJ” means the United States Department of Justice.

1.35 “D&O Insurance” has the meaning set forth in Section 6.7(c).

1.36 “Effective Time” has the meaning specified in Section 2.2.

1.37 “Employee Benefit Plan” means any “employee benefit plan” as defined in Section 3(3) of ERISA and any other plans, programs, policies, agreements or arrangements in each case that provide compensation or other benefits to any employee of any Company, whether

or not subject to ERISA, currently maintained or sponsored by any Company or any ERISA Affiliate, ~~other than any Foreign Benefit Plan.~~

1.38 “End Date” has the meaning set forth in Section 9.1(b).

1.39 “Environmental Law” means any and all federal, state, foreign, local or municipal law (including common law), rules, orders, regulations, statutes, ordinances, codes, decrees or other legally binding requirements of any Governmental Entity which is applicable to the Companies and which relates to pollution or protection of the environment, including any law regulating, relating to or imposing liability or standards of conduct concerning any Hazardous Substances, together with any amendments or reauthorization thereto or thereof, as now, previously or any time hereafter in effect.

1.40 “ERISA” means the Employee Retirement Income Security Act of 1974, as amended.

1.41 “ERISA Affiliate” means each entity that is a member of a controlled group or affiliated service group of which any of the Companies is a member or that is treated as a single employer with any of the Companies under Section 414(b), 414(c), 414(m) or 414(o) of the Code or ERISA.

1.42 “Escrow Agent” means [●].

1.43 “Escrow Agreement” means that certain escrow agreement by and among Holdings, Purchaser and Escrow Agent, substantially in the form of Exhibit 1.43.

1.44 “Escrow Amount” means 5% of the Purchase Price.

1.45 “Escrow Fees” means the fees and expenses to be paid to or on behalf of the Escrow Agent pursuant to the Escrow Agreement.

1.46 “Facility” means any building, plant, structure or other improvement on any Real Property.

1.47 “FCPA” has the meaning specified in Section 4.23.

1.48 “Financial Statements” has the meaning specified in Section 4.7(a).

1.49 ~~“Financing” has the meaning specified in Section 5.6(b).~~ [Reserved.]

1.50 “FTC” means the United States Federal Trade Commission.

1.51 “GAAP” means generally accepted accounting principles as in effect in the United States as of the date of the subject financial statement.

1.52 “Government Official” means any official, officer, employee, or representative of, or any Person acting in an official capacity for or on behalf of, any Governmental Entity or any political party or party official or candidate for political office.

1.53 “Governmental Approvals” means any notices, reports or other filings legally required to be made to, or any consents, registrations, licenses, approvals, permits or authorizations legally required to be obtained from, any Governmental Entity.

1.54 “Governmental Entity” means any: (a) national, federal, state, county, municipal, local, or foreign government or any entity exercising executive, legislative, judicial, regulatory, taxing, or administrative functions of or pertaining to government, or (b) agency, division, bureau, department, or other political subdivision of any of the foregoing.

1.55 “Hazardous Substance” means petroleum, gasoline, diesel fuel, motor oil, waste or used oil, heating oil, kerosene and any other petroleum by-products, polychlorinated biphenyls, asbestos, nano-particles and any other chemicals, compounds, elements, materials, substances or wastes that are currently defined or regulated as “hazardous substances,” “hazardous materials,” “hazardous wastes,” “extremely hazardous wastes,” “restricted hazardous wastes,” “infectious medical waste,” “toxic substances,” “toxic pollutants,” “toxic air pollutants,” “hazardous air pollutants,” “pollutants,” or “contaminants” in or under any Environmental Law, and any other material, substance or waste for which liability or standards of conduct are imposed under Environmental Law, including materials exhibiting the characteristics of ignitability, corrosivity, reactivity or toxicity, as such terms are defined in connection with hazardous materials or hazardous wastes or hazardous or toxic substances under any applicable Environmental Law.

1.56 “Holder” has the meaning set forth in the LLC Agreement.

1.57 “Holders Indemnified Party” has the meaning set forth in Section 8.2(b).

1.58 “Holdings” has the meaning set forth in the preamble.

1.59 “HSR Act” means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and related regulations and published interpretations.

1.60 “Indemnified Party” has the meaning set forth in Section 8.5(a).

1.61 “Indemnified Party Claim” has the meaning set forth in Section 8.5(a).

1.62 “Indemnified Party Claim Notice” has the meaning set forth in Section 8.5(a).

1.63 “Indemnified Person” has the meaning set forth in Section 6.7(a).

1.64 “Indemnitor” means, as the case may be, the Purchaser or, on a several, and not a joint, basis the Holders.

1.65 “Indemnitor Defense Notice” has the meaning set forth in Section 8.5(a).

1.66 “Intellectual Property” means all processes, systems, products, services, software, and other intellectual property rights, title and interest in and to all proprietary and related priority rights that is owned, licensed or used by any Company, including, without limitation, the following: (a) patents and patent applications, including design patents or applications, patent or

invention disclosures, together with all reissues, continuations, continuation-in-part, revisions, divisionals, extensions, reexaminations of the same and any patent or patent application claiming priority thereto, (b) all registered and unregistered trademarks, service marks, trade dress, logos, trade names and brand names, and any combination of such names, including all goodwill associated therewith and all applications, registrations and renewals in connection therewith, (c) all copyrightable works (including derivative works thereof), all copyrights and all applications, registrations and renewals in connection therewith, (d) all trade secrets and confidential business information, (e) all computer software, including all machine and source code (including hard copy and soft copy as well as all data and related documentation) and (f) all websites and related content (including, without limitation, underlying software, URL's and domain names).

1.67 “Interim Balance Sheet” has the meaning set forth in Section 4.7(a).

1.68 “Inventory” means all supplies, parts, and finished goods.

1.69 “IRS” means the Internal Revenue Service of the United States.

1.70 “Knowledge of Holdings” means the actual knowledge of Chris Schilling, Leigh Jordan, Douglas Martinet, Jeanne-Marie Beuno, ~~and~~ Chris Alario, Mary Young, John A. Kappes, Gary Lynch, and [Carlyle representative], in each case following due inquiry.

1.71 “Laws” means any US federal, state, national, local, foreign or other statute, law, treaty, order, judgment, rule, code, regulation, decree, writ, injunction, award, ruling, ordinance or other legally binding requirement of any kind of any Governmental Entity.

1.72 “Leased Real Property” has the meaning set forth in Section 4.15(a).

1.73 “Liens” means any lien, mortgage, security interest, attachment, levy, charge, claim, restriction, imposition, pledge, easement, covenant, encroachment, encumbrance, or conditional sale or title retention arrangement, or any other interest in property or assets (or the income or profits therefrom) designed to secure the repayment of indebtedness, whether consensual or nonconsensual and whether arising by agreement or under any Law or otherwise.

1.74 “LLC Agreement” means that certain Second Amended and Restated Limited Liability Company Agreement of Holdings dated as of February 28, 2012.

1.75 “Losses” has the meaning set forth in Section 8.2(a).

1.76 “Material Adverse Effect” means any material adverse change, event, circumstance or development with respect to, or material adverse effect on, the properties, liabilities, business, results of operations or financial condition of the Companies, taken as a whole; provided, however, that none of the following, or any change, event, occurrence or development resulting or arising from the following, will constitute, or will be considered in determining whether there has occurred, a “Material Adverse Effect”:

(a) changes in conditions in the United States or global economy or capital or financial markets generally, including changes in interest or exchange rates (provided that

such changes do not affect any of the Companies in a disproportionate manner as compared to Persons engaged in the same industry or industries as the Companies);

(b) changes in GAAP or applicable Law;

(c) changes in general legal, tax, regulatory, political or business conditions in the jurisdictions in which any Company operates (provided that such changes do not affect any of the Companies in a disproportionate manner as compared to Persons engaged, in the same jurisdictions, in the same industry or industries as the Companies);

(d) the negotiation, execution, announcement or performance of this Agreement, the Transaction Documents or the consummation of the transactions contemplated herein or therein, including the impact thereof on relationships, contractual or otherwise, between a Company, Holdings, or any of their respective Affiliates and customers, Governmental Entities, tenants, suppliers, vendors, lenders, financing sources or investors;

(e) earthquakes, hurricanes, floods or other natural disasters or any changes in weather patterns in any jurisdiction or region in which any Company operates;

(f) any action taken by Holdings or any of the Companies (i) that is required, contemplated or specifically permitted pursuant to this Agreement or any Transaction Document or (ii) with the written consent of the Purchaser;

(g) any failure, in and of itself, to meet revenue or earnings projections or predictions, whether such projections or predictions were made by any Company, Holdings, any of Holdings' or any Company's advisors or representatives or any independent third parties (it being understood that the underlying cause of any such failure shall not be excluded under this clause (g) from being considered in determining whether a Material Adverse Effect as occurred);

(h) any natural disaster or other acts of God, acts of war, armed hostilities, sabotage or terrorism, or any escalation or worsening of any such acts of war, armed hostilities, sabotage or terrorism threatened or occurring after the date of this Agreement;

(i) any condemnation action taken by any Governmental Entity or any threat of any such action by any Governmental Entity;

(j) any action taken by the City of Missoula, Montana, ~~or in connection with or with respect to, or by~~ Holdings or any of Holdings' Affiliates ~~in connection with or with respect to~~ as expressly required by, that certain Letter Agreement between the City of Missoula, the Clark Fork Coalition, and Carlyle Infrastructure Partners, dated September 22, 2011;

(k) any strikes, lockouts, work stoppages or slowdowns, pickets, boycotts, unfair labor practice changes, labor disputes or grievances involving any Company employee subject to a collective bargaining agreement; or

(l) any matter set forth in the Disclosure Schedules (including the worsening of any circumstance with respect to any such matter).

1.77 “Material Contracts” has the meaning specified in Section 4.11(a).

1.78 “Merger” has the meaning set forth in the Recitals.

1.79 “Merger Sub” has the meaning set forth in the Recitals.

1.80 “MPSC” has the meaning set forth in Section 6.5(a).

1.81 “Operating Companies” has the meaning set forth in the Recitals.

1.82 “Order” means any order, injunction, judgment, decree, ruling, assessment, or arbitration award of any Governmental Entity or arbitrator.

1.83 “Owned Real Property” has the meaning set forth in Section 4.15(a).

1.84 “Park Water” has the meaning set forth in the Recitals.

1.85 “Permits” means any licenses, authorizations, permits, certificates, approvals and clearances of any Governmental Entity necessary for any Company to conduct its business, in all material respects, as conducted on the date hereof.

1.86 “Permitted Liens” mean the following:

(a) Liens for taxes, government assessments or government levies not yet delinquent or for which adequate reserves are included on the Interim Balance Sheet;

(b) Liens imposed by law, such as materialmen’s, mechanics, carriers’, workmen’s and repairmen’s liens and other similar liens arising in the ordinary course of business securing obligations that are not overdue or that are being contested in good faith by appropriate proceedings;

(c) cash deposits or letters of credit to secure obligations under workers’ compensation laws or similar legislation;

(d) all Laws related to zoning, entitlement, conservation and environmental restrictions;

(e) zoning, building and other land use regulations imposed by any Governmental Entity having jurisdiction over any Company Real Property; or

(f) survey exceptions, imperfections of title, covenants, conditions, restrictions, easements and other matters of record affecting title to any Company Real Property, other than Liens securing indebtedness.

1.87 “Person” means any individual, corporation, association, general partnership, limited partnership, joint venture, trust, association, firm, organization, company, business,

entity, union, society, government (or political subdivision thereof) or governmental agency, authority or instrumentality.

1.88 “Proceeding” means an action, complaint, petition, suit, proceeding, investigation, claim, demand, or arbitration, civil, criminal, regulatory or otherwise, at law or in equity.

1.89 “Purchase Price” means ~~[-] Dollars (\$[-])~~ Two Hundred Forty Five Million Dollars (\$245,000,000), less any amount that becomes payable to any Purchaser Indemnified Party pursuant to Section 8 hereof.¹

1.90 “Purchaser” has the meaning set forth in the preamble.

1.91 “Purchaser Guarantor” means ~~[-]~~ Algonquin Power & Utilities Corp.

1.92 “Purchaser Guaranty” has the meaning specified in Section 5.6(c).

1.93 “Purchaser Indemnified Parties” has the meaning set forth in Section 8.2(a).

1.94 “Real Property” means collectively the Owned Real Property and the Leased Real Property.

1.95 “Real Property Leases” has the meaning specified in Section 4.15(f).

1.96 “Registered Intellectual Property” means all United States, international and foreign:

(a) patents and applications therefor and all reissues, divisions, renewals, extensions, provisionals, continuations and continuations-in-part thereof;

(b) registered trademarks and service marks, applications to register trademarks and service marks, intent-to-use applications, or other registrations or applications related to trademarks and service marks;

(c) registered copyrights and applications for copyright registration;

(d) domain name registrations; and

(e) any other Intellectual Property that is the subject of an application, certificate, filing, registration or other document issued, filed with, or recorded with any federal, state, local or foreign Governmental Entity or other public body.

1.97 “Regulatory Agencies” has the meaning set forth in Section 6.5(a).

¹ Some of the Class B holders received tax loans in connection with the issuance of Class B Units. To properly account for these amounts, the gross loan amount should be ~~added to the Purchase Price and then~~ deducted from such holder’s payments at Closing. Purchaser NTD: We agree that outstanding loan amounts should be deducted from the debtor’s merger consideration, and have provided for that in Section 3.4(b). However, we do not believe that the gross loan amount should be added to the Purchase Price. Unlike a stock option exercise payment, the loan receivable is already an asset of Holdings; adding the gross loan amount to the Purchase Price would result in double payment for the loan receivable.

1.98 “Required Consents” has the meaning specified in Section 7.1(d).

1.99 “Securities Act” means the Securities Act of 1933, as amended.

1.100 “Solvent” means that, when used with respect to any Person, as of any date of determination, (i) the amount of the “fair saleable value” of the assets of such Person will, as of such date, exceed (A) the value of all “liabilities of such Person, including contingent and other liabilities,” as of such date, as such quoted terms are generally determined in accordance with applicable federal laws governing determinations of the insolvency of debtors, and (B) the amount that will be required to pay the probable liabilities of such Person on its existing debts (including contingent liabilities) as such debts become absolute and matured, (ii) such Person will not have, as of such date, an unreasonably small amount of capital for the operation of the businesses in which it is engaged or proposed to be engaged following such date and (iii) such Person will be able to pay its liabilities, including contingent and other liabilities, as they mature.

1.101 “Surviving Entity” has the meaning specified in Section 2.1.

1.102 “Tax” or “Taxes” means all United States federal, state or local or non-United States taxes, assessments, charges, duties, levies or other similar governmental charges of any nature, including all income, franchise, profits, capital gains, capital stock, transfer, sales, use, occupation, property, excise, severance, windfall profits, stamp, stamp duty reserve, license, payroll, withholding, ad valorem, value added, alternative minimum, environmental, customs, social security (or similar), unemployment, sick pay, disability, registration and other taxes, assessments, charges, duties, fees, levies or other similar governmental charges of any kind whatsoever, whether disputed or not, together with all estimated taxes, deficiency assessments, additions to tax, penalties and interest.

1.103 “Tax Return” means any report, return, information return or other information required to be supplied to a Governmental Entity in connection with Taxes, including any return of an affiliated, combined or unitary group.

1.104 “Taxing Authority” means any Governmental Entity with the power to levy or collect Taxes.

1.105 “Transaction Documents” means the Escrow Agreement and each other document, agreement and certificate delivered under and pursuant to this Agreement.

1.106 “Units” has the meaning assigned to it in the LLC Agreement.

Section 2. ~~SALE AND PURCHASE OF STOCK~~MERGER

2.1 The Merger. Upon the terms and subject to the conditions set forth in this Agreement, and in accordance with the Delaware General Corporation Law, as amended (“DGCL”) and the Delaware Limited Liability Company Act, as amended (the “DLLC Act”), Merger Sub shall be merged with and into Holdings at the Effective Time. At the Effective Time, the separate existence of Merger Sub shall cease, and Holdings shall continue as the surviving entity and a direct wholly-owned subsidiary of Purchaser (Merger Sub and Holdings

are sometimes hereinafter referred to as “Constituent Entities” and, as the context requires, Holdings is sometimes hereinafter referred to as the “Surviving Entity”).

2.2 Effective Time of the Merger. Subject to the provisions of this Agreement, the parties hereto shall cause the Merger to be consummated by filing a properly executed certificate of merger (the “Certificate of Merger”) with the Delaware Secretary of State, as provided in the DGCL and DLLC Act, as soon as practicable on or after the Closing Date. The Merger shall become effective at the date and time of the filing of the Certificate of Merger or at such later date or time as set forth in the Certificate of Merger (the “Effective Time”).

2.3 Effects of the Merger.

(a) The Merger shall have the effects as set forth herein and in the applicable provisions of the DGCL and DLLC Act.

(b) The certificate of formation of Holdings immediately prior to the Effective Time shall be amended by virtue of the Merger to read in its entirety as set forth in Exhibit 2.3(b) attached hereto, and as so amended, shall be the certificate of formation of the Surviving Entity, until thereafter duly amended in accordance with the terms thereof and the DLLC Act.

(c) The limited liability company agreement of Holdings immediately prior to the Effective Time shall be amended to read in its entirety as set forth in Exhibit 2.3(c) attached hereto, and as so amended, shall be the limited liability company agreement of the Surviving Entity, until thereafter duly amended in accordance with the terms thereof, the certificate of formation of the Surviving Entity and the DLLC Act.

(d) The directors and the officers of Merger Sub immediately prior to the Effective Time shall, from and after the Effective Time, be the managers and officers of the Surviving Entity until their respective successors have been duly elected or appointed and qualified, or until their earlier death, resignation or removal in accordance with the Surviving Entity’s certificate of formation, LLC Agreement and the DLLC Act.

2.4 Effect on the Capital Stock. At the Effective Time, by virtue of the Merger and without any action on the part of Merger Sub, Holdings or any holder of any issued and outstanding Units or any holder of any capital stock of Merger Sub, the shares of the capital stock of Merger Sub issued and outstanding immediately prior to the Effective Time shall be converted into and become the validly issued and fully paid equity interests of the Surviving Entity.

2.5 Conversion of the Units.

(a) At the Effective Time, by virtue of the Merger and without any action on the part of Merger Sub, Holdings, any Holder, any other owner or holder of Units, or the holder of any capital stock of Merger Sub, the Units shall be automatically cancelled, retired and converted into the right to receive, in the aggregate, the Purchase Price, with the Purchase Price being distributed to each Class A Holder and each Class B Holder such that each Holder of the Units as of the Effective Time (following application of Section 2.5(d) below) will receive, from the Purchase Price, that amount that would be

paid to such Holder pursuant to, and in accordance with, the terms and conditions of the LLC Agreement (including Section 6.2 of the LLC Agreement) as if the Purchase Price were paid as a Distribution in accordance with the LLC Agreement, as such allocation is determined by the board of managers of Holdings and certified on behalf of Holdings to Purchaser as of the Closing Date (the "Purchase Price Allocation"). Notwithstanding the foregoing, all Units that are held by any Company immediately prior to the Effective Time shall be canceled and retired and cease to exist immediately prior to the Effective Time without any conversion thereof, and no portion of the Purchase Price shall be payable in exchange therefor.

(b) No ~~contractual~~ appraisal rights or similar rights will be available in connection with the Merger or the consummation of the transactions contemplated by this Agreement to any Holder, the same having been waived pursuant to Section 8.8 of the LLC Agreement and Section 18-210 of the DLLC Act.

(c) At and after the Effective Time, each Holder immediately prior to the Effective Time shall cease to have any rights as a holder of interests in Holdings, except for the right to receive payment in cash of his, her or its portion of the Purchase Price in accordance with the Purchase Price Allocation. Following the Closing, there shall be no issuance of Units, and no registration of transfers of interests in Holdings of any Units issued prior to the Closing, except as may be required to give effect to Section 2.5(d) below.

(d) Immediately prior to the Closing, Holdings shall cause to be taken all action, including action by the board of managers of Holdings, to (i) cause the then-remaining Initial Class B Units (as defined in the LLC Agreement) to be issued pursuant to Section 3.10 of the LLC Agreement, without additional consideration, to the Class B Holders then employed by any of the Companies pro rata in accordance with their relative ownership of Class B Units immediately prior to such issuance (whether or not conditionally vested), except to the extent that a greater number of Class B Units are then required to be issued to any Class B Holder pursuant to that certain Ancillary Matters Agreement, dated as of February 28, 2012, by and between Holdings and Christopher Schilling (the "Ancillary Matters Agreement"); (ii) cancel and cause to cease to be outstanding any and all previously issued Class B Units that are then held by any Company, except to the extent otherwise agreed in writing by Holdings and Purchaser prior to the Closing; and (iii) except as provided in the foregoing clause (ii), fully and unconditionally vest all issued and outstanding Class B Units.²

Section 3. CLOSING

3.1 Closing Date and Location. The closing of the transactions contemplated by this Agreement (the "Closing") will be held on the Closing Date at the offices of Hunton & Williams LLP at 200 Park Avenue, New York, New York, 10166, or at such other location as the parties may agree.

² PURCHASER NTD: Purchaser remains open to discussion of alternative arrangements, subject to appropriate indemnity against any resulting uncertainty.

3.2 Holdings' Deliveries at Closing. Holdings shall deliver to Purchaser the following documents, each properly executed and dated as of the Closing Date by Holdings and/or the Companies, as appropriate, and by the applicable counter-party, and in a form and substance reasonably acceptable to Purchaser:

(a) a Secretary's Certificate providing: (i) the certificate of incorporation and bylaws, or similar organizational documents, of each of the Companies and (ii) a copy of the resolutions of the managers and members of Holdings approving the transactions contemplated by this Agreement;

(b) a certificate from Holdings, dated as of the Closing Date, to the effect that the conditions set forth in Section 7.1 have been satisfied, and certifying the Purchase Price Allocation among each Class A Holder and each Class B Holder, and the calculation thereof, in accordance with Section 2.5(a) hereof;

(c) the minute books of the Companies, including all stock registers, corporate seals and related materials, the delivery of which may be made at Purchaser's corporate headquarters; and

(d) a duly executed Escrow Agreement.

3.3 Purchaser's Deliveries at Closing. Purchaser shall have delivered to Holdings the following documents, each properly executed and dated as of the Closing Date by Purchaser and by the applicable counter-party, and in a form and substance reasonably acceptable to Holdings:

(a) a Secretary's Certificate providing a copy of the resolutions of the board of directors (or similar body) of Purchaser approving the transactions contemplated by this Agreement;

(b) a certificate from Purchaser, dated as of the Closing Date, to the effect that the conditions set forth in Section 7.2 have been satisfied; and

(c) a duly executed Escrow Agreement.

3.4 Payments.

(a) Upon the Effective Time, Purchaser shall deposit an amount equal to the Escrow Amount with the Escrow Agent, to be held and distributed in accordance with the Escrow Agreement.

(b) Upon the Effective Time, Purchaser shall pay an amount equal to the Purchase Price, less the Escrow Amount, in accordance with the Purchase Price Allocation;³ provided, however, that Purchaser shall be entitled to retain or pay to the applicable Company, and shall retain or pay to the applicable Company, from the consideration payable to any Holder pursuant to this Section 3.4, an amount necessary to satisfy any then outstanding obligations of such Holder to any of the Companies, whether

³ PURCHASER NTD: Purchaser remains open to discussing alternative mechanics for payment (e.g., Escrow Agent as paying agent, etc.).

or not then due, including all principal and interest then owing by such Holder to Holdings under the promissory notes set forth on Schedule 4.21(a), and such obligations shall be deemed to have been satisfied upon the Effective Time to the full extent of the proceeds so received and retained by Purchaser.

(c) Each of Purchaser, Merger Sub, the Surviving Entity and the Escrow Agent shall be entitled to deduct and withhold from the consideration otherwise payable pursuant to this Agreement to any Holder such amounts as Purchaser, Merger Sub, the Surviving Entity or the Escrow Agent is required to withhold under the Code or applicable Law with respect to such payment. To the extent that any such amounts are so withheld, such withheld amounts shall be treated for all purposes, under this Agreement and otherwise, as having been paid to the Holder in respect of whom such deduction and withholding was made.

Section 4. REPRESENTATIONS AND WARRANTIES OF HOLDINGS

The Disclosure Schedules shall be arranged in sections and subsections corresponding to the numbered and lettered sections and subsections contained in this Section 4. The disclosures in any section or subsection of the Disclosure Schedules shall qualify other sections or subsections of the Disclosure Schedules to the extent it is readily apparent on its face from a reading of the disclosure that such disclosure is applicable to such other sections or subsections.

Subject to the Disclosure Schedules, Holdings hereby represents and warrants to Purchaser as of the date hereof and as of the Effective Time (subject to the proviso of Section 6.6(c)), as follows:

4.1 Corporate Status.

(a) Holdings is a limited liability company, duly organized and validly existing under the laws of the State of Delaware.

(b) Each of the Operating Companies is a corporation, validly existing and in good standing (with respect to jurisdictions that recognize such concept) under the laws of the jurisdictions of their respective incorporation or organization.

(c) Each of the Companies has full corporate (or other) power and authority to carry on their respective businesses as now being conducted and to own, operate and hold under lease its assets and properties as, and in the places where, such assets and properties are currently owned operated or held.

(d) Each of the Companies is duly qualified or licensed to transact business as a foreign corporation, and is in good standing (with respect to jurisdictions that recognize such concept) in each jurisdiction in which either the ownership or use of the properties or assets owned or used by it, or the nature of the activities conducted by it, makes such qualification or licensing necessary, except where the failure to be so qualified would not reasonably be expected to, individually or in the aggregate, have a Material Adverse Effect.

(e) Schedule 4.1 lists, for each of the Companies, each jurisdiction where such company is qualified or licensed to transact business as a foreign corporation.

4.2 Authority; Enforceability.

(a) Holdings has the requisite power and authority to execute, deliver and perform this Agreement, complete the Merger and consummate the other transactions contemplated by this Agreement.

(b) The execution and delivery of this Agreement by Holdings and the consummation by Holdings of the transactions contemplated by this Agreement have been duly authorized by all necessary limited liability company action on the part of Holdings and the Holders.

(c) This Agreement is, and the other Transaction Documents to which Holdings is a party will constitute, when executed and delivered by Holdings (assuming the due authorization, execution, and delivery of such agreements by Purchaser and Merger Sub), a valid and binding obligation of Holdings, enforceable against Holdings in accordance with their respective terms, except as enforcement thereof may be limited by (i) bankruptcy, insolvency, reorganization, moratorium and similar laws, both state and federal, affecting the enforcement of creditors' rights or remedies in general as from time to time in effect or (ii) principles of equity, whether considered at law or in equity.

(d) The execution, delivery and performance of this Agreement, and the other Transaction Documents to which Holdings is a party, and the consummation of the transactions contemplated herein and therein do not and will not conflict with, or result in any violation of, or breach or default (with or without notice or lapse of time, or both) under the certificate of formation or limited liability company agreement of Holdings or the certificate of incorporation, articles of incorporation, charter, bylaws or other organizational documents of any of the other Companies, true and correct copies of which have been provided to Purchaser.

(e) The Purchase Price Allocation, when delivered by Holdings to Purchaser at Closing, will accurately set forth the amount of the Purchase Price to which each Holder is entitled pursuant to the LLC Agreement, any other Contract by which any of the Companies are bound, and applicable Law. No appraisal or similar rights are available to any Holder under contract or applicable Law in connection with the Merger or the consummation of the transactions contemplated by this Agreement.

(f) CIP is exclusively authorized on behalf of all Holders to take any and all actions and make any and all decisions on behalf of the Holders in connection with or related to claims for indemnification by the Purchaser Indemnified Parties pursuant to this Agreement or other matters expressly within the authority of CIP hereunder, all actions taken by CIP on behalf of the Holders shall be final, binding and conclusive upon the Holders, and no Holder shall have the right to object to, dissent from or otherwise contest the same.

4.3 Capitalization of Companies.

(a) Schedule 4.3(a) sets forth the authorized capital stock, issued and outstanding capital stock and the beneficial and record holders of all such stock for each Operating Company (the “Capital Stock”). There are no equity securities issued by the Operating Companies other than as set forth on Schedule 4.3(a). All of the Capital Stock is wholly owned, free and clear of any and all Liens, as set forth on Schedule 4.3(a). All of the Capital Stock has been duly and validly issued and is fully paid and nonassessable.

(b) None of the Capital Stock was issued in violation of, or is currently subject to, any preemptive right, right of first refusal or other right. All of the Capital Stock was offered and sold in compliance with all applicable Law (including all applicable United States federal and state securities laws and regulations). There are no options, warrants or other rights to subscribe for or purchase any equity interests of any of the Operating Companies or securities convertible into or exchangeable for, or which otherwise confer on the holder any right to acquire, any equity interests of any of the Operating Companies, nor are any of the Operating Companies committed to issue any such option, warrant or other right. There are no outstanding equity appreciation, phantom equity, profit participation or similar rights with respect to the equity interests of any of the Operating Companies. There are no (i) outstanding obligations of any Operating Company (contingent or otherwise) to repurchase or otherwise acquire or retire any of its Capital Stock or any warrants, options, or other rights to acquire any of its Capital Stock or (ii) voting trusts, proxies or other agreements among an Operating Company’s equity holders with respect to the voting or transfer of such Capital Stock.

(c) Except as set forth in Schedule 4.3(c), none of the Operating Companies have any subsidiaries nor do they own, directly or indirectly, beneficially or of record, any shares of capital stock or other equity security of any other entity or any other similar investment in any other entity.

4.4 Capitalization of Holdings.

(a) The Units consist of 104,000 Class A Units and 18,353 Class B Units, in each case all⁴ of which are issued and outstanding and are held beneficially and of record by those Persons set forth on Schedule 4.4. To the Knowledge of Holdings, all of the Units are wholly owned, free and clear of any and all Liens, as set forth on Schedule 4.4. All of the Units have been duly and validly issued and are fully paid and nonassessable.

(b) Except as set forth in the LLC Agreement and the Ancillary Matters Agreement, which rights do not apply or have been validly waived with respect to the transactions contemplated hereby and will not survive the Effective Time, none of the Units are currently subject to, any preemptive right, right of first refusal or other right. All of the Units were offered and sold in compliance with all applicable Law (including all applicable United States federal and state securities laws and regulations).

⁴ PURCHASER NTD: Confirm with respect to Class B Units.

(c) ~~There~~ Except as set forth in the LLC Agreement and the Ancillary Matters Agreement, which rights do not apply or have been validly waived with respect to the transactions contemplated hereby and will not survive the Effective Time, there are no options, warrants or other rights to subscribe for or purchase any equity interests of Holdings or securities convertible into or exchangeable for, or which otherwise confer on the holder any right to acquire, any equity interests in Holdings, nor is Holdings committed to issue any such option, warrant or other right. There are no outstanding equity appreciation, phantom equity, profit participation or similar rights with respect to the equity interests of Holdings. There are no outstanding obligations of Holdings (contingent or otherwise) to repurchase or otherwise acquire or retire any Units or any warrants, options, or other rights to acquire any Units, other than (i) upon termination or forfeiture thereof, without payment of consideration therefor, and (ii) as provided in Section 2.5(d)(ii) hereof. Except as set forth in the LLC Agreement, there are no voting trusts, proxies or other agreements between Holdings and any Holder with respect to the voting or transfer any Units.

4.5 No Violation or Conflict. Except as set forth on Schedule 4.5 and except as would not have, and would not be reasonably expected to have, individually or in the aggregate, a Material Adverse Effect, the execution, delivery and performance of this Agreement, and the Transaction Documents to which Holdings is a party, and the consummation of the transactions contemplated herein and therein do not and will not:

- (a) conflict with, or result in any violation of, or breach or default (with or without notice or lapse of time, or both) under:
 - (i) any Law, rule, regulation, judgment, order or decree that is material and binding on any of the Companies, or
 - (ii) any Material Contract;
- (b) give any party to any Material Contract any right of termination, cancellation, acceleration or modification thereunder;
- (c) result in the imposition or creation of any material Lien upon or with respect to any of the Assets; or
- (d) except as set forth on Schedule 4.5(d) and as otherwise required pursuant to the HSR Act, require consent of, or require notice to, filing or registration with, or consent, license, permit, Order, approval or authorization of, any Governmental Entity.

4.6 Books and Records. The Books and Records of the Companies are materially complete and correct, represent actual, bona fide transactions and meetings of the respective shareholders, the respective boards of directors and committees of the boards of directors (or bodies acting in similar roles).

4.7 Financial Statements.

(a) Holdings has delivered to Purchaser true, complete and correct copies of: (i) the unaudited consolidated balance sheet of the Operating Companies as at June 30, 2014 (the “Interim Balance Sheet”) and consolidated statements of operations and cash flows for the six (6) month period then ended and (ii) the audited consolidated balance sheets of the Operating Companies as at December 31, 2013, and the related audited consolidated statements of income and comprehensive income, changes in stockholders’ equity and cash flows of the Operating Companies for the year ended December 31, 2013 (collectively, with the Interim Balance Sheet, the “Financial Statements”). The Financial Statements present fairly, in all material respects, the financial position and the results of operations of the Companies as at the respective dates of, and for the respective periods referred to in, such Financial Statements, all in accordance with GAAP, subject, however, in the case of the interim statements, to normal year-end adjustments and accruals, and to the absence of notes and other textual disclosure required by GAAP.

(b) No Company has any liability or debt (whether absolute, accrued, contingent or otherwise) except (i) as set forth on the Interim Balance Sheet; (ii) for liabilities or debt incurred since the date of the Interim Balance Sheet in the ordinary course of business; (iii) liabilities not required under GAAP to be disclosed or provided for in a consolidated balance sheet of the Companies; (iv) liabilities incurred in connection with the transactions contemplated hereby; and (v) liabilities that would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect.

4.8 Absence of Certain Changes or Events. Except as set forth on Schedule 4.8 and the transactions contemplated pursuant to this Agreement, since December 31, 2013, (a) the Companies have conducted their respective business only in the ordinary and usual course of business consistent with past practice, ~~and~~ (b) there has not been any change in or development with respect to the Companies’ business, operations, condition (financial or otherwise), results of operations, assets or liabilities, except for changes and developments that have not had, and would not reasonably be expected to have, a Material Adverse Effect., (c) prior to the date hereof, there has been no condemnation or similar action taken by any Governmental Entity with respect to any assets of any Company nor has any Company received written notice of any such action by any Governmental Entity,⁵ (d) no Company has (i) declared, set aside or paid any dividend or otherwise made a distribution with respect to any Units, (ii) purchased, redeemed or otherwise acquired (other than upon forfeiture, without payment of consideration therefor) any Units, or (iii) entered into any transaction or Contract with, forgiven any indebtedness of, or transferred any assets or made any payment to, any Holder or Affiliate thereof (other than another Company), except for payments to employees of compensation, benefits and reimbursement of expenses in the ordinary course of business or pursuant to Company Employee Plans and Contracts set forth in the Disclosure Schedules; and (e) no Company otherwise has taken any

⁵ PURCHASER NTD: This is intended to be for disclosure purposes only, with respect to the period from 12/31/13 to the execution of this Agreement. A related post-signing covenant governing coordination on these issues for the period from signing to Closing is set forth in Section 6.1(b).

action that, if such action had been taken after the date hereof, would violate Section 6.1(b) hereof.⁶

4.9 Litigation. Except as set forth on Schedule 4.9, ~~as of the date hereof~~, there is no action, suit or proceeding pending against, or, to the Knowledge of Holdings, threatened in writing against, any Company before (or, in the case of threatened actions, suits or proceedings, would be before) or by any Governmental Entity, except as would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect.

4.10 Title to and Sufficiency of Assets. Except as set forth on Schedule 4.10 and except as would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect, the Companies have good and marketable title to all of the Assets (excluding Intellectual Property which is addressed in Section 4.20 hereof), free and clear of all Liens, except for Permitted Liens.

4.11 Material Contracts; No Defaults.

(a) Schedule 4.11 is a list of all Contracts, as of the date hereof, to which any Company or its assets are bound meeting the following descriptions (“Material Contracts”), including all amendments, modifications, extensions, renewals, and other agreements with respect thereto:

(i) each Contract that involves performance of services, delivery of goods or materials or payments by the Companies of an amount or value in excess of \$100,000;

(ii) each Contract that constitutes an agreement to purchase or sell a capital asset for a price in excess of \$100,000, other than the purchase contracts entered into pursuant to the Capital Investment Program;

(iii) each Contract with any of the Companies’ officers, directors, employees or Affiliates, not otherwise listed on another Schedule hereto, including all non-competition, severance, and indemnification agreements;

(iv) each Contract that prohibits any of the Companies from freely engaging in business anywhere in the world or concerning confidentiality (except Contracts concerning confidentiality entered into in the ordinary course of business);

(v) each collective bargaining agreement with any labor union;

(vi) each Contract under which any Company is lessee of or holds or operates any property that involves annual rental payments of more than \$100,000

⁶ PURCHASER NTD: Absent a purchase price adjustment mechanism (the absence of which Purchaser accepts), Purchaser needs assurance that actions of the nature described in Section 6.1(b) (post-execution restrictions) also have not been taken since the most recent audited baseline used to establish the Purchase Price (except as disclosed).

or group of such Contracts with the same Person which involve consideration in excess of \$300,000 in the aggregate;

(vii) each Contract granting any rights necessary to extract and deliver water to the Operating Companies' customers;

(viii) each Contract with any Governmental Entity;

(ix) each Contract, including any joint venture, partnership, or limited liability company agreement, involving a sharing of profits, losses, costs, taxes, or other liabilities by the Companies with any other Person; ~~and~~

(x) each Contract under which any of the Companies has created, incurred, assumed or guaranteed debt obligations in excess of \$50,000 individually or \$250,000 in the aggregate; and

(xi) each Contract that was entered into outside the ordinary course of business and is material to any Company.

(b) All of the Material Contracts set forth (or required to be set forth) on Schedule 4.11 are valid, binding and enforceable as to the applicable Company and, to the Knowledge of Holdings, the other parties thereto, in accordance with their respective terms, except as such enforceability may be limited by (i) bankruptcy, insolvency, reorganization, moratorium and similar laws, both State and Federal, affecting the enforcement of creditors' rights or remedies generally as from time to time in effect or (ii) principles of equity, whether considered at law or in equity. Except as would not have, individually or in the aggregate, a Material Adverse Effect, no event has occurred or circumstances exist that could, with the passage of time or compliance with any applicable notice requirements or both, constitute a default of, result in a violation or breach of, or give any right to accelerate, modify, cancel or terminate any Material Contract and no such breach or default has occurred or such rights arisen. No Company has received written notice that any party to any Material Contract intends to cancel or terminate any such material Contract or to not exercise any option to renew thereunder, and to the Knowledge of Holdings, no party to any Material Contract otherwise intends to exercise any right of cancellation, termination or to not exercise any option to renew thereunder. The Companies have not made any prior assignment of any Material Contract or any of their rights or obligations thereunder.

4.12 Inventory. Except as would not have, individually or in the aggregate, a Material Adverse Effect, (i) none of the Inventory consists of goods that have been rejected or returned from customers, (ii) all Inventory is located at the places of business identified in Schedule 4.12, (iii) no Inventory is in the custody of a Person holding the Inventory for sale on consignment, and (iv) no tangible personal property owned by a Person other than a Company is located at any of the places of business referred to above, or otherwise held by any Company except for property held by any Company under a lease.

4.13 Compliance with Laws. ~~As of the date hereof, the~~The Companies are in compliance with applicable Law, except for failures to comply or violations that would not

reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect. This [Section 4.13](#) does not relate to environmental matters, labor or employment matters, Employee Benefit Plans, Tax matters or Intellectual Property rights matters, which are the subjects of [Section 4.16](#), [Section 4.17](#), [Section 4.18](#), [Section 4.19](#) and [Section 4.20](#), respectively.

4.14 Permits. Each of the Companies possesses all Permits necessary or required for the lawful conduct of its business, except where the failure to have such Permit would not be reasonably expected to have, individually or in the aggregate, a Material Adverse Effect.

4.15 Real Property.

(a) [Schedule 4.15\(a\)](#) contains (i) a list of all real property and interests in real property owned by any Company, listed by owner (the “Owned Real Property”), and (ii) a list of all real property and interests in real property leased or subleased by any Company, listed by lessee (the “Leased Real Property”).

(b) No Owned Real Property is held in any form of joint or common tenancy. Except as would not have, individually or in the aggregate, a Material Adverse Effect, there is no default, or any circumstance that with the giving of notice or passage of time (or both) could constitute a default, under any restrictive covenant applicable to any of the Real Property.

(c) No Person, other than a Company, is in possession of any of the Real Property and there is no lease, sublease, license, concession or other Contract or permission, written or oral, granting to any Person, other than the Companies, the right of use or occupancy of any of the Real Property. No Company is a party to any agreement or option to purchase interest in any real property.

(d) With respect to the Owned Real Property, except as would not have, individually or in the aggregate, a Material Adverse Effect:

(i) the Company identified as the owner of such Owned Real Property has good, marketable and indefeasible fee simple title to each parcel of Owned Real Property free of all Liens except Permitted Liens and the Liens described on [Schedule 4.15\(d\)\(i\)](#);

(ii) the Facilities located on a parcel of Owned Real Property do not encroach any adjacent real property or on any easement, right of way or other Encumbrance that burdens any portion of the Owned Real Property;

(iii) no structure or other improvement on any land adjacent to the Owned Real Property encroaches onto any portion of the Owned Real Property; and

(iv) there is no outstanding Contract to purchase, or option or right of first refusal to purchase, any parcel of Owned Real Property or any portion of or interest in it.

(e) The Leased Real Property is leased by one or more of the Companies. Except as set forth on Schedule 4.15(a) and except as would not have, individually or in the aggregate, a Material Adverse Effect, with respect to each parcel of Leased Real Property, none of the Companies has entered into, and the Leased Real Property is not subject to, any leases, subleases, concessions, or other Contracts, granting to any third party the right of use or occupancy of any Leased Real Property or any portion thereof and there are no third parties in possession of any such Leased Real Property.

(f) Schedule 4.15(a) sets forth a true, correct and complete list of all leases and all amendments, modifications, extensions, renewals, guaranties and other agreements with respect thereto relating to each Leased Real Property, including the date and name of the parties to each such document (the “Real Property Leases”). Except as set forth in Schedule 4.15(a) and except as would not have, or reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect with respect to each of the Real Property Leases:

(i) the Companies’ possession and quiet enjoyment of the Leased Real Property relating to each lease has not been disturbed, and to the Knowledge of Holdings, there are no disputes with respect to such lease;

(ii) no security deposit or portion thereof deposited with respect to such lease has been applied in respect of a breach or default under such lease which has not been redeposited in full;

(iii) none of the Companies owes any brokerage commissions or finder’s fees with respect to such lease;

(iv) none of the Companies has collaterally assigned or granted any other security interest in such lease or any interest therein;

(v) subject to the rights of the lessor of such Leased Real Property, the Companies have valid leasehold estates in each of the Leased Real Properties and have a valid and enforceable leasehold interest in such Leased Real Property, free and clear of all Liens encumbering such lessee’s leasehold interest, except Permitted Liens, but subject to all terms and conditions of the Real Property Leases and subject to any Liens encumbering the applicable lessor’s title to the Leased Real Properties;

(vi) the Companies have paid all sums due and observed and performed the covenants and obligations on the part of the tenant and the conditions contained in the Real Property Leases; and

(vii) each Real Property Lease is in full force and effect and is valid and enforceable by and against the applicable Company and the lessor in accordance with its terms (subject to bankruptcy, insolvency, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors’ rights and to general equity principles, whether in equity or at law).

(g) To the Knowledge of Holdings, there are no proceedings, disputes, actions or notices facts or conditions affecting or threatened against any of the Facilities or any Real Property, or portion thereof that would or could reasonably be expected to result in a Material Adverse Effect.

(h) None of the Facilities or any portion thereof is dependent for its access, use or operation on any land, building, improvement or other real property interest that is not included in the Real Property.

(i) Each Company has all material Permits necessary for the current use by it of each applicable Real Property and no default or violation has occurred in the due observance of any such Permit, except where the failure to possess such Permits, or the default or violation of such Permits, does not have and would not be reasonably likely to have, a Material Adverse Effect.

4.16 Environmental Matters. Except as would not have, or reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect, (a) there are no claims pending or, to the Knowledge of Holdings, threatened in writing against any of the Companies under or relating to Environmental Laws including those that involve or relate to the release, use, disposal or arranging for disposal of any Hazardous Substances on or from any real property constituting or connected with the Owned Real Property or the Leased Real Property; (b) there are no Hazardous Substances that have been released or are being stored or are otherwise present on, under or about any real property constituting the Owned Real Property or the Leased Real Property; and (c) no Hazardous Substances have been released, stored or are otherwise present on, under or about any real property formerly owned, leased or operated by the Companies. Each of the Leased Real Property, during the period it has been leased by the Companies, has been maintained in, and the Companies are and have at all prior times otherwise been in, compliance with all applicable Environmental Laws, except where the failure to comply would not reasonably be expected to cause a Material Adverse Effect. The representations and warranties set forth in this Section 4.16 constitute the only representations and warranties in this Agreement with respect to Environmental matters.

4.17 Labor and Employment Matters.

(a) Except as would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect, (i) there are no unfair labor practice complaints pending or, to the Knowledge of Holdings, threatened against any Company before the U.S. National Labor Relations Board or any other Governmental Entity and (ii) there is no labor strike, slowdown, stoppage, picketing, interruption of work or lockout pending or, to the Knowledge of Holdings, threatened against any Company.

(b) Except as ~~has~~ would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect, ~~as of the date hereof,~~ the Companies are in compliance with applicable Laws relating to labor and employment, including those relating to labor management relations, wages, hours, overtime, worker classification, discrimination, sexual harassment, work authorization, immigration, safety and health,

workers compensation, continuation coverage under group health plans, wage payment and the payment and withholding of taxes.

(c) The representations and warranties set forth in this Section 4.17 constitute the only representations and warranties in this Agreement with respect to labor and employment matters.

4.18 Employee Benefit Plans.

(a) Schedule 4.18(a) sets forth a complete and correct list of each Employee Benefit Plan. ~~Except as would not have, or reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect, with~~ With respect to any Employee Benefit Plan, (i) ~~no~~ except as set forth on Schedule 4.18(a), no material claims (other than routine claims for benefits in the ordinary course) are pending or, to the Knowledge of Holdings, threatened, (ii) except as set forth on Schedule 4.18(a), to the Knowledge of Holdings, no facts or circumstances exist that would give rise to any such material claims, (iii) except as set forth on Schedule 4.18(a), there is no administrative investigation, audit or other administrative proceeding by the Department of Labor, the Pension Benefit Guaranty Corporation, the Internal Revenue Service or other Governmental Entity pending or, to the Knowledge of Holdings, threatened in writing, (iv) each Employee Benefit Plan that is intended to be qualified within the meaning of Code Section 401(a) is so qualified and has received, or is entitled to rely upon, a favorable determination or opinion letter as to its qualification, and to the Knowledge of Holdings nothing has occurred, whether by action or failure to act, that would reasonably be expected to cause the loss of such qualification. To the Knowledge of Holdings, each Employee Benefit Plan has been operated in all material respects in accordance with its terms and with the requirements of all applicable Laws.

(b) No Company maintains, sponsors or contributes to, nor has any Company maintained, sponsored or been obligated to contribute to, within the last six (6) years, any Employee Benefit Plan that is subject to Title IV of ERISA or Section 412 of the Code. No event has occurred and no condition exists that would subject any Company, either directly or by reason of such Company's affiliation with any member of its "Controlled Group" (defined as any organization which is a member of a controlled group of organizations within the meaning of Code Sections 414(b), (c), (m) or (o)), to any material Tax, Lien, or other material liability imposed by ERISA, the Code or other applicable Laws, ~~except as would not have, or reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect.~~ No Company or any member of its Controlled Group maintains retiree life or retiree health insurance plans that provide for continuing benefits or coverage for any participant or any beneficiary of a participant except as may be required under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA") or at the sole expense of the participant or any participant's beneficiary. No Company has an obligation to contribute to, nor had an obligation within the last six (6) years to contribute to, a "multiemployer plan," within the meaning of Section 3(37) or Section 4001(a)(3) of ERISA. Each Company that maintains a "group health plan" within the meaning of Section 5000(b)(1) of Code has complied in

all material respects with the notice and continuation requirements of Section 4980B of the Code, COBRA, Part 6 of Subtitle I of ERISA and the regulations thereunder.

(c) Except as set forth on Schedule 4.18(c) ~~and except as would not have, or reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect~~, no Employee Benefit Plan exists that, as a result of the transactions contemplated by this Agreement, would result in the payment to any current or former employee or director of the Companies of any money or other property or would result in the acceleration or provision of any other rights or benefits to any current or former employee or director of the Companies, whether or not such payment, right or benefit would constitute a parachute payment within the meaning of Code Section 280G.

(d) The representations and warranties set forth in this Section 4.18 constitute the only representations and warranties in this Agreement with respect to Employee Benefit Plans.

4.19 Tax Matters. Except as disclosed on Schedule 4.19 hereto ~~and except as would not have, or reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect~~: (a) each Company has filed all material Tax Returns required to have been filed by it, (b) all such Tax Returns are accurate and complete in all material respects, (c) each Company has paid or accrued for all Taxes owed by it which were due and payable (whether or not shown on any Tax Return), (d) no Company is currently the beneficiary of any written extension of time with any Taxing Authority within which to file any Tax Return, (e) no Company has received any written notice from a Taxing Authority that there is a current claim against such Company in a jurisdiction where such Company does not file Tax Returns that it is, or may be, subject to taxation by that jurisdiction, (f) there are no Liens other than Permitted Liens on any Company's assets that arose in connection with any failure (or alleged failure) to pay any Tax, (g) no Company has received any written notice from a Taxing Authority that any unpaid Tax deficiency has been asserted against or with respect to such Company by such Taxing Authority which Tax remains unpaid, (h) each Company has collected or withheld all Taxes required to be collected or withheld by it, and all such Taxes have been paid to the appropriate Taxing Authorities or set aside in appropriate accounts for future payment when due, (i) the unpaid Taxes of each Company did not, as of the date of the most-recent balance sheet included in the Financial Statements, exceed the reserve for Tax liability set forth on the face of such balance sheet, and will not exceed that reserve as adjusted for operations and transactions through the Closing Date in accordance with the past custom and practice of such Company in filing its Tax Returns, (j) no Company has granted and or is subject to, any written waiver of the period of limitations for the assessment of Tax for any currently open taxable period with any Taxing Authority, (k) no Company is required to include in income in any Tax period ending after the Closing Date any amount for an adjustment pursuant to Section 481 of the Code or the regulations thereunder, and (l) no Company is a party to any Tax allocation or sharing agreement, or has any liability for the Taxes of any Person as a transferee or successor, by contract or otherwise, excluding, however, any agreement or arrangement the primary purpose of which is not the allocation or payment of Tax liability and in which such provisions regarding Taxes are typical of such agreements or arrangements. Holdings is the parent corporation of an affiliated group of corporations filing a consolidated federal income tax return that includes Holdings and the Operating Companies and no other Persons and, during the past ten years, no Company has

been a member of any such group other than the foregoing. The representations and warranties set forth in this Section 4.19 constitute the only representations and warranties in this Agreement with respect to Taxes.

4.20 Intellectual Property. Except as would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect: (a) to the Knowledge of Holdings, the conduct of the business of the Companies as currently conducted does not infringe on the Intellectual Property rights of any Person, (b) to the Knowledge of Holdings, no Person is infringing any Intellectual Property right owned by any Company, (c) none of the Intellectual Property owned by the Companies is subject to any outstanding judgment, injunction, order or decree restricting the use thereof by such Company and (d) the Companies have taken reasonable steps in accordance with normal industry practice to maintain the confidentiality of all material Intellectual Property owned by the Companies, the value of which to the Companies is contingent upon maintaining the confidentiality thereof. The representations and warranties set forth in this Section 4.20 constitute the only representations and warranties in this Agreement with respect to Intellectual Property.

4.21 Loans and Guarantees.

(a) Except as set forth on Schedule 4.21(a), none of the Companies have any outstanding loans or have loaned any money that has not been repaid and there are no debts owing to any of the Companies other than as set forth in the Financial Statements.

(b) Except as set forth on Schedule 4.21(b), none of the Companies have given or entered into any guarantee, mortgage, pledge, lien, assignment or other security agreement or arrangement or is responsible for the indebtedness, or for the default in the performance of any obligation, of any other Person including without limitation Holdings.

(c) Except as listed on Schedule 4.21(c), there are no bonds, guarantees or other forms of credit support or similar arrangements provided by Holdings or any of its respective Affiliates for the benefit of any of the Companies or any subsidiary.

4.22 Affiliated Transactions. Schedule 4.22 sets forth all written or oral contracts, agreements, or understandings by and between any Company, on the one hand, and Holdings or any Affiliate of Holdings, or a Holder or any Affiliate of a Holder, on the other hand.

4.23 Certain Business Practices. Except as would not have, or reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect, no Company, nor, to the Knowledge of Holdings, any director, officer, employee, Affiliate or other Person associated with or acting on behalf of any Company has (i) used any corporate funds for any unlawful contribution, gift, entertainment or other unlawful expense relating to political activity or to influence official action; (ii) made any direct or indirect unlawful payment to any foreign or domestic government official or employee from corporate funds; (iii) made any bribe, rebate, payoff, influence payment, kickback or other unlawful payment; or (iv) violated or is in violation of any provision of the U.S. Foreign Corrupt Practices Act of 1977, as amended, and the rules and regulations thereunder (the "FCPA"); and each Company has conducted its business in

compliance with the FCPA and has instituted and maintain policies and procedures designed to ensure, and which are reasonably expected to continue to ensure, compliance therewith.

4.24 Powers of Attorney. Except as would not have, or reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect, there are no outstanding and effective powers of attorney executed on behalf of any Company in favor of any Person, except for written powers of attorney with respect to certain Tax matters on file with the IRS or state revenue agencies that are identified in Schedule 4.24.

4.25 Fees and Expenses of Brokers and Others. ~~Except as set forth on Schedule 4.25,~~ ~~none~~ None of the Companies is committed to pay or will otherwise have any liability for any brokers' or finders' fees or any similar fees in connection with the transactions contemplated hereby, and except as set forth on Schedule 4.25 (the fees and expenses of which will be paid by the Holders), none of the Companies has retained any broker or other intermediary to act on its behalf in connection with the transactions contemplated by or related to this Agreement.⁷

4.26 No Other Representations and Warranties. Except for the representations and warranties contained in this Agreement, neither Holdings, nor any Company or any other Person (a) makes any representation or warranty, express or implied, as to condition, merchantability, suitability or fitness for a particular purpose of any of the Assets held by any Company, or (b) makes any representation or warranty, express or implied, as to the accuracy or completeness of any information regarding any Company or the business conducted by the Companies (including, without limitation, any representation or warranty of any kind or nature whatsoever concerning or as to the accuracy or completeness of any projections, budgets, forecasts or other forward-looking financial information concerning the future revenue, income, profit or other financial results of the Companies), in each case except as expressly set forth in this Agreement, the Transaction Documents and the Schedules.

Section 5. REPRESENTATIONS AND WARRANTIES OF PURCHASER

Purchaser represents and warrants to Holdings as follows:

5.1 Organization. Each of Purchaser and Merger Sub is validly existing and in good standing as a ~~{•}~~ ~~{organized/corporation incorporated}~~ under the laws of ~~{•}~~ the State of Delaware. Purchaser has full ~~{•}~~ corporate power and authority to carry on its business as it is currently being conducted and to own, operate and hold under lease its assets and properties as, and in the places where, such assets and properties are currently owned, operated or held.

5.2 Authority; Enforceability. The execution, delivery and performance of this Agreement by Purchaser and Merger Sub and the consummation by Purchaser and Merger Sub of the Merger and the other transactions contemplated by this Agreement have been duly authorized by all necessary corporate action on the part of Purchaser and the Merger Sub. This Agreement is, and the other documents and instruments required hereby to which either Purchaser or Merger Sub are a party will be, when executed and delivered by Purchaser and Merger Sub (assuming the due authorization, execution, and delivery of such agreements by Holdings), will constitute a

⁷ Purchase NTD: We were advised that advisors' fees and legal fees with respect to the transaction will be borne by the Holders and not by the Companies.

valid and binding obligation of Purchaser and Merger Sub, enforceable against Purchaser and Merger Sub in accordance with their terms, except as enforcement thereof may be limited by (i) bankruptcy, insolvency, reorganization, moratorium and similar laws, both state and federal, affecting the enforcement of creditors' rights or remedies in general as from time to time in effect or (ii) principles of equity, whether considered at law or in equity.

5.3 No Violation of Conflict; No Consents. The execution, delivery and performance of this Agreement, and the other agreements, documents and instruments required hereby to which either Purchaser or Merger Sub is a party, do not and will not (a) conflict with, or result in any violation of, or default (with or without notice or lapse of time, or both) under (i) the charter, bylaws or other organizational documents of Purchaser or Merger Sub, (ii) any Law, rule, regulation, judgment, order or decree binding on any of Purchaser or Merger Sub or (iii) any Contract or other agreement to which Purchaser or Merger Sub is a party or by which Purchaser or Merger Sub is bound, (b) give any party to any Contract or other contract or agreement to which Purchaser or Merger Sub is a party or by which Purchaser or Merger Sub is bound any right of termination, cancellation, acceleration or modification thereunder or (c) except as otherwise required pursuant to the HSR Act, the Regulatory Agencies and as set forth on Schedule 5.3, require consent of, or require notice to, filing or registration with, or consent, license, permit, Order, approval or authorization of, any Governmental Entity.

5.4 Brokers. Neither Purchaser nor Merger Sub has retained any broker or finder in connection with any of the transactions contemplated by this Agreement, and neither Purchaser nor Merger Sub has incurred or agreed to pay, or taken any other action that would entitle any Person to receive, any brokerage fee, finder's fee or other similar fee or commission with respect to any of the transactions contemplated by this Agreement, in either case for which any of the Holders or any of the Companies would have any liability.

5.5 Acquisition of Units. Purchaser is acquiring the Units for its own account and for investment, and not with a view to, or for sale in connection with, any distribution of any of such Units or the equity interests of the Surviving Entity.

5.6 Purchaser Financial Ability.²

(a) Purchaser has available to it, and will have available to it as of the Closing Date as required to occur pursuant to Section 2, immediately available funds to enable it to complete the Merger and consummate the other transactions pursuant to the terms of this Agreement, including to pay the Purchase Price, to repay any debt of the Companies required to be paid at Closing, to pay all related fees and expenses of Purchaser or Merger Sub (including fees and expenses of the Financing), and to make all other payments required by this Agreement and the transactions contemplated hereby.

~~(b) Purchaser has delivered to Holdings true and complete copies of fully executed commitment letters (the "Debt Commitment Letters") from [] confirming their respective commitments to provide Purchaser with debt financing in connection with the transactions contemplated hereby (the "Financing").~~

²~~The extent of the representations in this Section may be modified based on the financial ability and credit quality of the Purchaser.~~

~~(b)~~ ~~(e)~~ Purchaser has delivered to Holdings a guaranty (the “Purchaser Guaranty”), duly executed by ~~[Purchaser Guarantor]~~ Algonquin Power & Utilities Corp., guarantying the obligations of Purchaser under this Agreement and the ancillary agreements, including to pay the Purchase Price (the “Purchaser Guaranty”).

~~(d)~~ ~~Except for fee letters with respect to fees and related arrangements with respect to the Financing, of which Purchaser has delivered true, correct and complete copies to Holdings prior to the date of this Agreement (in a redacted form removing only the fee information, but which fee information does not relate to the amounts or conditionality of, or contain any conditions precedent to, the funding of the Financing), there are no side letters or other agreements, contracts or arrangements related to the funding of the full amount of the Financing, other than as expressly set forth in the Debt Commitment Letters and delivered to Holdings prior to the date of this Agreement.~~

~~(e)~~ ~~Each of the Debt Commitment Letters is in full force and effect and is a valid and binding obligation of Purchaser and, to the knowledge of Purchaser, the other parties thereto. None of the Debt Commitment Letters have been amended or modified in any respect, and the respective commitments contained therein have not been withdrawn, rescinded or otherwise modified in any respect. No event has occurred that would constitute a breach or default (or an event that with notice or lapse of time or both would constitute a default), or the failure of any condition, on the part of Purchaser or its Affiliates under the Debt Commitment Letters or, to the knowledge of Purchaser on the part of [•]. There are no conditions precedent to the funding of the full amount of the Financing other than the conditions precedent set forth in the Debt Commitment Letters, and Purchaser has no reason to believe that it may not be able to satisfy any term or condition of closing of the Financing that is required to be satisfied as a condition of the Financing, or that the Financing may not be made available to Purchaser on the Closing Date. The aggregate proceeds of the Financing are in an amount sufficient to complete the Merger, consummate the transactions pursuant to the terms of this Agreement (including to pay the Purchase Price and any amounts necessary to pay any debt required to be repaid at Closing), to make any repayment or refinancing of debt contemplated in this Agreement or the Debt Commitment Letters and to pay all related fees and expenses of Purchaser pursuant to this Agreement and the Financing. Purchaser (or an Affiliate thereof) has fully paid any and all commitment fees or other fees required by the Debt Commitment Letters to be paid.~~

~~(f)~~ ~~Purchaser is not aware of any direct or indirect limitation or other restriction on the ability of the lender parties in the Financing to provide financing for other potential purchasers.~~

~~(c)~~ ~~(g)~~ Purchaser acknowledges and agrees that notwithstanding anything to the contrary in this Agreement, the ~~consummation of the Financing~~ availability to Purchaser of sufficient funds shall not be a condition to the obligation of Purchaser to complete the Merger and consummate the other transactions contemplated hereby.

5.7 Solvency. Assuming (a) the satisfaction of the conditions to Purchaser’s obligations to complete the Merger and consummate the other transactions contemplated by this

Agreement and (b) the accuracy of the representations and warranties set forth in Section 4 of this Agreement and, after giving effect to the transactions contemplated by this Agreement, including the Financing, any alternative financing, the payment of the aggregate Purchase Price, any repayment or refinancing of debt contemplated in this Agreement or the Debt Commitment Letters and the payment of all related fees and expenses, Purchaser, on a consolidated basis, will be Solvent immediately after the consummation of the transactions contemplated hereby.

5.8 Non-Reliance on Holdings' Estimates, Projections, Forecasts, Forward-Looking Statements and Business Plans. In connection with the due diligence investigation of the Companies by Purchaser, Purchaser has received and may continue to receive from Holdings certain estimates, projections, forecasts and other forward-looking information, as well as certain business plan information, regarding the Companies and their businesses and operations. Purchaser and Merger Sub hereby acknowledge that there are uncertainties inherent in attempting to make such estimates, projections, forecasts and other forward-looking statements, as well as in such business plans, with which Purchaser and Merger Sub are familiar, that Purchaser and Merger Sub are taking full responsibility for making their own evaluation of the adequacy and accuracy of all estimates, projections, forecasts and other forward-looking information, as well as such business plans, so furnished to it (including the reasonableness of the assumptions underlying such estimates, projections, forecasts, forward-looking information or business plans), and that neither Purchaser nor Merger Sub will have any claim against Holdings, any of the Operating Companies or any other Person with respect thereto. Accordingly, Purchaser and Merger Sub hereby acknowledge that none of Holdings, any of the Operating Companies nor any other Person, has made or is making any representation or warranty with respect to such estimates, projections, forecasts, forward-looking statements or business plans (including the reasonableness of the assumptions underlying such estimates, projections, forecasts, forward-looking statements or business plans).

5.9 Investment Intent. Purchaser is acquiring the Units for its own account and not with a view to its distribution within the meaning of Section 2(11) of the Securities Act and the rules and regulations issued pursuant thereto.

Section 6. COVENANTS

6.1 Covenants.

(a) From the date hereof through the Closing, except as otherwise expressly permitted by this Agreement or consented to by Purchaser in writing, Holdings shall, and shall cause each of the Companies to:

(i) conduct the business of the Companies in the ordinary course and in accordance with past practices, and fund capital investment in utility property, plant and equipment substantially in accordance with the CAPEX Plan;

(ii) keep materially complete and accurate Books and Records;

(iii) maintain its existence and good standing in its jurisdiction of organization and in each jurisdiction in which the ownership or leasing of its

property or the conduct of its business requires such qualification, except where such failure would not have a Material Adverse Effect;

(iv) duly and timely file or cause to be filed Tax Returns and all other material reports and returns required to be filed with any Governmental Entity and promptly pay or cause to be paid when due all Taxes and other material assessments and governmental charges, including interest and penalties levied or assessed, unless diligently contested in good faith by appropriate proceedings;

(v) comply in all material respects with all Laws applicable to any of the Companies in the conduct of the business thereof; and

(vi) take no action that materially adversely affects the ability of any party to (i) obtain the Required Consents, or (ii) perform its covenants and agreements under this Agreement.

(b) From the date hereof through the Closing, except as otherwise expressly permitted by this Agreement or consented to by Purchaser in writing, Holdings shall not, and shall cause each of the Companies not to:

(i) except for a dividend in the amount of \$2.5 million to be paid on or before December 31, 2014, declare, set aside or pay any dividend or otherwise make a distribution with respect to any Units, or purchase, redeem or otherwise acquire (other than upon forfeiture, without payment of consideration therefor) any Units;

(ii) authorize for issuance or issue any additional shares of its capital stock or securities convertible into or exchangeable for shares of its capital stock, or issue or grant any right, option or other commitment for the issuance of shares of its capital stock or of such securities, or split, combine or reclassify any shares of its capital stock, or except as described in Section 2.5(d), take any of the foregoing actions with respect to any equity interests of Holdings;

(iii) amend or modify the certificate of formation, certificate of incorporation, charter, bylaws or other governing documents of any Company;

(iv) create any subsidiary or acquire any capital stock or other equity securities of any ~~corporation~~ Person or acquire any equity or ownership interest in any business or entity;

(v) except for borrowings under any existing credit agreement or debt facility, or any renewal or replacement thereof, and except for the creation of, and advances under and pursuant to, an additional secured loan facility provided by Purchaser or an Affiliate thereof (which borrowings under such new loan facility shall not be more than \$15 million in the aggregate) for the completion of the CAPEX Plan, (A) create, incur or assume any indebtedness secured by any asset of any Company, except for purchase money security interests incurred in the

ordinary course of business, or (B) grant or create any Lien on any asset of any Company that did not exist on the date hereof;

(vi) except as required by any applicable collective bargaining agreement and except for cost of living increases and/or merit increases consistent with the past practices of the Companies, increase in any manner the base compensation or target bonus of, or enter into any other compensation agreement or arrangement with, any of the Companies' employees, officers, directors, third party contractors or consultants.

(vii) except as may be permitted pursuant to Section 6.1(b)(vi), required by the terms of any applicable plan or agreement in effect prior to the Effective Date or required by applicable Law other than vesting eligibility requirements that change or come into effect with the passage of time pursuant to the terms of existing Benefit Plans, pay, or agree to pay, any additional pension, retirement allowance or other employee benefit under any Employee Benefit Plan to any of its employees or consultants, whether past or present;

(viii) except as may be permitted pursuant to Section 6.1(b)(vi), adopt, amend or terminate any Employee Benefit Plan applicable to and relating to any Company resulting in additional payments or benefits provided by any Company or materially increase the benefits provided under any Employee Benefit Plan (including target bonuses) applicable to and having a material effect on any Company, or promise or commit to undertake any of the foregoing in the future;

(ix) amend or terminate any existing employment agreement or enter into any new employment agreement, except as required by the terms of any such agreement in effect prior to the date hereof, as required in order to comply with applicable Law, or as otherwise contemplated herein;

(x) with respect to Taxes (except as required by applicable Law):

(1) make an election or change any election that in either case would increase the Taxes of any Company for any Post-Closing Tax Period,

(2) change an annual accounting period,

(3) adopt or change any material accounting method that would increase the Taxes of any Company for any Post-Closing Tax Period,

(4) file any amended Tax Return that would increase the Taxes of any Company for any Post-Closing Tax Period, or

(5) enter into any closing agreement, or consent to any extension or waiver of the limitation period applicable to any Tax claim or assessment;

(xi) fail to perform in all material respects all of its obligations under, or default or suffer to exist any material event or condition that with notice or lapse of time or both could constitute a material default under, any Material Contract;~~or~~

(xii) pay, discharge or satisfy any claim, liability or obligation (absolute, contingent or otherwise) other than the payment, discharge or satisfaction in the ordinary course of business consistent with past practice of claims, liabilities and obligations reflected or reserved against in the Financial Statements or incurred in the ordinary course of business consistent with past practice;

(xiii) enter into any transaction or Contract with, forgive any indebtedness of, or transfer any assets or make any payment to, any Holder or Affiliate thereof (other than another Company), except for payments to employees of compensation, benefits and reimbursement of expenses in the ordinary course of business or pursuant to Employee Benefit Plans set forth on Schedule 4.18(a);

(xiv) dispose of any material assets without the prior written consent of Purchaser, other than as required by Law following consultation with Purchaser and in exchange for cash consideration equal to no less than the allocation of the Purchase Price to such assets by Purchaser, as confirmed in writing by Purchaser prior to the date thereof, or the fair value of such assets as determined by final non-appealable Order following the prosecution of all appeals available to the applicable Company except to the extent waived by Purchaser in writing;

(xv) waive, release, assign, settle or compromise any material rights or claims; or

(xvi) agree or commit to do any of the foregoing.

(c) From the date hereof through the Closing, Holdings shall not, and shall cause each of the Companies not to, (i) modify, amend, or terminate, or waive, release, compromise or assign any material rights or material claims under, any Material Contract, or (ii) enter into any Contract that prohibits any of the Companies from freely engaging in business anywhere in the world, or that involves a sharing of profits, losses, costs, taxes, or other liabilities by any Company with any other Person, including any joint venture, partnership, or limited liability company agreement. In addition, from the date hereof through the Closing, prior to any Company entering into or agreeing upon any Contract that would constitute a Material Contract if it were in effect as of the date hereof, Holdings shall reasonably consult with Purchaser as to the nature and terms thereof and shall reasonably consider the views of Purchaser in connection therewith.

(d) Purchaser shall provide, itself or through an Affiliate, one or more loan facilities to the Companies in an aggregate principal amount up to \$15 million, and otherwise on market-based terms, the proceeds of which shall be used by the Companies to fund capital investment substantially in accordance with the CAPEX Plan.

6.2 Access. From the date hereof through the earlier to occur of the Closing or the termination of this Agreement, at Purchaser's sole expense, Holdings shall, and shall cause each of the Companies to, provide Purchaser and Purchaser's authorized agents, Affiliates, officers and representatives (including financing sources and their respective representatives) (i) reasonable access to the Books and Records, properties, managers and officers of each of the Companies, all customer and subscriber lists (past and present) and the operations of businesses of the Companies; provided, however, that such examinations and investigations shall be conducted during the applicable Company's normal business hours and shall not unreasonably interfere with the operations and activities of the Companies; (ii) to the extent permitted by applicable Law, copies of all Contracts, Books and Records, documents relating to the terms of employment or any other matter relating to any officer, director, manager or employee of any of the Companies and other existing documents and data as Purchaser may reasonably request; and (iii) such additional financial, operating and other data and information as Purchaser may reasonably request. In furtherance of the foregoing, promptly following the date hereof, Holdings shall cause to be taken such action as necessary to cause a representative designated by Purchaser to be appointed to the board of managers of Holdings, such representative to serve on such board until the Effective Time or the earlier termination of this Agreement and to have the right to receive due notice of and to attend all meetings of such board and of all committees thereof, to vote thereat, and to receive copies of all information furnished generally to members of such board or committee. No such information made available to Purchaser or its representative shall be deemed to amend or limit any of the representations or warranties of Holdings hereunder or rights in respect thereof, such amendments and limitations being addressed exclusively by Section 6.6 of this Agreement and updates to the Disclosure Schedules pursuant thereto.

6.3 Cooperation. Subject to the terms and conditions herein provided, each of the parties hereto agrees to use commercially reasonable efforts to take, or cause to be taken, all action, and to do, or cause to be done, all things necessary, proper and advisable under applicable Law, to complete the Merger and consummate the other transactions contemplated by this Agreement as promptly as practicable.

6.4 HSR Act Filings.

(a) Purchaser, Merger Sub and Holdings shall promptly (and in no event later than ten (10) Business Days after the date hereof)⁸ make such filings with the FTC and the DOJ as may be required under the HSR Act, concerning the transactions contemplated by this Agreement. Purchaser, Merger Sub and Holdings shall file all reports or other documents required or requested by the FTC or the DOJ under the HSR Act or otherwise and will comply promptly with any requests by the FTC or the DOJ for additional information concerning the transactions described herein. Purchaser, Merger Sub and Holdings agree to request early termination of the HSR waiting period.

(b) Purchaser, Merger Sub and Holdings shall each cause their respective counsel to furnish to the other such necessary information and reasonable assistance as either may reasonably request in connection with the preparation of necessary filings or

⁸ PURCHASER NTD: HSR clearance is valid for 12 months. Discuss coordination with timing of PSC approvals, given that there are no substantive antitrust concerns in our case.

submissions under the provisions of the HSR Act. Each of Purchaser, Merger Sub and Holdings shall promptly notify the other of any communication that it or any of its Affiliates receives from any Governmental Entity relating to the matters that are the subject of this Agreement and permit the other to review in advance any proposed communication by such party to any Governmental Entity. Neither Purchaser, Merger Sub nor Holdings shall agree to participate in any meeting with any Governmental Entity in respect of any filings, investigation or other inquiry in connection with this Agreement or the transactions contemplated herein unless it consults with the other party in advance and, to the extent permitted by such Governmental Entity, gives the other party the opportunity to attend and participate at such meeting.

(c) In furtherance rather than limitation of the foregoing, Purchaser shall use its reasonable best efforts and take any and all steps necessary to avoid or eliminate each and every impediment under any antitrust, competition or trade regulation Law that may be asserted by any Governmental Entity or any other Person with respect to the transactions contemplated by this Agreement so as to enable the Closing to occur as soon as reasonably possible (and in any event no later than the Closing Date), including proposing, negotiating, committing to and effecting, by consent decree, hold separate order, or otherwise, the sale, divestiture or disposition of any assets, properties or businesses of Purchaser or any of its subsidiaries or otherwise offering or agreeing to any divestiture or other remedy that may be required in order to avoid entry of, or to effect the dissolution of, any injunction, temporary restraining order, or other order in any suit or proceeding, that would otherwise have the effect of preventing or delaying the Closing. In addition, Purchaser shall use its best efforts to defend through litigation on the merits any claim asserted in court by any Person in order to avoid entry of, or to have vacated or terminated, any decree, order or judgment (whether temporary, preliminary or permanent) that would prevent the Closing's occurring on or before the Closing Date.

(d) Purchaser shall pay all application fees required in connection with any filings required under the HSR Act.

6.5 Other Regulatory Filings. Except with respect to the filings, notices, consents and approvals described in Section 6.4:

(a) Purchaser, Merger Sub and Holdings will prepare and file, promptly following the date of this Agreement, (i) any and all notices, consent, applications, and approvals with the California Public Utilities Commission (the "CPUC") under and pursuant to the California Public Utilities Code (including filing an Application for Approval together with all necessary schedules and supporting documentation) and with the Montana Public Service Commission (the "MPSC") and together with the CPUC, the "Regulatory Agencies") and (ii) any requests with any other Governmental Entity for such other consents as may be necessary for the consummation of the Merger and other transactions contemplated by this Agreement or the documents referred to herein.

(b) Purchaser, Merger Sub and Holdings will diligently pursue such consents and will cooperate with each other in seeking such consents.

(c) Each party will promptly inform the other party of any communication received by such party from, or given by such party to, any Regulatory Agency or any other Governmental Entity from which any such consent is required and of any material communication received or given in connection with any Proceeding by a third party, in each case regarding any of the transactions contemplated by this Agreement or the documents referred to herein, and will permit the other party to review any communication given by it to, and consult with each other in advance of any meeting or conference with, any Regulatory Agency or any other Governmental Entity in connection with any Proceeding by a third party, with such other Person, and to the extent permitted by such any Regulatory Agency, other Governmental Entity or other Person, give the other party the opportunity to attend and to participate in such meetings and conferences.

(d) Purchaser and Merger Sub shall use their reasonable best efforts to (i) take promptly any and all steps necessary to resolve the issues raised by any Regulatory Agency or any other Governmental Entity, its staff or parties to the proceedings in connection with the Merger and other transactions contemplated by this Agreement or the documents referred to herein and (ii) obtain approval from such entity as promptly as practicable in order to allow the consummation of the transactions contemplated by this Agreement and the documents referred to herein no later than the End Date, including committing to and effecting, by stipulation, settlement or otherwise, conditions on Purchaser or the Assets imposed by such entity.

6.6 Schedule Updates.

(a) From time to time up to the Closing, Holdings shall promptly supplement or amend any Schedule that it has delivered in response to Section 4 with respect to:

(i) any matter first existing or occurring following the date hereof that (1) if existing or occurring at or prior to the date hereof would have been required to be set forth or described in the schedule or (2) is necessary to correct any information in such Schedules that has been rendered inaccurate thereby; or

(ii) any matter that first is existing or occurring prior to the date of this Agreement that was not previously set forth in such Schedules.

(b) No supplement or amendment to any such Schedule shall have any effect for the purpose of determining satisfaction of the conditions set forth in Section 7.1(a).

(c) No supplement or amendment to any schedule delivered pursuant to Section 6.56.6(a)(ii) shall:

(i) limit ~~Holdings~~the Holders' indemnification obligations; or

(ii) in any way limit the ability of Purchaser from making a claim for breach of this Agreement;

provided, however, if the matters disclosed in any supplement or amendment delivered pursuant to Section 6.6(a)(i):

(1) do not constitute, result from or disclose a breach of any covenant set forth in Section 6.1,

(2) would permit Purchaser to terminate this Agreement pursuant to Section 9.1(c), and Holdings confirms the foregoing to Purchaser by written notice prior to Closing, and

(3) Purchaser does not terminate this Agreement pursuant to Section 9.1(c) and the Closing occurs, then Purchaser shall not be permitted to make a claim for indemnification pursuant to Section 8 hereof, with respect to ~~any and all~~such matters disclosed pursuant to ~~any~~ such supplement or amendment.

6.7 Director and Officer Liability. Purchaser shall do the following:

(a) For six years after the Closing Date, Purchaser shall indemnify and hold harmless the present and former managers, officers, directors, employees, fiduciaries and agents of Holdings and the Operating Companies (each, an “Indemnified Person”) in respect of acts or omissions occurring at or prior to the Closing Date to the fullest extent permitted by applicable Law or any other applicable Law or provided under the LLC Agreement, the certificate of incorporation, articles of incorporation, bylaws, any indemnification agreements and any other governing documents of Holdings and the Operating Companies in effect on the date hereof. In the event of any Proceeding to which an Indemnified Person is a party or with respect to which an Indemnified Person is otherwise involved (including as a witness), arising in whole or in part out of, or pertaining in whole or in part to, the fact that the Indemnified Person is or was an officer, director, employee, fiduciary or agent of any of the Companies or is or was serving at the request of any of the Companies as a manager, officer, director, employee, fiduciary or agent of another enterprise (including any Proceeding arising out of or pertaining to matters occurring or existing or alleged to have occurred or existed, or acts or omissions occurring or alleged to have occurred, at or prior to the Closing Date, or arising out of or pertaining to this Agreement and the transactions and actions contemplated hereby), (i) Purchaser shall advance fees, costs and expenses (including attorney’s fees and disbursements) incurred by each Indemnified Person in connection with and prior to the final disposition of such Proceedings, such fees, costs and expenses (including attorney’s fees and disbursements) to be advanced within ten (10) Business Days of receipt by Purchaser from the Indemnified Person of a request therefor; provided that any person to whom expenses are advanced provides an undertaking, ~~if and only to the extent required by Law or the applicable Company’s organizational documents~~, to repay such advances if it is ultimately determined that such person is not entitled to indemnification, (ii) Purchaser shall not settle, compromise or consent to the entry of any judgment in any Proceeding in which indemnification could be sought by such Indemnified Person hereunder, unless such settlement, compromise or consent includes an unconditional release of such Indemnified Person from all liability arising out of such action, suit, proceeding, investigation or claim or such Indemnified Person otherwise consents in writing, and (iii) Purchaser shall cooperate in the defense of any such matter. In the event any claim for indemnification is asserted or made by any Indemnified Person pursuant to

this Section 6.7, any determination required to be made with respect to whether such Indemnified Person's conduct complies with the standards under applicable Law or the applicable Company's organizational documents, or any applicable indemnification agreement shall be made by independent legal counsel selected by such Indemnified Person that is reasonably acceptable to Purchaser (it being understood and agreed that the burden of proof shall be on Purchaser to establish that such Indemnified Person did not so comply). In the event any Proceeding is brought against any Indemnified Person in which indemnification could be sought by such Indemnified Person under this Section 6.7, (A) Purchaser shall have the right to control the defense thereof after the Closing Date ~~(it being understood that, by electing to control the defense thereof, Purchaser will be deemed to have waived any right to object to the Indemnified Person's entitlement to indemnification hereunder with respect thereto)~~, (B) each Indemnified Person shall be entitled to retain his or her own counsel, whether or not Purchaser shall elect to control the defense of any such Proceeding, (C) Purchaser shall pay all fees and expenses of any counsel retained by an Indemnified Person promptly after statements therefor are received, ~~whether or not~~ unless Purchaser ~~shall elect~~ has elected to control the defense of any such Proceeding and has waived any right to object to the Indemnified Person's entitlement to indemnification hereunder with respect thereto, and (D) no Indemnified Person shall be liable for any settlement effected without his or her prior express written consent.

(b) For six years after the Closing Date, Purchaser shall cause to be maintained in effect all provisions in the limited liability company agreement, certificate of incorporation, bylaws and other governing documents of the Companies regarding elimination of liability of directors, indemnification of officers, directors and employees and advancement of expenses that are no less advantageous to the intended beneficiaries than the corresponding provisions in existence on the date of this Agreement.

(c) Prior to the Closing Date, Purchaser shall obtain and fully pay the premium for the non-cancellable extension of the directors' and officers' liability coverage of each Company's existing directors' and officers' insurance policies and each Company's existing fiduciary liability insurance policies (collectively, "D&O Insurance"), in each case for a claims reporting or discovery period of at least six years from and after the Closing Date with respect to any claim related to any period of time at or prior to the Closing Date, from an insurance carrier with the same or better credit rating as each Company's current insurance carrier with respect to D&O Insurance, with terms, conditions, retentions and limits of liability that are no less favorable than the coverage provided under each Company's existing policies with respect to any actual or alleged error, misstatement, misleading statement, act, omission, neglect, breach of duty or any matter claimed against a director or officer of any Company by reason of him or her serving in such capacity that existed or occurred at or prior to the Closing Date (including in connection with this Agreement or the transactions or actions contemplated hereby). If Purchaser for any reason fails to obtain such "tail" insurance policies as of the Closing Date, Purchaser shall continue to maintain in effect, for a period of at least six years from and after the Closing Date, the D&O Insurance in place as of the date hereof with each Company's current insurance carrier or with an insurance carrier with the same or better credit rating as such Company's current insurance carrier with respect to D&O

Insurance with terms, conditions, retentions and limits of liability that are no less favorable than the coverage provided under such Company's existing policies as of the date hereof, or Purchaser shall purchase from such Company's current insurance carrier, or from an insurance carrier with the same or better credit rating as such Company's current insurance carrier with respect to D&O Insurance, comparable D&O Insurance for such six-year period with terms, conditions, retentions and limits of liability that are no less favorable than as provided in such Company's existing policies as of the date hereof; provided, however, that in no event shall Purchaser be required to expend for such policies pursuant to this sentence an annual premium amount in excess of 150% of the amount per annum such Company paid in its last full fiscal year; and provided, further, that if the aggregate premiums of such insurance coverage exceed such amount, Purchaser shall be obligated to obtain a policy with the greatest coverage available, with respect to matters occurring prior to the Closing Date, for a cost not exceeding such amount.

(d) Notwithstanding anything herein to the contrary, if an Indemnified Person is a party to or is otherwise involved (including as a witness) in any Proceeding (whether arising before, at or after the Closing Date) on or prior to the sixth anniversary of the Closing Date, the provisions of this Section 6.7 shall continue in effect until the final disposition of such Proceeding.

(e) If Purchaser or any of its successors or assigns (i) consolidates with or merges into any other Person and shall not be the continuing or surviving corporation or entity of such consolidation or merger, or (ii) transfers or conveys all or substantially all of its properties and assets to any Person, then, and in each such case, to the extent necessary, proper provision shall be made so that the successors and assigns of Purchaser shall assume the obligations set forth in this Section 6.7.

(f) The rights of each Indemnified Person under this Section 6.7 shall be in addition to any rights such Person may have under the LLC Agreement, certificate of incorporation, bylaws or other governing documents of the Companies, under applicable Law or under any agreement of any Indemnified Person with any applicable Company. These rights shall survive consummation of the transactions contemplated by this Agreement and are intended to benefit, and shall be enforceable by, each Indemnified Person.

(g) A Person who is obligated to indemnify any Purchaser Indemnified Party under Section 8 hereof with respect to any matter shall not be entitled to indemnification for such matter under this Section 6.7. Losses with respect to any matter that is subject to indemnification by the Holders under Section 8 hereof shall otherwise include any costs and expenses incurred by any Purchaser Indemnified Party under this Section 6.7 in connection with or arising out of such matter.

6.8 Employee Matters.

(a) For at least eighteen (18) months following the Closing, Purchaser shall provide or cause to be provided to each employee who is employed immediately prior to

the Closing and who remains in the employ of Purchaser or any Company after the Closing (such individual, a “Continuing Employee”) (i) a salary or wage level and bonus opportunity at least equal to the salary or wage level and bonus opportunity to which they were entitled immediately prior to the Closing and (ii) benefits, perquisites and other terms and conditions of employment that are substantially equivalent to the benefits, perquisites and other terms and conditions that they were entitled to receive immediately prior to the Closing (including, without limitation, benefits pursuant to qualified and non-qualified retirement and savings plans, medical, dental and pharmaceutical plans and programs, and deferred compensation arrangements). Notwithstanding the foregoing, following the Closing, Purchaser shall provide each Continuing Employee, with compensation and benefits at least as favorable as the compensation and benefits provided to similarly situated employees of Purchaser.

(b) Without limiting the generality of the foregoing, (i) Purchaser shall have in effect for at least eighteen (18) months following the Closing severance and retention plans, practices and policies applicable to Continuing Employees that are not less favorable than such practices and policies in effect immediately prior to the Closing with respect to such employees, and (ii) Purchaser shall ensure that all Continuing Employees receive annual bonuses at least equal to the target bonuses for the current fiscal year.

(c) From and after the Closing, Purchaser shall cause the applicable Company to (i) honor, pay, perform and satisfy any and all liabilities, obligations and responsibilities to, or in respect of, each Continuing Employee arising under the terms of any employment, consulting, retention, severance, change-of-control or similar agreement, in accordance with the terms thereof in effect on the Closing and (ii) assume, honor and be solely responsible for paying, providing or satisfying when due (A) all vacation, sick pay and other paid time off for Continuing Employees accrued but unused as of the Closing, on terms and conditions not less favorable than the terms and conditions in effect immediately prior to the Closing, and (B) all compensation (including salary, wages, commissions, bonuses, incentive compensation, overtime, premium pay and shift differentials), benefits and benefit claims, severance and termination pay, notice and benefits under all applicable federal, state or local law and under any plan, policy, practice or agreement and all other liabilities, in each case accruing, incurred, or arising as a result of employment or separation from employment with Purchaser, on or after the Closing with respect to employees of any Company.

(d) Notwithstanding any other provision of this Agreement, Holdings shall terminate or cause to be terminated, effective prior to or upon the Effective Time, all equity, phantom equity and equity-based compensation and benefits plans, agreements and arrangements, such that neither Purchaser nor any Company shall have any obligations thereunder from and after the Effective Time. In no case shall Purchaser be required to provide, or to cause any Company to provide, any equity, phantom equity, or equity-based compensation or benefit plans, agreements or arrangements.

(e) ~~(d)~~ Nothing in this Section 6.8, express or implied, is intended to or shall confer upon any other Person, including any Continuing Employee, any right, benefit or remedy of any nature whatsoever under or by reason of this Agreement, and no provision

of this Section 6.8 shall constitute an amendment of, or an undertaking to amend, any Company Employee Plan or Purchaser Plan.

Section 7. CONDITIONS TO CLOSING

7.1 Conditions to Obligation of Purchaser to Close. The obligation of Purchaser to complete the Merger and consummate the other transactions that are to be consummated at the Closing is subject to the satisfaction, as of the Closing Date, of the following conditions (any of which may be waived by Purchaser in whole or in part):

(a) Each of the representations and warranties of Holdings contained in this Agreement, to the extent qualified by Material Adverse Effect (except for representations and warranties made as of a specific date, which shall have been complete and accurate as of such date) shall be complete and accurate as of the Closing as if made as of the Closing, and, to the extent not qualified by Material Adverse Effect (except for representations and warranties made as of a specific date, which shall have been complete and accurate in all material respects as of such date) shall be complete and accurate in all respects as of the Closing as if made as of the Closing, except as would not have, individually or in the aggregate, a Material Adverse Effect; provided that the representations and warranties set forth in Sections 4.1(a), 4.1(b), 4.2, 4.3(a), 4.3(b) and 4.4, 4.4, 4.8(c), and 4.25 (collectively, the “Fundamental Representations”) shall be complete and accurate in all respects.

(b) Holdings shall have performed, in all material respects, all covenants and obligations required by this Agreement to be performed by Holdings on or before the Closing Date.

(c) No investigation, suit, action or other proceeding shall be threatened in writing or pending that seeks restraint, prohibition, damages, monetary relief or other relief in connection with this Agreement or the consummation of the transactions contemplated hereby.

(d) All waiting periods (and extensions thereof) under the HSR Act shall have expired or been terminated and all governmental and third-party authorizations, consents, permits, approvals or waivers listed on Schedule 7.1(d) (the “Required Consents”) shall have been obtained, shall be final and non-appealable and shall not have been terminated or withdrawn.

7.2 Conditions to Obligation of Holdings to Close. The obligation of Holdings to complete the Merger and consummate the other transactions that are to be consummated at the Closing is subject to the satisfaction, as of the Closing Date, of the following conditions (any of which may be waived by Holdings in whole or in part);

(a) Each of the representations and warranties of Purchaser and Merger Sub contained in this Agreement shall be complete and accurate in all material respects as of the Closing as if made as of the Closing.

(b) Purchaser shall have performed, in all material respects, all obligations required by this Agreement to be performed by Purchaser on or before the Closing Date.

(c) No investigation, suit, action or other proceeding shall be threatened in writing or pending that seeks restraint, prohibition, damages, monetary relief or other relief in connection with this Agreement or the consummation of the transactions contemplated hereby.

(d) All Required Consents shall have been obtained (or the applicable waiting period shall have expired) and shall not have been terminated or withdrawn.

Section 8. INDEMNIFICATION AND RELATED MATTERS

8.1 Survival; Claims Period.

(a) Subject to the Claims Period, all representations, warranties and covenants contained in this Agreement will survive the Closing and the completion of the transactions contemplated by this Agreement.

(b) Claims for indemnification pursuant to this Section 8 shall be made prior to the day that is twelve (12) month anniversary of the Closing Date (the “Claims Period”).³⁹

8.2 Indemnification.

(a) Subject to the terms, conditions and limitations set forth in this Agreement (including without limitation the provisions of Sections 8.3 and 8.6), the Holders shall, severally, and not jointly, indemnify and hold harmless Purchaser and its Affiliates (including, after the Closing Date, the Companies), and each of their respective officers, employees, directors, members, managers, equity holders, and agents (collectively, the “Purchaser Indemnified Parties”) from and against, and defend the Purchaser Indemnified Parties from and reimburse the Purchaser Indemnified Parties for, any and all claims, damages, costs, expenses (including costs of investigation and defense and reasonable attorneys’ fees), Taxes, penalties, obligations, and other liabilities (hereinafter referred to collectively as “Losses”), that any Purchaser Indemnified Party may at any time suffer or incur, or become subject to, as a result of, arising from or in connection with:

(i) any breach or inaccuracy of any of the representations and warranties made by Holdings in this Agreement disregarding, for purposes of determining the amount any Loss subject to indemnification hereunder, any Material Adverse Effect and other materiality qualifiers stated therein; and

(ii) any failure of Holdings to carry out, perform, satisfy and discharge any of its covenants, agreements or obligations under this Agreement or under any Transaction Documents.

³⁹ The escrow agreement will provide a release of the escrow amount at the first anniversary of closing, subject to holdback for the amount of any claims asserted but not resolved prior to such date.

(b) Subject to the terms, conditions and limitations set forth in this Agreement (including without limitation the provisions of Sections 8.3 and 8.6), Purchaser hereby agrees to indemnify and hold harmless Holders and each of their respective officers, employees, directors, members, managers, equity holders, and agents (collectively the “Holders Indemnified Parties”) from and against, and agrees to defend Holders Indemnified Parties from and reimburse Holders Indemnified Parties for, any and all Losses that any Holders Indemnified Party may at any time suffer or incur, or become subject to, as a result of, arising from or in connection with:

(i) any breach or inaccuracy of any of the representations and warranties made by Purchaser or Merger Sub in this Agreement; and

(ii) any failure by Purchaser or Merger Sub to carry out, perform, satisfy and discharge any of its covenants, agreements, or obligations under this Agreement or any Transaction Document.

8.3 Indemnification Limits and Qualifications.

(a) With respect to Purchaser Indemnified Parties’ claims for Losses pursuant to Section 8.2(a):

(i) Purchaser Indemnified Parties may not recover any Losses for claims for indemnity until the total of all Losses collectively exceed 1.00% of the Purchase Price Dollars—(\$[•](\$2,450,000)) (the “Basket”), in which case the Purchaser Indemnified Parties will only then be entitled to recover those any and all Losses in excess including the amount of the Basket, subject to the other limitations of this Section 8.3;

(ii) The Purchaser Indemnified Parties may not recover for any Losses, to the extent that the aggregate of all Losses otherwise required to be indemnified and paid hereunder exceed the Escrow Amount; ~~and~~

(iii) Purchaser Indemnified Party may not recover any Losses for any individual item where the Losses related to such claim (or series of claims arising from the same facts or circumstances) are less than 0.01% of the Purchase Price Dollars—(\$[•]24,500) in the aggregate.

(b) Notwithstanding any other terms in this Section 8, (i) Losses shall not include special, incidental, indirect, consequential, punitive or exemplary damages; and (ii) the limitations set forth in Section 8.3(a) shall not apply to claims for Losses arising from a breach of any Fundamental Representation or from a violation of Section 6.1(b)(i), Section 6.1(b)(xiii), or Section 10.1; provided, however, that in no case shall the aggregate liability of any Holder under this Section 8 exceed the amount of the Purchase Price otherwise payable to such Holder.¹⁰

¹⁰ PURCHASER NTD: Purchaser expects contractual protection to serve as a compliance back-stop on this very limited set of fundamental matters, all of which are within Carlyle’s control. We envision that Carlyle will provide that back-stop comfort, likely as a signatory to this Agreement for such purpose, but we remain open to discussing appropriate mechanics.

(c) The amounts for which Purchaser or Holders shall be liable under this Section 8 shall be net of any insurance proceeds actually received by the applicable Indemnified Party under insurance policies relating to such Losses; provided, that the amount of any insurance proceeds received by such Indemnified Party shall be equal to the difference between (i) the actual after-tax amount of such proceeds and (ii) the net present value (as determined by such Indemnified Party in good faith) of the aggregate incremental premium costs which are incurred by such Indemnified Party as a consequence of the Loss or event which gives rise to the payment of the insurance proceeds.

8.4 Claims Not Involving Third Parties. The Purchaser Indemnified Parties or Holders Indemnified Parties may assert a claim for indemnification against ~~Holdings~~the Holders or Purchaser (as the case may be) for any matter not involving a third party by giving notice to ~~Holdings~~CIP or Purchaser (as the case may be) specifying in reasonable detail (to the extent applicable) the basis for such claim and the reasonable estimate of the Losses resulting from such claim.

8.5 Third Party Claims.

(a) If any Purchaser Indemnified Party or Holders Indemnified Party (any such being an “Indemnified Party”) desires to make a claim for indemnification pursuant to this Section 8 arising from a claim by, or Loss from, a third party, such Indemnified Party shall notify the Purchaser (in the case of a claim by any Holders Indemnified Party) or Carlyle Infrastructure Partners Western Water L.P. (“CIP” and together with Purchaser the “Defending Party”) (in the case of a claim by any Purchaser Indemnified Party) of the claim (the “Indemnified Party Claim”) in writing promptly after receiving notice of any third party claim, liability, demand, assessment, action, suit or proceeding, describing the Indemnified Party Claim, the third party claim, the amounts thereof (if known and quantifiable) and the basis therefor (the “Indemnified Party Claim Notice”); provided, that the failure to so notify shall not relieve the Indemnitor of its obligations hereunder, except to the extent that the Defending Party is actually prejudiced thereby. The Purchaser (in the case of claim by a Holders Indemnified Party) or CIP (in case of claim by a Purchaser Indemnified Party) shall have the right and shall notify the Indemnified Party in writing, within thirty (30) days of receipt of the Indemnified Party Claim Notice, of its intent to assume the control of the defense of any such third party claims, including, at its own expense, employment of counsel reasonably satisfactory to the Indemnified Party (the “Indemnitor Defense Notice”).

(b) If the Defending Party shall have exercised its right to assume such control, the Indemnified Party may, in its sole discretion and at its expense, employ counsel to represent it (in addition to counsel employed by the Defending Party) in any such matter, and in such event counsel selected by the Defending Party shall be required to cooperate with such counsel of the Indemnified Party in such defense, compromise or settlement.

(c) In the event that the Defending Party delivers an Indemnitor Defense Notice, the Defending Party will have the right to conduct such defense and, except as

provided in the following sentence, to settle the claim without the prior consent of the Indemnified Party. Notwithstanding the foregoing, the Defending Party shall not consent to the entry of any judgment or enter into any settlement or compromise with respect to such Indemnified Party Claim without the prior written consent of the Indemnified Party, if:

(i) such judgment, settlement or compromise does not include, as an unconditional term thereof, the giving by each claimant or plaintiff to each Indemnified Party of a release from all liability with respect to such claim;

(ii) such judgment, settlement or compromise requires the admission by the Indemnified Party of any wrong doing on its part; or

(iii) as a result of such judgment, settlement or compromise, injunctive or other equitable relief would be imposed against the Indemnified Party.

(d) In the event that the Defending Party fails to give the Indemnitor Defense Notice within the thirty (30) days required by Section 8.5(a), the Defending Party will be deemed to have elected not to conduct the defense of the subject third party claim, and in such event the Indemnified Party will have the right to conduct such defense and to compromise and settle such claim without the consent of the Defending Party. The Indemnified Party shall have the right to compromise and settle the third party claim only with the prior written consent of the Defending Party, which consent shall not be unreasonably withheld, conditioned or delayed.

(e) The Indemnified Party will cooperate with and make available to the Defending Party such assistance and materials as the Defending Party may reasonably request, all at the expense of the Defending Party, and the Indemnified Party shall have the right at its expense to participate in the defense assisted by counsel of its own choosing.

(f) Notwithstanding who is controlling the defense or settlement of any third party claim, and without regard to who might be ultimately responsible for the liability related thereto, such party controlling the defense or settlement shall diligently and vigorously defend such claim (subject to the such party's right to settle such Indemnified Party Claim in accordance with the terms of this Section 8.5).

8.6 Exclusive Remedy and Other Limitations.

(a) Other than with respect to any Losses resulting from fraud, following the Closing, the remedies in this Section 8 shall be the exclusive remedy of ~~the parties,~~ Purchaser and each Holder with respect to monetary damages for breaches of representations, warranties and covenants. ~~Except and, except~~ as prohibited by applicable Law, ~~the parties hereto hereby waive and release~~ any other rights, remedies, causes of action, or claims that either of them have or that may arise against ~~any~~ the other ~~party~~ with respect thereto are hereby waived and released.

(b) Notwithstanding any provision in this Agreement to the contrary, but subject to Section 8.3(b), the Purchaser Indemnified Parties' sole remedy under and pursuant to this Section 8 shall be limited to distributions made from and available from the amounts deposited with and held by the Escrow Agent pursuant to the Escrow Agreement. ~~No~~Except as provided in Section 8.3(b), no Holder shall have any liability in excess of such amounts held by the Escrow Agent pursuant to the Escrow Agreement.

Section 9. TERMINATION

9.1 Termination. This Agreement may be terminated and the transactions contemplated hereby may be abandoned only as follows:

(a) at any time prior to the Closing by mutual written agreement of Holdings and Purchaser;

(b) by Holdings or Purchaser, if the Closing Date shall not have occurred by the 12-month anniversary of this Agreement (such date, as may be extended by the following proviso, the "End Date"); provided, however, that if all of the conditions in Section 7 have been satisfied other than those to be satisfied at Closing and the conditions in Section 7.1(d) and Section 7.2(d), the parties shall extend such deadline until the 18-month anniversary of this Agreement if the parties determine that it is reasonably likely that the conditions in Section 7.1(d) and Section 7.2(d) will in fact be satisfied during such extension period; provided, further, however, that the right to terminate this Agreement under this Section 9.1(b) shall not be available to any party whose failure to fulfill any obligation under this Agreement has been the cause of the failure to complete the Merger and consummate the other transactions contemplated hereby on or before the date specified in this Section 9.1(b);

(c) by Purchaser in the event of a breach by Holdings of any representation, warranty, covenant or agreement contained in this Agreement, which breach would, individually or in the aggregate together with all such other breaches by Holdings, constitute grounds for the conditions set forth in Section 7.1, not to be satisfied at the Closing Date, and which breach cannot be cured or has not been cured within ninety (90) days after the giving of written notice to Holdings of such breach;

(d) by Holdings in the event of a breach by Purchaser or Merger Sub of any representation, warranty, covenant or agreement contained in this Agreement, which breach would, individually or in the aggregate together with all such other breaches by Purchaser or Merger Sub, constitute grounds for the conditions set forth in Section 7.2 not to be satisfied at the Closing Date, and which breach cannot be cured or has not been cured within ninety (90) days after the giving of written notice to Purchaser of such breach; or

(e) by Purchaser or Holdings if any Governmental Entity shall have issued an Order or taken any other action permanently enjoining, restraining or otherwise prohibiting the transactions contemplated by this Agreement and such Order or other action shall have become final and non-appealable.

9.2 Rights on Termination; Waiver. If this Agreement is terminated pursuant to Section 9.1, all further obligations of the parties under or pursuant to this Agreement shall terminate without further liability of either party to the other, except that the provisions of this Section 9.2, and Section 10 shall survive any such termination. Nothing contained in this Section 9.2 shall relieve any party from liability for any willful or intentional breach of this Agreement that occurred prior to the date of termination.

Section 10. MISCELLANEOUS PROVISIONS

10.1 Expenses. Except as otherwise provided in this Agreement, ~~each party(a)~~ Purchaser shall bear ~~its respective~~all fees and expenses incurred by Purchaser or its Affiliates (other than the Companies) in connection with the preparation, negotiation, execution, and performance of this Agreement and the transactions contemplated herein, ~~including all fees and expenses of its Affiliates. The obligation of each party~~and (b) Holdings shall cause the Holders to bear, or to reimburse Holdings and the other Companies prior to the Effective Time for, all fees and expenses incurred by Holdings, any other Company, any Holder or any Affiliate thereof in connection with the preparation, negotiation, execution, and performance of this Agreement and the transactions contemplated herein. ~~The foregoing obligations of any Person~~ to bear ~~its own~~ fees and expenses shall be subject to any rights of such ~~party~~Person arising from a breach of this Agreement by another party.

10.2 Compliance with Laws. The parties hereto shall execute such agreements and other documents, and shall take such other actions, as the other party may reasonably request (prior to, at or after the Closing) for the purpose of ensuring that the transactions contemplated by this Agreement are carried out in full compliance with the provisions of all applicable Laws.

10.3 Publicity. Prior to the Closing, all general notices, releases, statements and communications to employees, suppliers, distributors and customers of each of the Companies and to the general public and the press relating to the transactions contemplated by this Agreement shall be made only at such times and in such manner as may be mutually agreed upon by Purchaser and Holdings; provided, however, that either Holdings or Purchaser shall be entitled to make a public announcement relating to the transactions contemplated herein if, in the opinion of its legal counsel, such announcement is required to comply with Law; provided, further, that, if possible, the announcing party shall provide the other party with a copy of such announcement at least two (2) days in advance and shall consider in good faith any changes to such announcement proposed by the other party. After the Closing, no party hereto shall disclose the economic or financial terms of the transactions contemplated by this Agreement without the prior written consent of the other party hereto, except as required to comply with applicable Law or stock exchange rules and regulations.

10.4 Access of Holdings to Books and Records. After the Closing Date and for a period consistent with Purchaser's record retention policies and practices, Purchaser shall provide Holdings and Holdings' Affiliates reasonable access upon reasonable advance notice during normal business hours to the Books and Records (to the extent such Books and Records relate to the period prior to the Closing Date).

10.5 Choice of Law. This Agreement shall be governed by and construed in accordance with the domestic laws of the State of Delaware without giving effect to any choice or conflict of law provision or rule (whether of the State of Delaware or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of Delaware.

10.6 Judicial Proceedings. ANY JUDICIAL PROCEEDING INVOLVING ANY DISPUTE, CONTROVERSY OR CLAIM ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY (EACH, A “DISPUTE”) SHALL BE BROUGHT ONLY IN THE COURT OF CHANCERY FOR THE STATE OF DELAWARE OR ANY FEDERAL COURT LOCATED IN THE STATE OF DELAWARE, AND EACH OF THE PARTIES HERETO (I) UNCONDITIONALLY ACCEPTS THE EXCLUSIVE JURISDICTION OF SUCH COURTS AND ANY RELATED APPELLATE COURT AND IRREVOCABLY AGREES TO BE BOUND BY ANY JUDGMENT RENDERED THEREBY AND (II) IRREVOCABLY WAIVES ANY OBJECTION SUCH PARTY MAY NOW HAVE OR HEREAFTER HAS AS TO THE VENUE OF ANY SUCH PROCEEDING BROUGHT IN SUCH A COURT OR THAT SUCH COURT IS AN INCONVENIENT FORUM. EACH PARTY HERETO IRREVOCABLY CONSENTS TO SERVICE OF PROCESS IN THE MANNER PROVIDED FOR NOTICES IN SECTION 10.8 HEREOF. NOTHING IN THIS AGREEMENT WILL AFFECT THE RIGHT OF ANY PARTY HERETO TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW.

10.7 Waiver of Jury Trial. THE PARTIES EACH HEREBY (A) ACKNOWLEDGE AND AGREE THAT ANY CONTROVERSY THAT MAY ARISE UNDER THIS AGREEMENT OR ANY TRANSACTION DOCUMENT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES, AND (B) WAIVE TRIAL BY JURY IN ANY JUDICIAL PROCEEDING INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTERS (WHETHER SOUNDING IN TORT, CONTRACT OR OTHERWISE) IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH THIS AGREEMENT, THE TRANSACTIONS OR THE RELATIONSHIP ESTABLISHED HEREUNDER. EACH PARTY (X) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF THE OTHER PARTIES HAS REPRESENTED, EXPRESSLY OR OTHERWISE THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (Y) ACKNOWLEDGES THAT IT HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 10.7.

10.8 Notices. All notices, requests, claims, demands, disclosures and other communications required or permitted by this Agreement shall be in writing or electronic form and shall be deemed to have been given at the earlier of the date (a) when delivered personally, by messenger or by overnight delivery service by a recognized commercial carrier to an officer of the other party or (b) when received via facsimile or electronic mail (confirmed by telephone or email in each case), in all cases addressed to the Person for whom it is intended at his address set forth below or to such other address as a party shall have designated by notice in writing to the other party in the manner provided by this Section 10.8:

if to Purchaser or Merger Sub:

[PURCHASER ADDRESS]

Liberty Utilities Co.
c/o Algonquin Power & Utilities Corp.
2845 Bristol Circle
Oakville, Ontario L6H 7H7
Attn: Chief Executive Officer
Fax: (905) 465-4514
Email: ian.robertson@algonquinpower.com

with a copy to (which shall not constitute notice):

[PURCHASER COUNSEL]

Liberty Utilities Co.
c/o Algonquin Power & Utilities Corp.
2845 Bristol Circle
Oakville, Ontario L6H 7H7
Attn: Chief General Counsel
Fax: (905) 465-4540
Email: linda.beairsto@algonquinpower.com

and with a copy to (which shall not constitute notice):

Husch Blackwell LLP
Attention: James G. Goetsch
4801 Main Street, Suite 1000
Kansas City, Missouri 64112
Fax: (816) 983-8080
e-mail: jim.goetsch@huschblackwell.com

if to Holdings or CIP:

[WESTERN WATER]

with a copy to (which shall not constitute notice):

Hunton & Williams LLP
Attention: G. Roth Kehoe, II
Bank of America Plaza
600 Peachtree Street, N.E., Suite 4100
Atlanta, Georgia 30308
e-mail: rkehoe@hunton.com

10.9 Table of Contents and Headings. The table of contents of this Agreement and the underlined headings contained in this Agreement are for convenience of reference only, shall not

be deemed to be a part of this Agreement and shall not be referred to in connection with the construction or interpretation of this Agreement.

10.10 Assignment. This Agreement and each party's respective rights and obligations hereunder may not be assigned, by operation of Law or otherwise, without the prior written consent of the other parties and any attempt to do so shall be null and void. This Agreement shall be binding upon and inure solely to the benefit of the parties hereto and their respective successors and permitted assigns.

10.11 Parties in Interest. Nothing in this Agreement is intended to provide any rights or remedies to any Person (including any employee or creditor of the Companies) other than the parties hereto, Purchaser Indemnified Parties and Holders Indemnified Parties.

10.12 Severability. Any term or provision of this Agreement that is invalid or unenforceable in any situation in any jurisdiction shall not affect the validity or enforceability of the remaining terms and provisions hereof or the validity or enforceability of the offending term or provision in any other situation or in any other jurisdiction. If the final judgment of a court of competent jurisdiction declares that any term or provision hereof is invalid or unenforceable, the parties hereto agree that the court making such determination shall have the power to limit the term or provision, to delete specific words or phrases, or to replace any invalid or unenforceable term or provision with a term or provision that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforceable term or provision, and this Agreement shall be enforceable as so modified. In the event such court does not exercise the power granted to it in the prior sentence, the parties hereto agree to replace such invalid or unenforceable term or provision with a valid and enforceable term or provision that will achieve, to the extent possible, the economic, business and other purposes of such invalid or unenforceable term.

10.13 Entire Agreement. This Agreement and the documents referred to herein and to be delivered pursuant hereto constitute the entire agreement between the parties pertaining to the subject matter hereof and supersede all other agreements, negotiations, understandings and discussions of the parties, whether oral or written.

10.14 Further Assurances. In case at any time after the Closing any further action is necessary or desirable to carry out the purposes of this Agreement, each party to this Agreement shall take all such reasonable necessary action to (a) execute and deliver to each other such other documents and (b) do such other acts and things as a party may reasonably request for the purpose of carrying out the intent of this Agreement and the documents referred to in this Agreement.

10.15 Waiver. No failure on the part of either party hereto to exercise any power, right, privilege or remedy under this Agreement, and no delay on the part of either party hereto in exercising any power, right, privilege or remedy under this Agreement, shall operate as a waiver thereof; and no single or partial exercise of any such power, right, privilege or remedy shall preclude any other or further exercise thereof or of any other power, right, privilege or remedy.

10.16 Counterparts. This Agreement and other documents to be executed and delivered pursuant to this Agreement may be executed in one or more counterparts, each of which will be

deemed to be an original copy and all of which, when taken together, will be deemed to constitute one and the same Agreement or document. The delivery of copies of this Agreement or other documents to be delivered pursuant to this Agreement, including executed signature pages where required, by electronic transmission will constitute effective execution and delivery of this Agreement or such other document for all purposes. Signatures transmitted electronically will constitute original signatures for all purposes.

10.17 Amendments. This Agreement may not be amended, modified, altered or supplemented except by means of a written instrument executed on behalf of both Purchaser and Holdings.

10.18 Interpretation of Agreement.

(a) Each party hereto acknowledges that it has participated in the drafting of this Agreement, and any applicable rule of construction to the effect that ambiguities are to be resolved against the drafting party shall not be applied in connection with the construction or interpretation of this Agreement.

(b) Whenever required by the context hereof, the singular number shall include the plural, and vice versa; the masculine gender shall include the feminine and neuter genders; and the neuter gender shall include the masculine and feminine genders.

(c) As used in this Agreement, the words “include” and “including,” and variations thereof, shall not be deemed to be terms of limitation, and shall be deemed to be followed by the words “without limitation.”

(d) References herein to “Sections” and “Exhibits” are intended to refer to Sections of and Exhibits to this Agreement.

(e) All references to “\$” shall refer to United States dollars.

(f) All references to contracts, agreements, leases or other understandings or arrangements shall refer to oral as well as written matters.

(g) The table of contents and article and section headings in this Agreement are inserted for convenience of reference only and shall not constitute a part hereof.

10.19 Specific Performance. The parties hereto agree that irreparable damage would occur in the event any of the provisions of this Agreement were not performed in accordance with the terms hereof and that each party shall be entitled to specific performance of the terms hereof, in addition to any other remedy at law or in equity. It is accordingly agreed that each party shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement, this being in addition to any other remedy to which such party is entitled at law or in equity, without the necessity of posting bonds or other undertaking in connection therewith. The parties hereto acknowledge that in the absence of a waiver, a bond or undertaking may be required by a court and the parties hereby waive any such requirement of such a bond or undertaking.

10.20 Independence of Agreements, Covenants, Representations and Warranties. All agreements and covenants hereunder shall be given independent effect so that if a certain action or condition constitutes a default under a certain agreement or covenant, the fact that such action or condition is permitted by another agreement or covenant shall not affect the occurrence of such default.

10.21 Representation of Holdings, the Companies and their Affiliates. The parties agree that, notwithstanding the fact that Hunton & Williams LLP may have represented Holdings, the Companies and/or their Affiliates in connection with this Agreement, and may have also represented Holdings, the Companies and/or their Affiliates in connection with matters other than the transaction that is the subject of this Agreement prior to the Closing, Hunton & Williams LLP will be permitted in the future, after the Closing, to represent one or more of such Affiliates, or their respective equity holders, officers, directors or managers in connection with matters in which such Affiliates or their respective equity holders, officers, directors or managers are adverse to Holdings, the Companies or any of their Affiliates, including without limitation any disputes that such Affiliates or their respective equity holders, officers, directors or managers may hereafter have against Holdings, the Companies and/or their Affiliates relating to a period following the Closing and/or with Purchaser, in each case which arise out of or relate to this Agreement. Purchaser, who is represented by independent counsel in connection with the transactions contemplated by this Agreement, hereby agrees, in advance, to waive any actual or potential conflict of interest that may hereafter arise in connection with Hunton & Williams LLP's future representation of one or more of Holdings' or the Companies' Affiliates or their respective equity holders, officers, directors or managers on matters in which the interests of such Affiliate or their respective equity holders, officers, directors or managers are adverse to the interests of Holdings, the Companies and/or Purchaser, including any matters that arise out of this Agreement or that are substantially related to this Agreement or to any prior representation by Hunton & Williams LLP of Park Water, the Companies and/or their Affiliates. The parties further agree that notwithstanding any Law to the contrary, all confidential communications between Hunton & Williams LLP, on the one hand, and Holdings, the Companies and/or their Affiliates or their respective equity holders, officers, directors or managers, on the other hand, that occurred in the context of Hunton & Williams LLP's representation of Holdings or the Companies prior to Closing ("Confidential Communications") will remain privileged as between Hunton & Williams LLP and such Affiliate(s) or their respective equity holders, officers, directors or managers after the Closing. The parties agree that prior to the Closing, Holdings, the Companies and/or their Affiliates or their respective equity holders, officers, directors or managers shall attempt to delete or otherwise remove from Holdings' and the Companies' computer server(s) and/or other records all copies of emails and other documents (both electronic or otherwise) that contain Confidential Communications, and the parties further agree that if Holdings, the Companies and/or their Affiliates or their respective equity holders, officers, directors or managers fail to delete or remove all such documents, such failure shall be deemed inadvertent and shall not constitute a waiver of the attorney client privilege or any other privilege applicable to such documents. Holdings, the Companies and the Purchaser hereby further agree that: (i) they will not seek disclosure of any such Confidential Communications from Hunton & Williams LLP, or from such Affiliates or their respective equity holders, officers, directors or managers after the Closing, in the context of litigation or otherwise; or (ii) to the extent any emails or other documents (ether electronic or otherwise) containing any Confidential Communications are included in Holdings' or the Companies' computer server(s) or are

otherwise within the records of Holdings or any Company following Closing, they will, upon discovery of any such documents, deliver a copy of any such documents to Hunton & Williams LLP and thereafter permanently delete or destroy all such emails or other documents containing such Confidential Communication and not review or otherwise use such documents or the Confidential Communications for any purpose.

*The remainder of this page intentionally left blank.
Signature page follows.*

Purchaser and Holdings have caused this Plan and Agreement of Merger to be executed as of the date first written above.

~~[PURCHASER]~~
LIBERTY UTILITIES CO.

By: _____
Name:
Title:

By:
Name:
Title:

LIBERTY WWH, INC.

~~[MERGER SUB]~~

By:
Name:
Title:

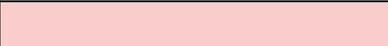
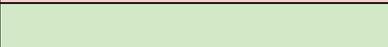
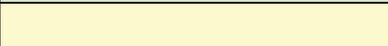
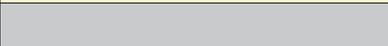
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WESTERN WATER HOLDINGS, LLC

By: _____
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| Admin Asst 3 | 2 |
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| Benefits Manager | 2 |
| CEO | 3 |
| CIO | 3 |
| Civil Eng Intern | 2 |
| Corp Chief Eng Asst VP | 4 |
| Corp-Eng Emeritus | 3 |
| CS Engineer | 2 |
| CSS | 3 |
| Dir Acctg | 5 |
| Dir IT | 2 |
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| Director of HR | 3 |
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| Eng Tech 2 | 2 |
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| Enterprise App Mgr | 3 |
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| Corp Chief Eng Asst VP | 4 |
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| CS Engineer | 2 |
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Project Orchard Management Presentation

July / August 2014



WWH001028

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Park Water's Executive Management Team



Christopher Schilling

- Chief Executive Officer



Leigh Jordan

- Executive Vice President



Chris Alario

- Senior Vice President of Corporate Development



Jeanne-Marie Bruno

- Senior Vice President & General Manager of Park Central Basin



John Kappes

- President & General Manager of Mountain Water Company



Antonio "Tony" Penna

- Vice President & General Manager of Apple Valley Ranchos Water Company



Rick Dalton

- Assistant Vice President & Chief Engineer

Agenda

1. Park Water Company Overview
2. Park Central Basin
3. Apple Valley
4. Mountain Water
5. Corporate Group
6. Growth Opportunities
7. Regulation and Ratemaking
8. Financial Summary



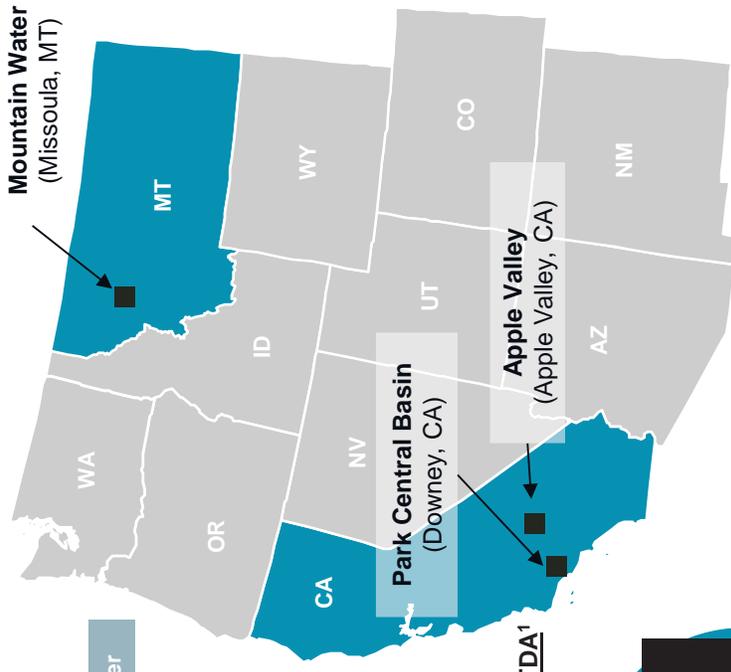
Park Water Company Overview



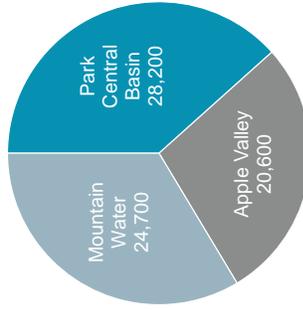
Park Water Company Overview

- Park Water owns three regulated utilities serving a population of 266,700 in California and Montana

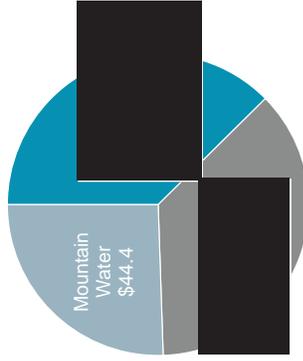
| | Park Central Basin | Apple Valley | Mountain Water |
|---------------------------|--------------------|--------------|----------------|
| 2013 Customer Connections | 28,200 | 20,600 | 24,700 |
| Population Served | 133,000 | 61,700 | 72,000 |
| Year Established | 1937 | 1947 | 1885 |
| Year Acquired | N/A | 1987 | 1979 |



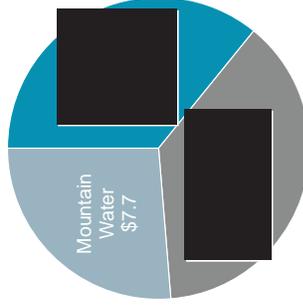
2013A Customer Connections
(73,500)



2015E Rate Base
(\$174.0MM)



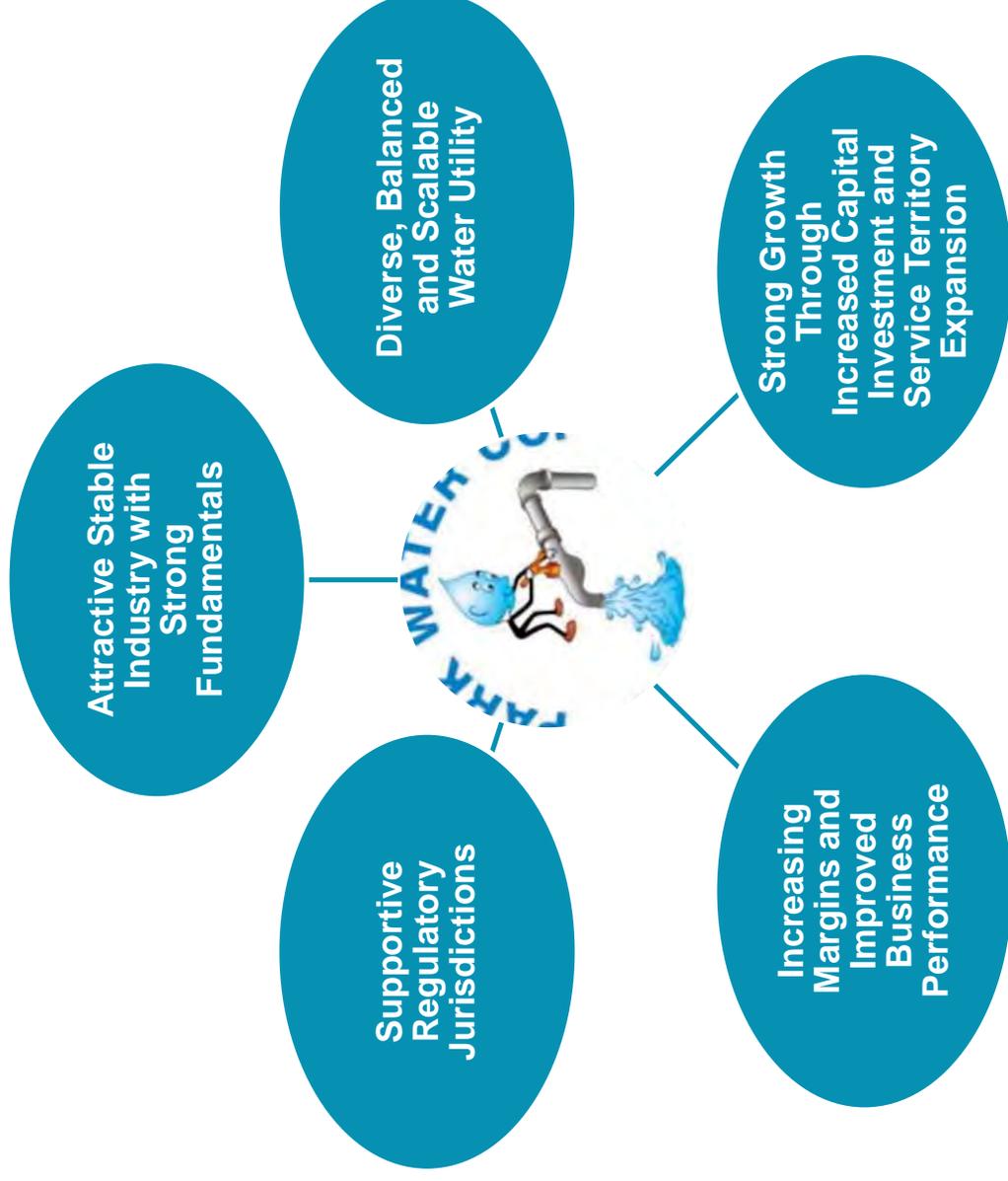
2015E Regulated EBITDA¹
(\$29.3MM)



¹ Excludes other income and expenses (net)



Investment Highlights



Four Corners of Operating Strategy



Financial Performance

- Operational focus on earning authorized return
- Comprehensive identification of future costs for effective ratemaking
- Margin improvement driven by revenue growth and expense reduction
- Year-on-year earnings growth performance objective

Growth

- Historical capital investment insufficient for sustaining reliable operations
- Investment program expanded significantly using existing in-house resources
- \$200MM six year investment program
- Organic customer growth and expense controls offset customer rate increases
- Established commercial focus on regulated and market based opportunities

Operational Excellence

- Strong culture of safety and service
- Operational effectiveness complimented with focus on efficiency
- Heightened reporting and accountability (Measure, Benchmark, Improve, Repeat)
- Streamlined decision making to increase organizational responsiveness
- Process review and changes coupled with enabling technology

Stakeholder Engagement

- Customer service driven organization
- Largely mirrored industry "heads down" operational focus
- General managers are ambassadors with local officials, organizations and media
- Formalized employee talent management
- Philanthropy and supplier diversity locally driven

[PAGES 9 – 26 REDACTED]

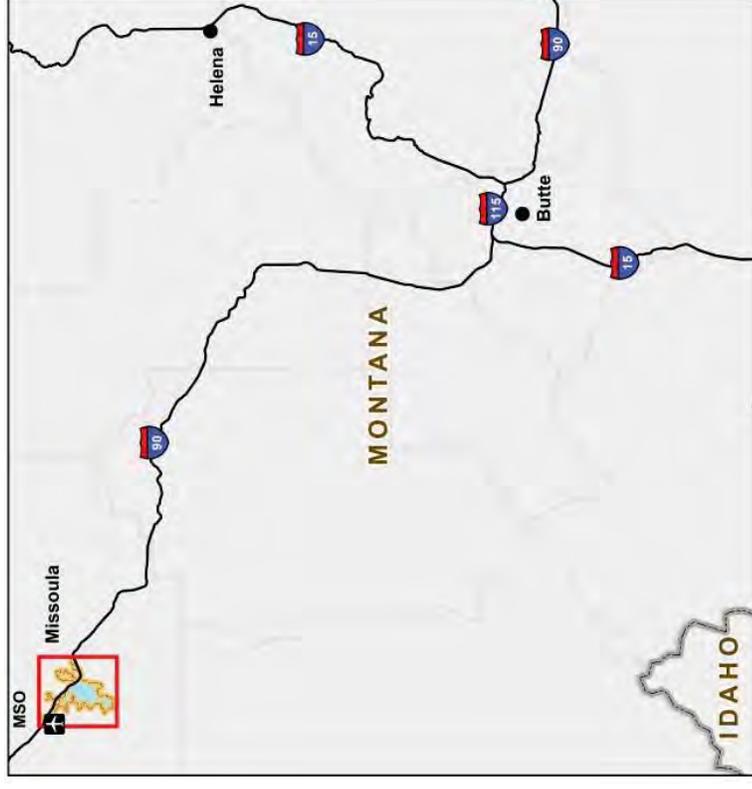
Mountain Water



Mountain Water Overview



- 24,700 connections mostly located within Missoula, Montana
 - 27 square mile territory serving a population of 72,000
- Missoula is Montana's second largest city
 - Major trade and service area for surrounding 11 counties
 - Healthcare, retail, tourism (fly fishing, skiing, etc.) and education provide economic stability
 - Home to the University of Montana - 15,000 students
- Unemployment rate of 4.4% is well below the 5.8% state and 6.8% national averages
- Missoula Valley market very fragmented and comprised of 134 small water systems



General Manager: John Kappes

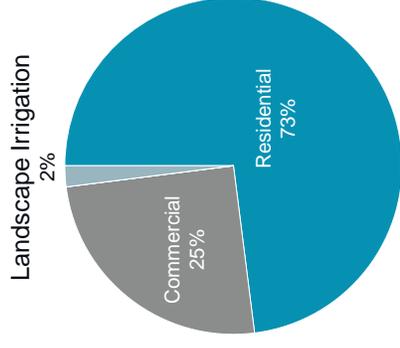
- Joined Mountain Water in 1990
- 24 years of utility operations and regulatory experience
- Certified Public Accountant (MT)

Mountain Water Customers



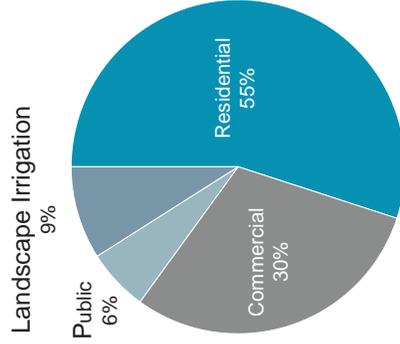
- Growing metropolitan area with predominantly residential and small commercial customers
 - Univ. of MT contributed 2% of 2013 revenue
- Strong pipeline of residential construction
- Missoula Economic Partnership focuses on bringing regional business into the Missoula area
- Average monthly residential consumption is 10 ccf
 - \$45.87 average monthly bill
- Net write-offs decreased from 0.24% in 2011 to 0.09% in 2013

Predominantly Residential Customers

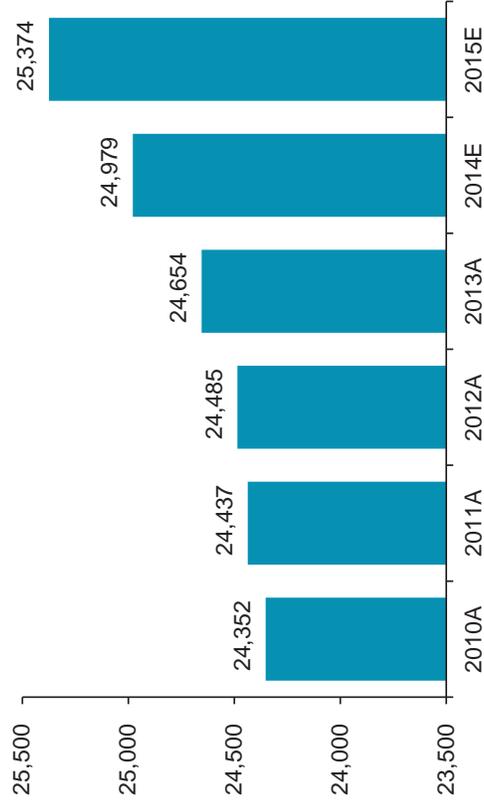


3,500 Flat Rate Connections
(14% of 2013 total connections of 24,700)

Revenue by Customer Class



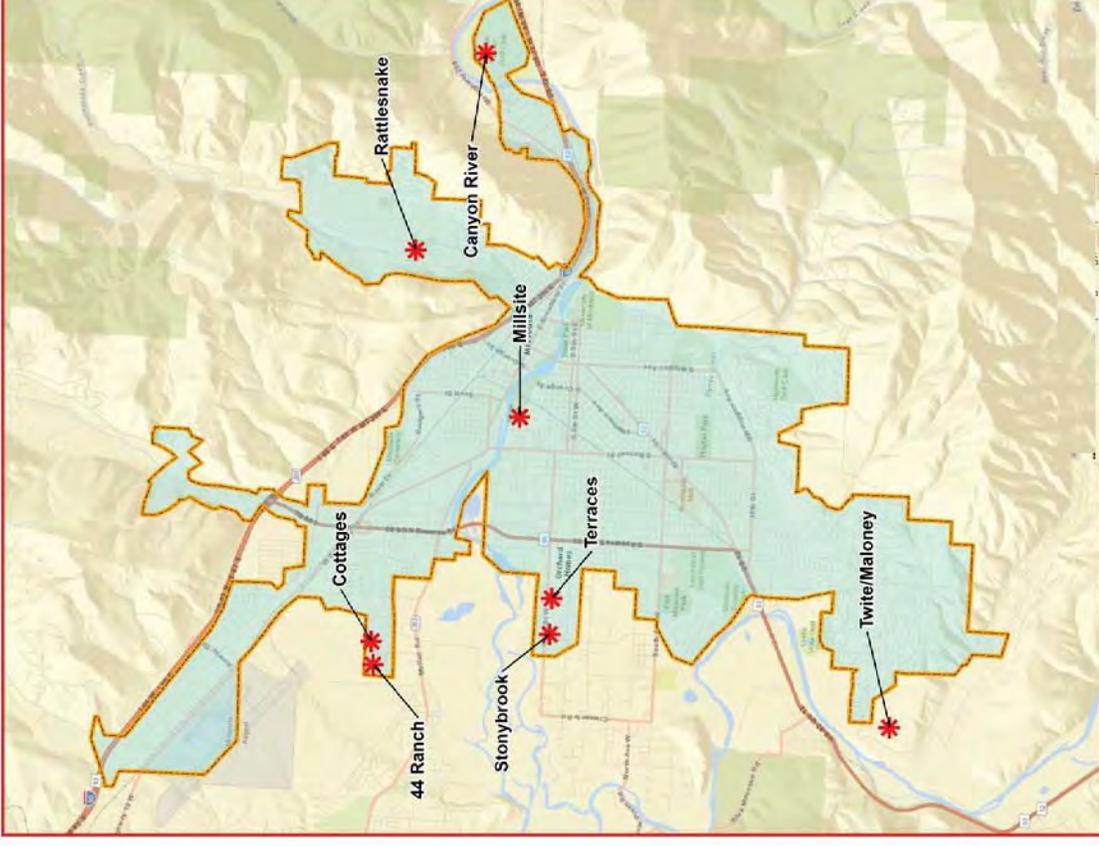
Customer Connections





Mountain Water Customer Growth

- 2,500 new connections projected through 2019E (10% aggregate growth)
- Seven active development projects with potential build-out of over 3,200 connections
- Strong pipeline of residential construction
- \$5.2MM in advances YTD 2014
- \$16.4MM developer-funded capital improvements projected through 2019E



| Projects | Connections |
|---|----------------|
| Twite/Maloney | 1,819 |
| Millsite | 500 |
| 44 Ranch | 545 |
| Canyon River | 270 |
| Stonybrook | 40 |
| Terraces | 20 |
| Cottages | 17 |
| Rattlesnake Townhomes | 12 |
| Total Connections at Build Out | 3,223 |
| Total Advances Under Contract YTD 2014 (\$ in 000) | \$5,200 |

Mountain Water Infrastructure

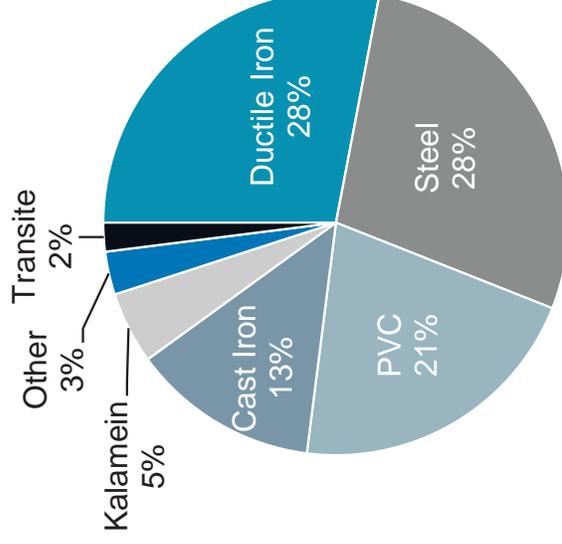


- Through SCADA, Mountain Water remotely controls operations, production, treatment, distribution and storage and monitors pressure, flow and disinfectant concentrations
- Mountain Water manages 10.1MM gallons of storage capacity and maintains eight wilderness dams for emergency supply

Summary Utility Infrastructure

| | |
|---|--------|
| Operating Wells (Excluding standby wells) | 35 |
| Average Age of Wells (Years) | 43 |
| Production Capacity (Gallons per minute) | 48,600 |
| Interconnections | - |
| Total Pipeline Miles | 320 |
| Average Age of Pipelines (Years) | 38 |
| Storage Capacity (Million gallons) | 10.1 |
| Fire Hydrants | 1,400 |
| Valves | 5,700 |

Pipeline Material Breakdown



Mountain Water Supply and Quality



- Mountain Water has ample water rights to serve existing demand and near-term expansion

Supply Operations

- Provided entirely from ground water sources
 - 35 active wells with an average age of 43 years
 - 52 booster pumps, 21 booster stations and 43 pressure zones
 - 48,600 gallons per minute production capacity

Missoula Aquifer

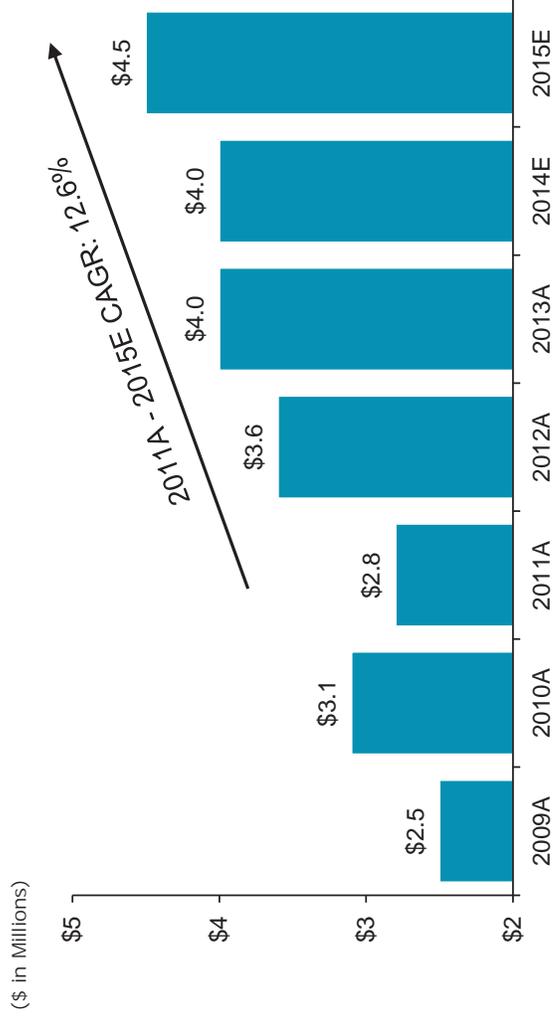
- Source of groundwater
- Exceptional groundwater quality due to recharge sources, namely the Clark Fork and Bitterroot River Basins
- Prolific and fast moving
- Protected by the local Wellhead Protection Program
- Dedicated as a Sole Source Aquifer by the EPA



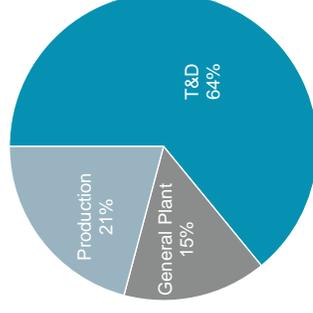
Mountain Water Capital Investment

- Comprised of small-scale projects including main replacement, production and storage facilities, operation facility upgrades, SCADA and technology enhancements
- 13 miles of Kalamein main and 99 miles of thin walled steel main targeted for eventual replacement

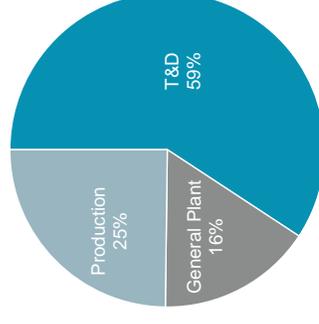
Company Funded Capital Investment



2011 - 2013 Total: \$10.4MM



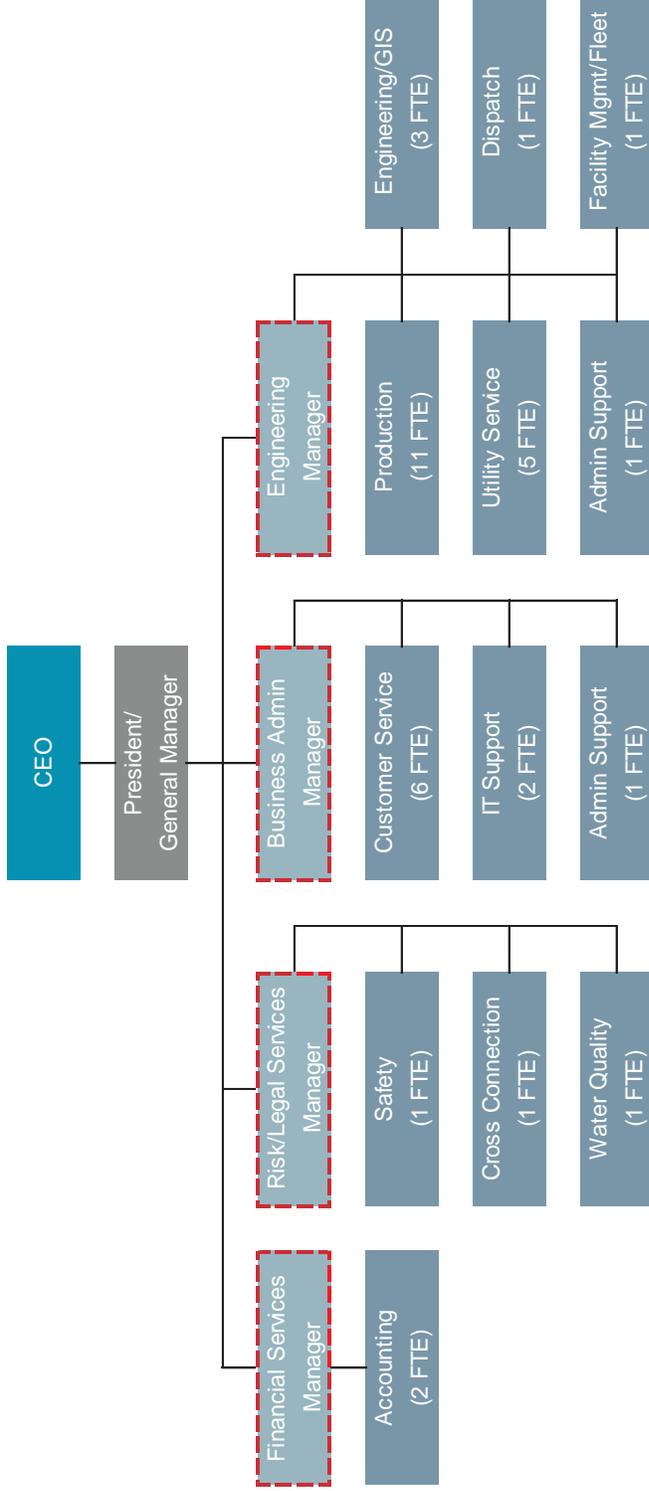
2014E - 2015E Total: \$8.5MM





Mountain Water Organization Structure

- 41 employees across ten functional areas located in the Missoula, MT office



Dashed red boxes denote matrix reporting relationship to Park Corporate Executive



Mountain Water Condemnation

| | |
|-----------------------------|---|
| Montana Requirements | <ul style="list-style-type: none">▪ City must prove a city-owned system is a <u>more necessary public use</u> than current use▪ City must prove it is <u>more qualified to own</u> and run the system▪ In Montana, the burden of proof is on the condemning party (City)▪ If unsuccessful, or successful and value determined to be greater than \$50MM, City required to pay Mountain Water's legal fees |
| 1980's Attempt | <ul style="list-style-type: none">▪ The City attempted to condemn Mountain Water in the mid 1980's▪ The City failed in its argument to the Montana District and Supreme Courts that municipal ownership is more necessary than its current use▪ The City was required to pay Mountain Water's legal fees |
| Current Proceedings | <ul style="list-style-type: none">▪ Two-phased process with "necessity trial" followed by valuation hearing and / or jury trial (Mountain Water and Carlyle named defendants)<ul style="list-style-type: none">○ Necessity trial date set for March 2015; discovery phase in process▪ Black & Veatch engaged to perform replacement cost less depreciation valuation▪ Employees granted intervenor status in opposition of the City<ul style="list-style-type: none">○ Granted same status in 1980's attempt▪ PSC voted 5 - 0 to intervene in opposition of City▪ Mountain Water believes the City will have difficulty proving necessity and qualification (no major changes in laws and situation since 1980's) |
| 2011 Agreement | <ul style="list-style-type: none">▪ Agreement between City and Carlyle (Mountain Water and Park Water are not parties)▪ The City was notified on May 21, 2014 that Park Water is proposed to be sold▪ Started the 120 day notice period |

Corporate Group





Corporate Group Overview

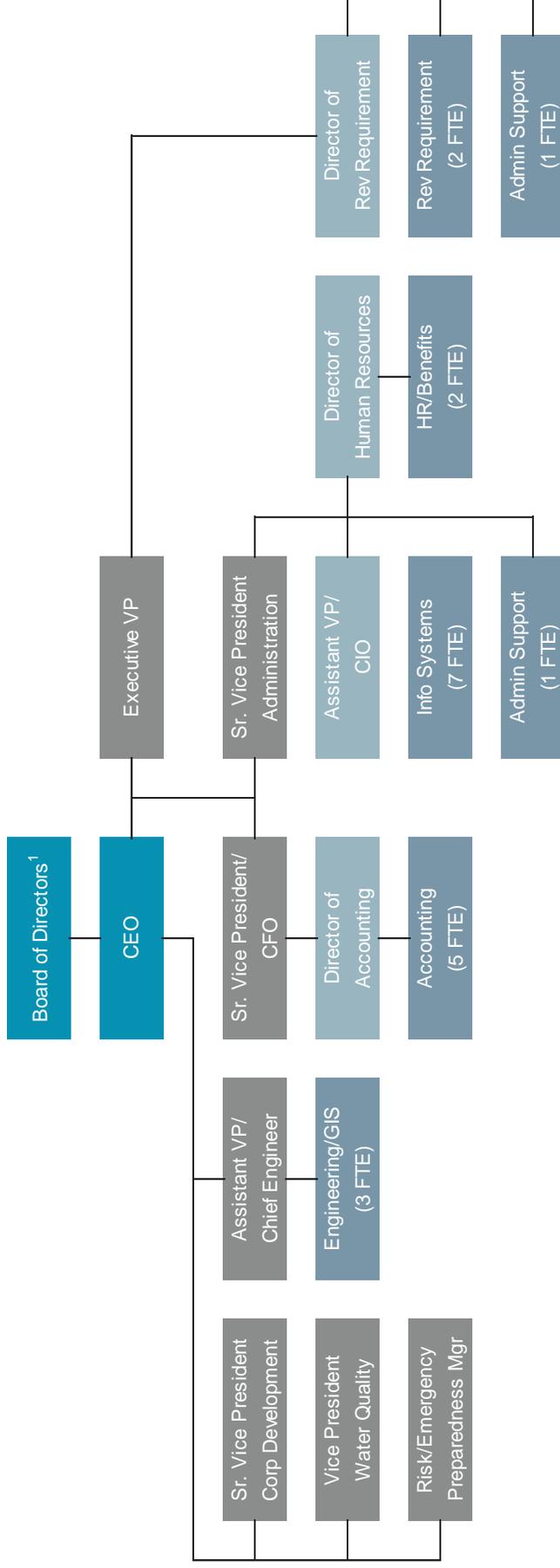
- Provides centralized administrative and professional services to utility operations
- Ensures effective internal control processes and compliance with Company policies as well as regulations
- Ability to increase scale to support strategic growth and efficiently integrate utility acquisitions





Corporate Group Organization Structure

- 33 employees across nine functional areas make up the Corporate Group

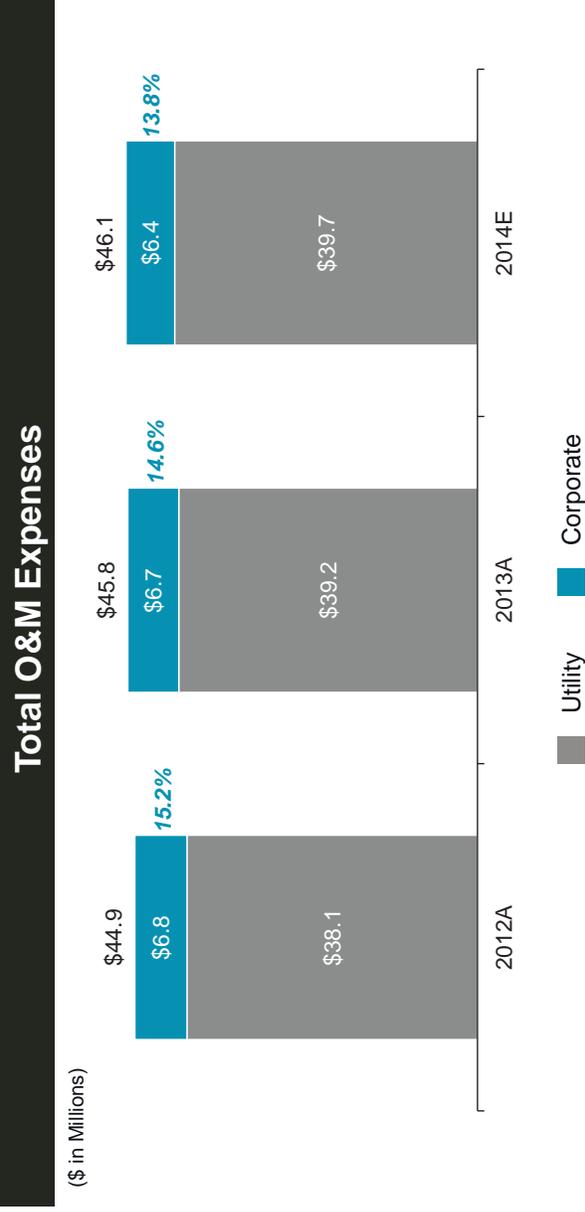


¹ The four member board includes three appointed by Carlyle and one independent



Corporate Group Expenses

| Corporate Allocation Expenses | | | |
|--------------------------------|----------------|----------------|----------------|
| | 2012A | 2013A | 2014E |
| Payroll | \$3,778 | \$3,708 | \$3,749 |
| Employee Benefits | 1,202 | 1,152 | 744 |
| Operations & Maintenance | 428 | 486 | 490 |
| Professional Services | 616 | 519 | 547 |
| Administrative & General | 554 | 577 | 605 |
| Taxes Other Than Income | 245 | 236 | 243 |
| Total Corporate O&M | \$6,822 | \$6,679 | \$6,379 |





Executive Team

- 31 years of average industry experience
- Diverse professional backgrounds
- Extensive water utility operational and financial experience
- Commercial focus





Information Technology

Customer Information

- Comprehensive CIS with field mobile and web portal capabilities

Financial Management

- Oracle / JD Edwards
- 13 financial management IT modules including AP, GL, AR, Inventory, Purchasing, Job Cost, HR, Fixed Assets, etc.

Cloud-Based Technology

- Disaster Recovery: Critical system backup every four hours
- Vehicle Tracking
- Emergency Dial-Out: Messaging to employees and customers

Automatic Meter Reading (AMR)

- AMR and interactive voice response for customer calls have reduced the labor required to achieve equivalent service levels
- Virtually all of the three utilities meters have been converted to AMR

SCADA / GIS

- All utility operations are monitored and controlled remotely through SCADA
 - Including production, treatment, distribution and storage
- Pressure, flow, and disinfectant and fluoride concentrations are also monitored through SCADA
- Reduced required labor hours and vehicle mileage

Environmental and Legal



- Currently not involved in any environmental issues or under investigation for any potential violations
- In accordance with the federal Safe Drinking Water Act, the Clean Water Act, the Public Health Security and Bioterrorism Preparedness and Response Act
- In compliance with all federal and state drinking water standards



- Effective July 1, 2014, the California State Water Resources Control Board Division of Drinking Water established a maximum contaminant level for hexavalent chromium
- No wells owned by Park Central Basin or Apple Valley will be impacted by this legislation

- No material outstanding legal proceedings besides the condemnation in Missoula, MT

Growth Opportunities

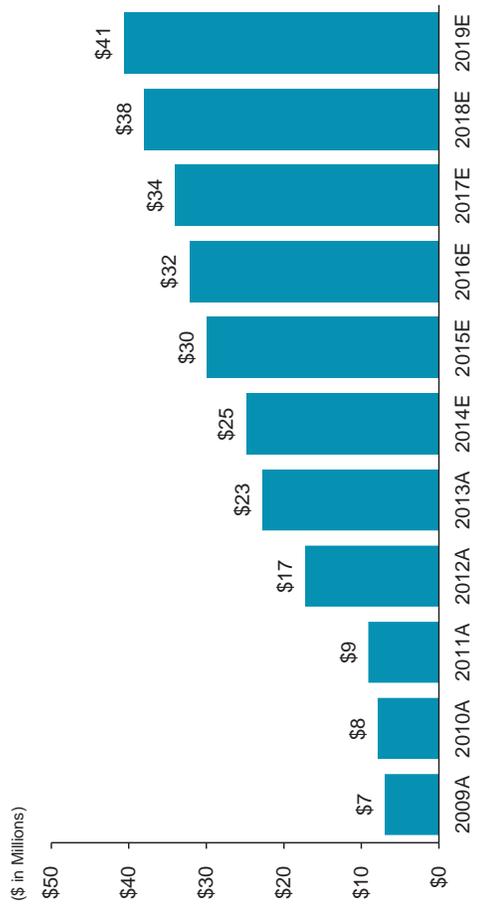
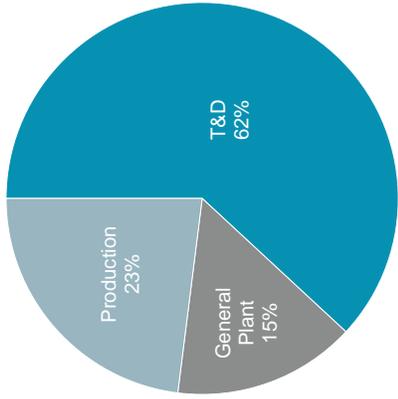
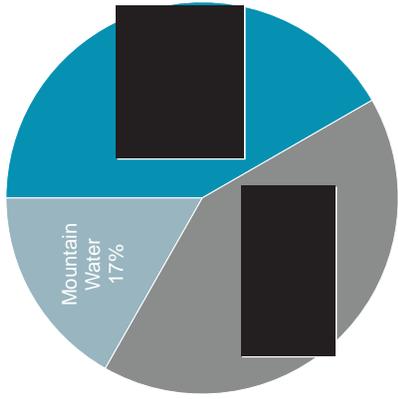


Company Funded Capital Investment

- Company plans to invest over \$200MM to replace critical system infrastructure while also expanding transmission and storage capabilities
- Top capital priorities
 - Replace / upgrade distribution / transmission system capabilities at [REDACTED]
 - [REDACTED]
 - Expand main replacement programs at [REDACTED] and Mountain Water
 - Continued investments in technology to improve reliability, efficiency and documentation
- Lack of large, high risk projects provides flexibility and limits regulatory risk

2014E - 2019E Capital Investment

Total: \$200MM





Asset Replacement Cycle

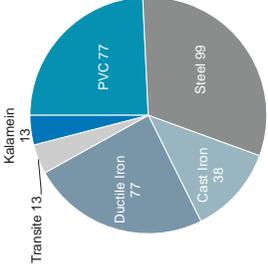
Capital Investment Plan Miles of Main

| | |
|-------------------------------|--|
| <p>Park Central Basin</p> | |
|-------------------------------|--|

| | |
|---------------------|--|
| <p>Apple Valley</p> | |
|---------------------|--|

| | |
|-----------------------|---|
| <p>Mountain Water</p> | <ul style="list-style-type: none"> Targeting thin walled steel (invasion pipe, 5 miles inventory) and Kalamein pipe (13 miles of inventory) replacement to reduce overall leakage rate <ul style="list-style-type: none"> >0.5% replacement rate Replacing and upsizing storage and pumping facilities Support studies: system leakage report; energy efficiency study; Rattlesnake Dam study |
|-----------------------|---|

320 miles



Leak Reduction Initiative



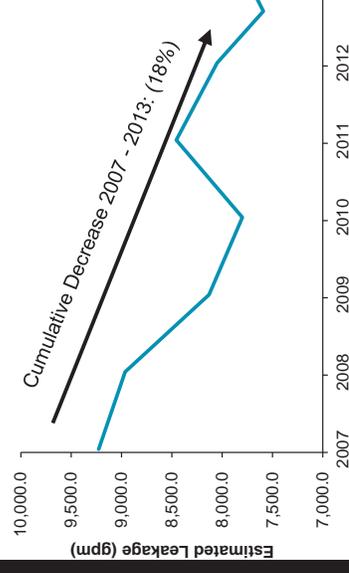
- Pipeline prioritization replacement programs have resulted in a reduction in main water leaks and water loss
- Pipeline replacement considerations also include failure consequences; upsizing needs; work by others

Park Central Basin

Apple Valley

Mountain Water

- Customers own service lines from main, providing little incentive to repair service lines if leakage occurs prior to meter
- Leak detection program has resulted in a 18.2% reduction in water loss since 2007
- Historical high leakage attributed to faulty mains and service lines with few leaks surfacing due to very porous soil conditions

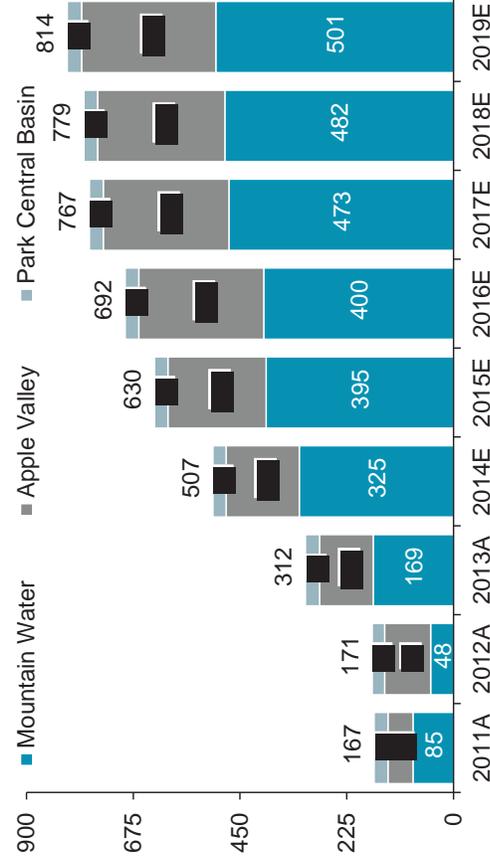


Organic Customer Growth

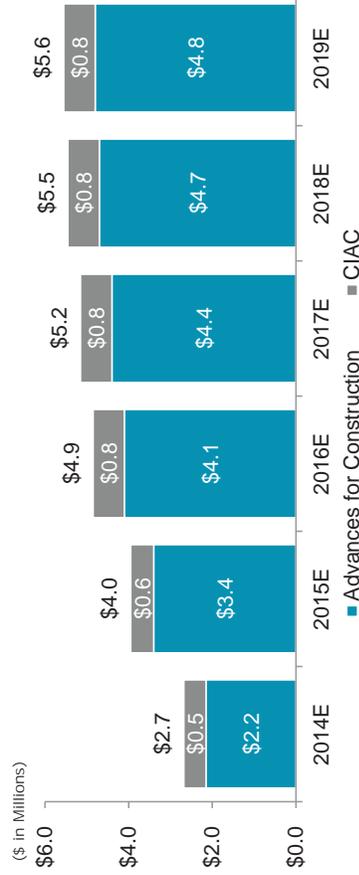


- Customer growth slowed but remained positive during the recent economic downturn
- Mountain Water and Park Central Basin growth has increased in recent years
- Requests for main extensions and connections have increased significantly
- Over 4,200 new connections are projected to be added in 2014E - 2019E
- \$28MM forecasted in developer-funded system improvements through 2019E

Forecasted New Connections



Developer-Funded Capital Investment





Strategic Growth

Greater Commercial Focus

- Developed internal commercial process to evaluate and pursue opportunity targets
- Expanded strategic relationships
- Increased market presence
- Company well positioned to be an opportunistic player in the market

Growth Strategy

- [Redacted]
- Leverage competitive advantages / relationships to support growth in proximity to footprint
- Pursue strategic acquisitions
- Selectively pursue market-based opportunities with strong strategic fit and capital investment potential

Strategy is Producing Results

- [Redacted]
- [Redacted]
- Numerous strategic targets under development
- Financial model does not reflect any future strategic growth

Expanding Market-Based Services



- Focused on expanding market-based services to complement core related business

Contract O&M Services

- Expanded business with CBMWD (Century System) with addition of the Rio Hondo Recycled Water System contract
- Annual revenues to increase from \$300K to \$700K
- Strong potential to generate additional annual revenues by supporting CBMWD in new customer development and capital improvements



Central Basin
Municipal Water District

HomeServe

HomeServe USA®



- Mountain Water is finalizing a license agreement and plans to provide HomeServe service in 2015
- Expect program to deliver steady year-over-year growth

Regulation and Ratemaking

Supportive Regulatory Environment



- Constructive state regulation allows for predictable business planning and capital investment
 - Alternative revenue policies facilitate prudent capital investment and limit cash flow volatility
- Regulatory pass-through mechanisms enable timely cost recovery and mitigate production and conservation risks
 - Provide more stable investment environment and lower customer rates

California

- Required to file a general rate case (GRC) every three years using forecasted test year model to set rates for subsequent three years (General Office application included in Apple Valley GRC)
 - Provides annual rate increases
 - Allows real time expense and capital recovery
- Required to file separate Cost of Capital Case (CoCC) applications every three years to set allowed return on equity
 - Current authorized ROE is 9.79%
 - Current authorized equity capitalization is 57.00%
- Pass through mechanisms
 - Offset rate adjustments
 - WRAM and MCBA balancing accounts
 - Memorandum accounts
- Drought response
 - Regulatory mechanism to recover expenses and lost revenues associated with drought related voluntary conservation or mandatory rationing

Montana

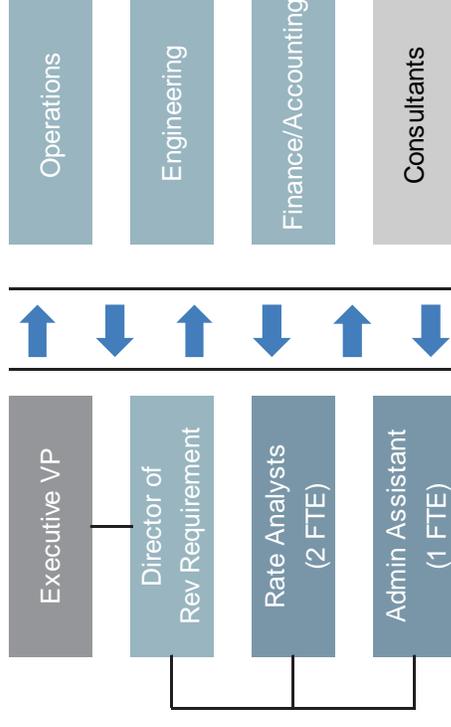
- No specified filing period and allowed to file GRC annually using historical test year model with “known and measurable” future expenses
 - Annual filings and post-test year adjustments reduce regulatory lag
- GRC filing includes cost of capital request
 - Current authorized ROE is 9.80%
 - Current authorized equity capitalization is 56.12%
- Pass through mechanisms
 - Rate case cost tracker
 - Purchased power tracker
 - Water cost tracker not necessary

Ratemaking Experience and Capabilities



- Ratemaking team
 - Committed and proven team with almost 80 years of combined experience
 - Collaborative approach drawing upon extensive financial, operational and technical expertise and knowledge across the organization
 - Predominantly self perform GRCs and other ratemaking related work
 - Active in regulatory-related industry groups, conferences and other activities
 - Ratemaking embedded in company culture
- Strong regulatory relationships
 - Ratemaking managers previously worked for CPUC and maintain long-established relationships with key staff and management at the state commissions.
 - As key stakeholders, Company regularly engages and interacts with state commissions' commissioners, management and staff
- Consultants
 - LKP Global Law, LLP and Hughes, Kellner, Sullivan & Alke, LLP (Legal)
 - P. Moul & Associates (Cost of Capital)

Collaborative Ratemaking Approach



Status of Regulatory Activities



California

General Rate Case

- Filed Apple Valley GRC (includes General Office application) January 2014 with new rates effective January 2015
- Settlement negotiations in progress with litigation limited to few items
- Scheduled to file Park Central Basin GRC (Test Year 2016) January 2015 with new rates effective January 2016

Cost of Capital Case

- Scheduled to file combined CoCC in 2016 for Apple Valley and Park Central Basin that will authorize new three-year ROE effective January 2017

Montana

- Mountain Water has delayed its planned Spring 2014 rate case
- Scheduled to file a GRC (with Cost of Capital) for Mountain Water each year

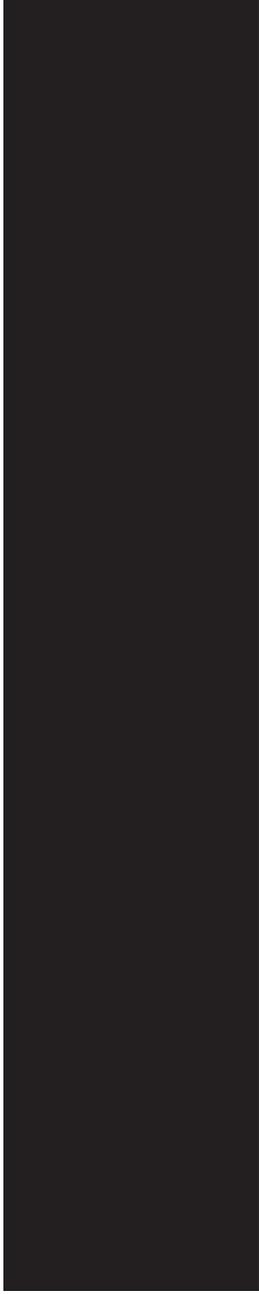
Effective Year of Planned / Pending Regulatory Filings

| | 2015E | 2016E | 2017E | 2018E | 2019E |
|--------------------------|--------------------|-------|-------|-------|-------|
| General Rate Case | Park Central Basin | ✓ | | | ✓ |
| | Apple Valley | ✓ | | ✓ | |
| | Mountain Water | ✓ | ✓ | ✓ | ✓ |
| Cost of Capital | Park Central Basin | | ✓ | | |
| | Apple Valley | | ✓ | | |

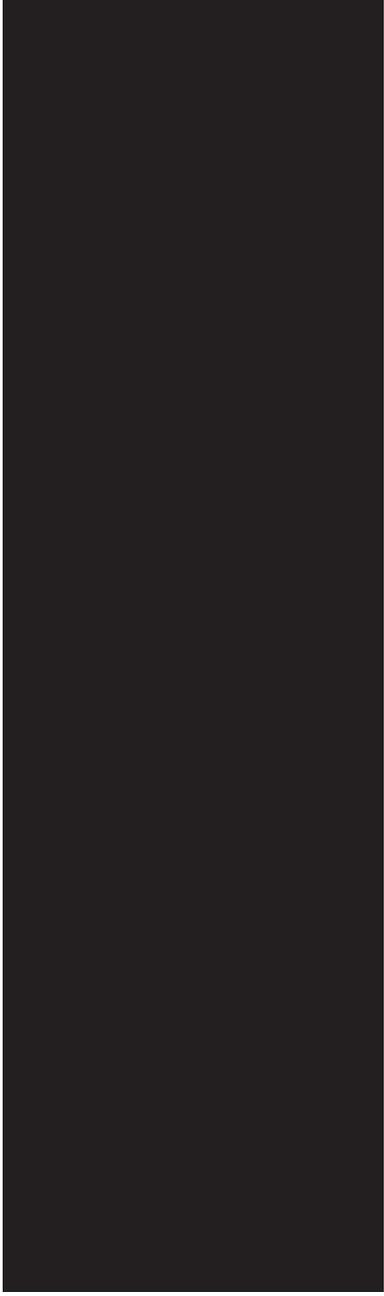


Capital Investment Status Update

Park
Central Basin



Apple Valley



Mountain Water

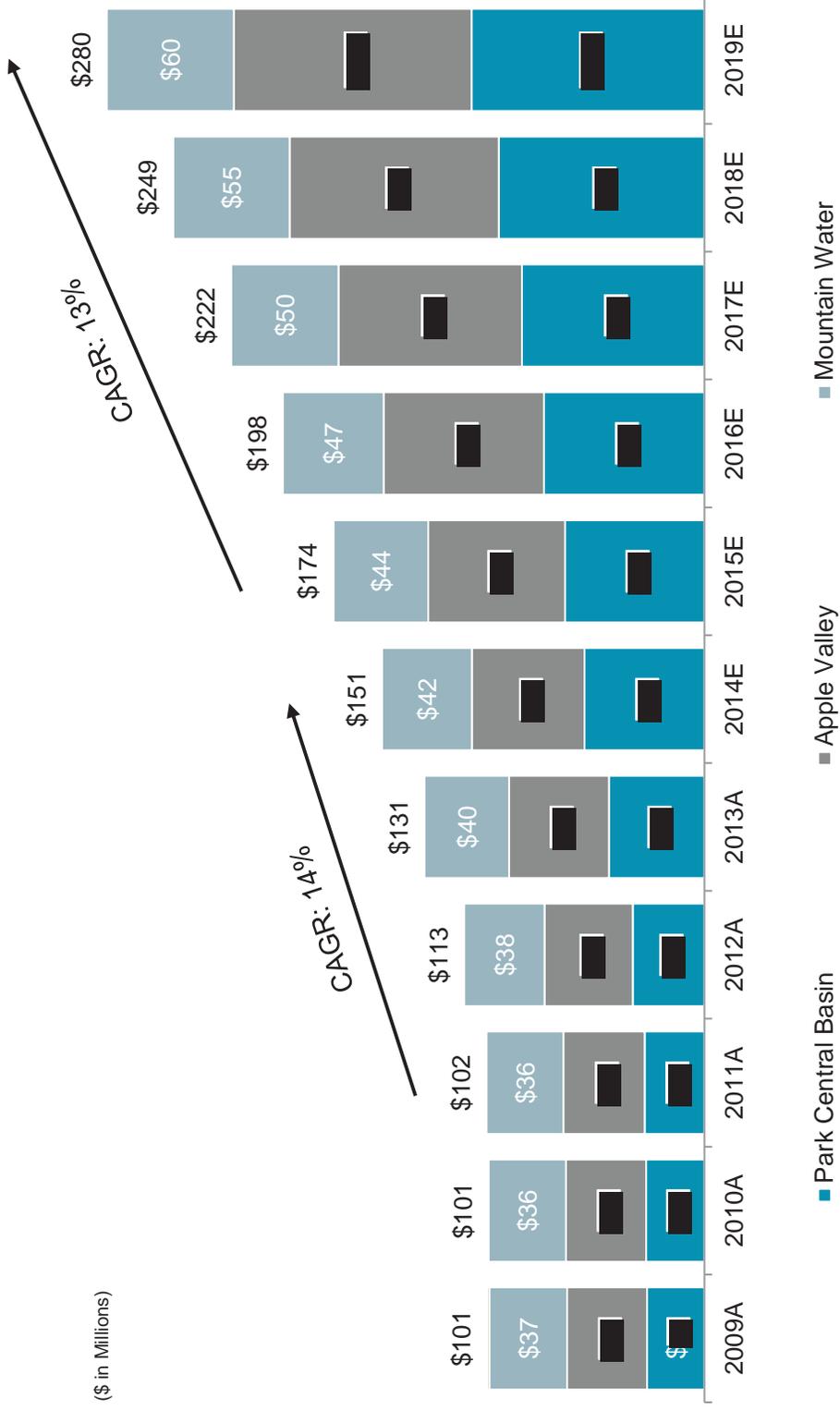
- Mountain Water to file annually to capture recent capital investment and file for known and measurable expense increases

Financial Summary



Rate Base Growth

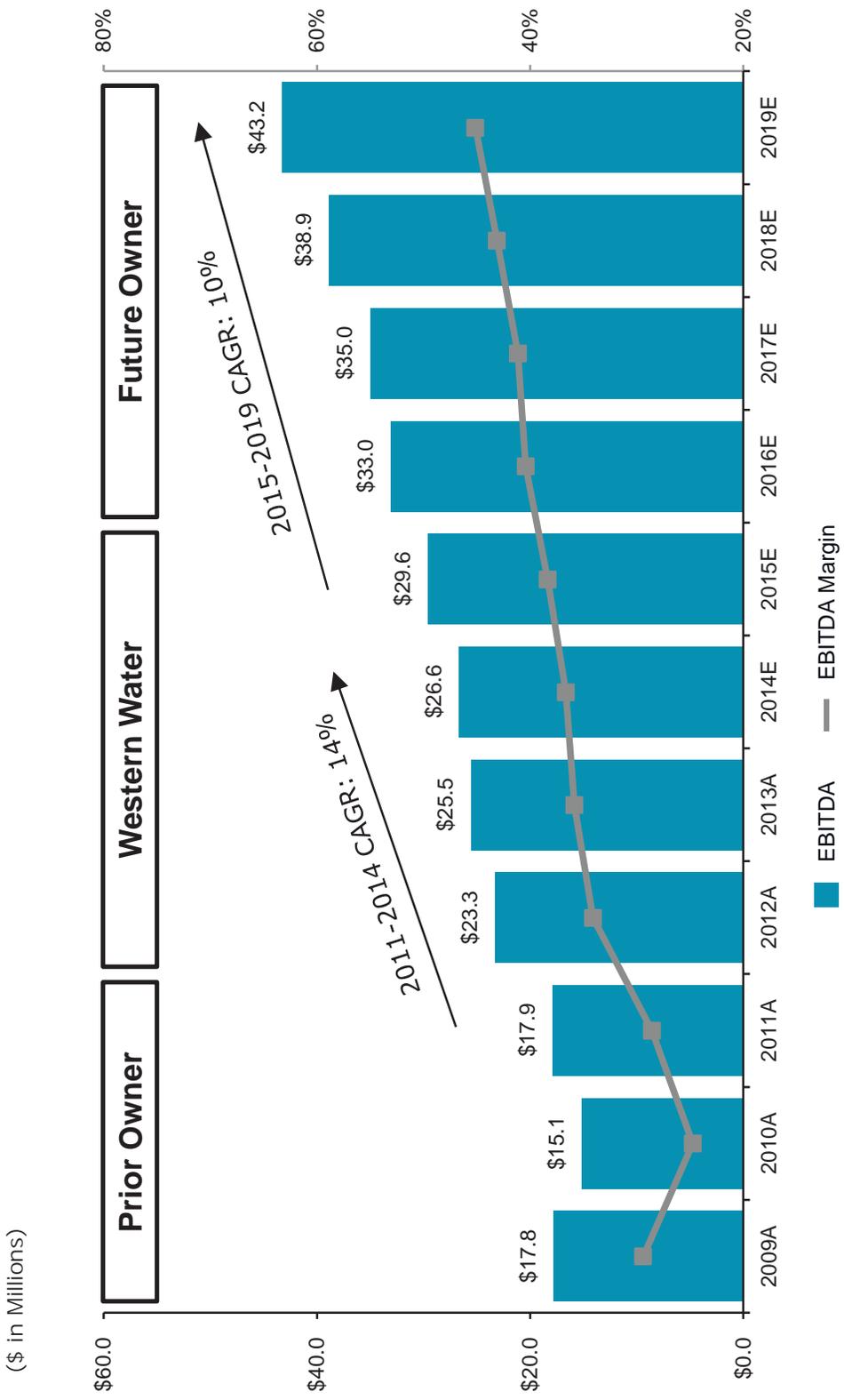
- Park Water has significantly expanded its regulated rate base since 2011
- The 2014E - 2019E capital budget calls for \$200MM of capital investment





Attractive EBITDA Growth

- EBITDA margin continues to improve due to effective and timely ratemaking, increased capital investment and expense control





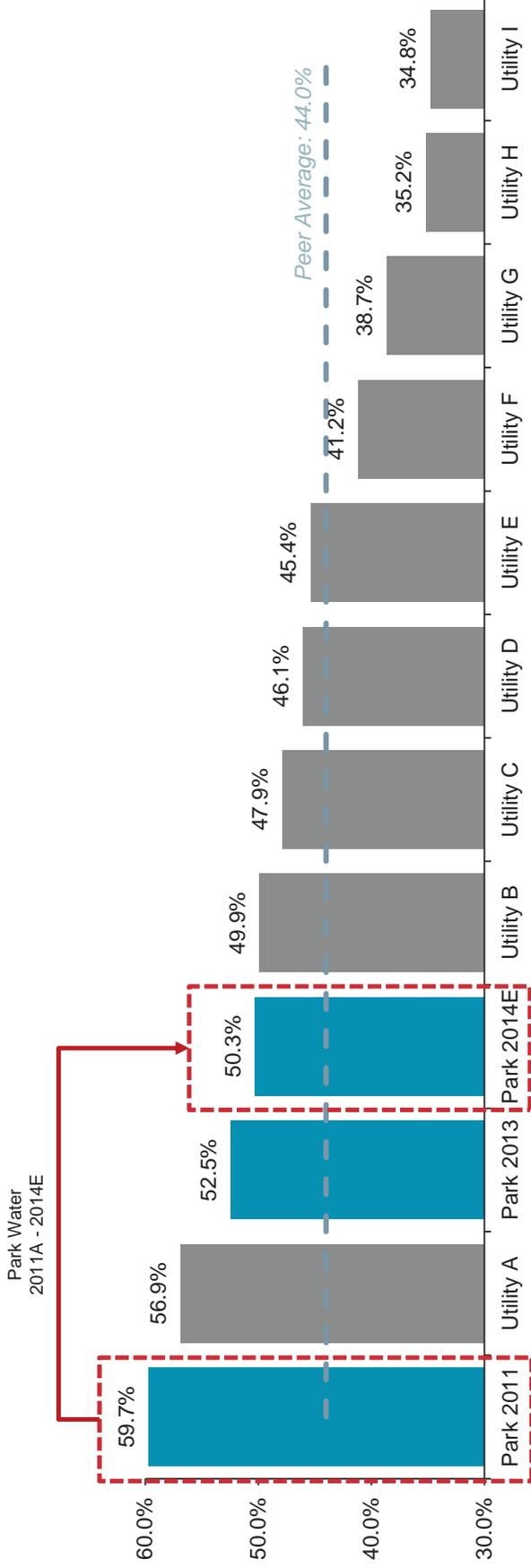
Improved Operating Efficiency

- Substantial operational improvements completed over the past three years
- Management has a deliberate strategic focus on:



- Minimize regulatory lag (Mountain Water)

O&M Efficiency Ratio¹ Comparison



¹O&M ratio defined as regulated O&M expense divided by regulated operating revenue, excluding purchased water expense

2014 Year to Date Performance vs. Budget



Year to Date Income Statement

| | Utility YTD June 2014 | | | Consolidated YTD June 2014 | | |
|---------|-----------------------|--------------|----------------|----------------------------|---------|--------|
| | Park Central Basin | Apple Valley | Mountain Water | Actual | Planned | % Diff |
| Revenue | | | \$7.5 | \$31.1 | \$31.5 | (1.4%) |
| EBITDA | | | 2.0 | 9.8 | 9.7 | 0.9% |

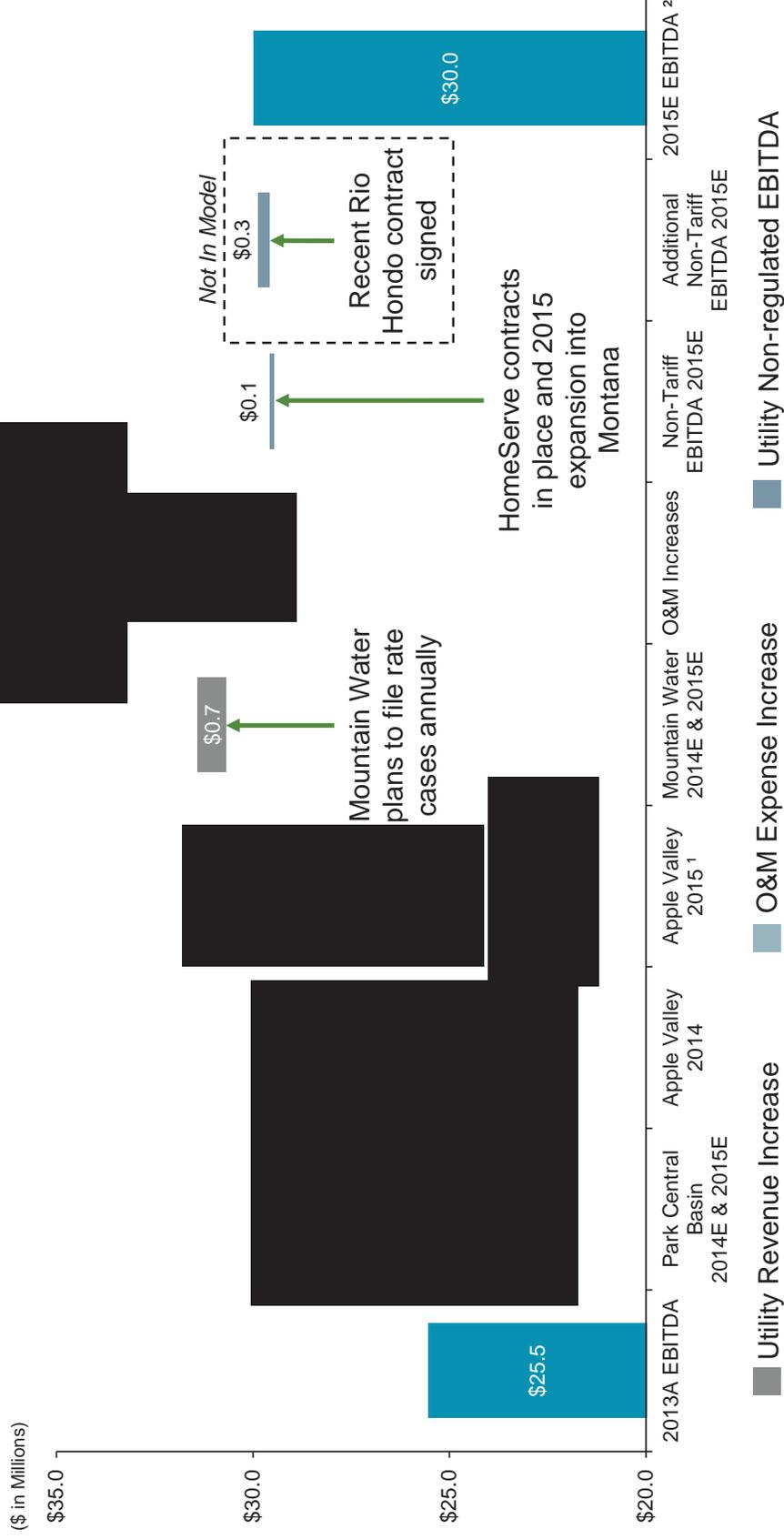
Year to Date Capital Investment

| | Utility YTD June 2014 | | | Consolidated | | |
|--------------------|---------------------------------|--------------|----------------|--------------|---------|---------|
| | Park Central Basin ¹ | Apple Valley | Mountain Water | YTD Spent | Planned | % Total |
| Capital Investment | | | \$0.7 | \$16.3 | \$26.6 | 61.1% |

¹ Park Corporate YTD actual capital investment included in Park Central Basin



2013A - 2015E EBITDA Bridge



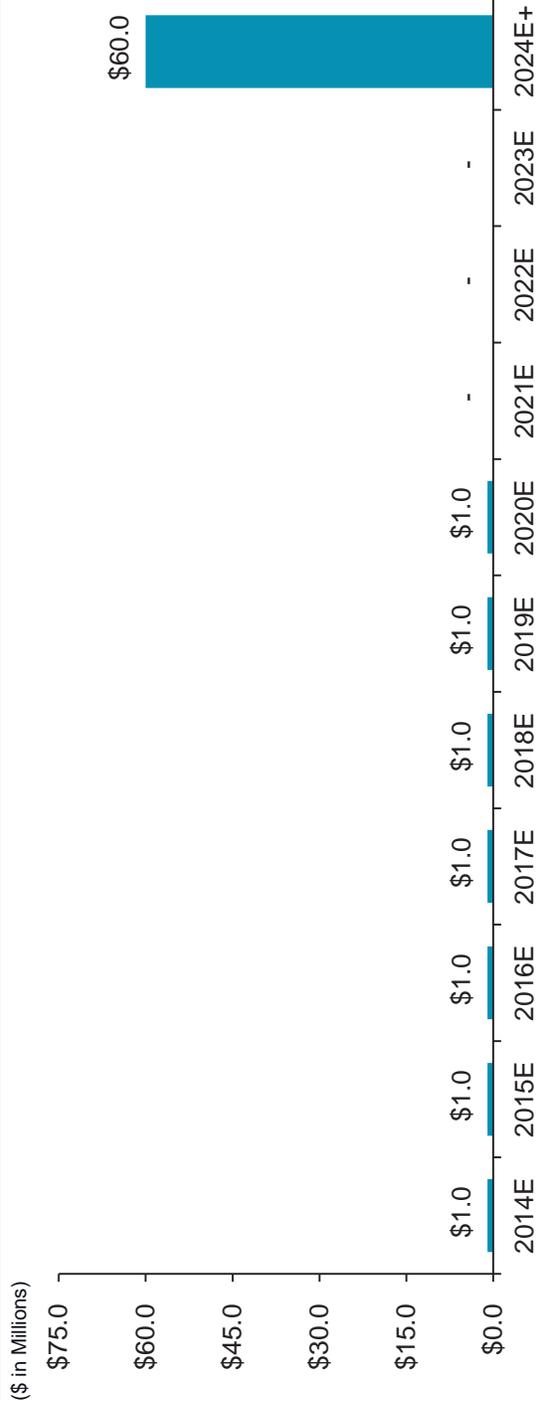
² Includes \$0.3MM contribution from Rio Hondo contract



Park Water Capitalization Summary

- \$67.0MM of First Mortgage Bonds outstanding¹
 - Park Water Company is the issuer
 - 8.82% FMB amortizes at \$1.0MM / year and matures on June 1, 2020; others are bullet maturity
 - Expected to remain outstanding after the transaction close
- Maintain \$23.0MM of committed credit facilities
 - \$11.0MM drawn¹
 - Expected to be repaid / refinanced at transaction close
- Establishing \$30.0MM FMB five-year floating-rate credit facility to ensure near-term liquidity

Park Water Long-Term Debt Maturity Profile



¹ Outstanding FMBs and drawn credit facilities as of June 30, 2014



Pension and Other Benefits

Defined Benefit Retirement Plan

- Plan based on Company career earnings subject to federal compensation limits
- Participant is 100% vested upon five years of eligible service
- \$36.9MM projected benefit obligation as of December 31, 2013
- Market value of assets: \$29.1MM, including contributions for 2013 plan year
 - 72% funded status as of December 31, 2013
- Pension expense (excluding non-utility) expected to be fully recovered in rates

Postretirement Benefits Other than Pensions

- Covers medical and dental expenses for eligible retirees hired before May, 2005
- In 2013, the Company changed plans reducing Accumulated Postretirement Benefit Obligation to \$6.8MM from \$18.7MM in 2012
- Exceeds the \$6.8MM Accumulated Postretirement Benefit Obligation
 - Current plan asset balance of \$7.5MM
- Retirees hired after May 2005 receive annual 401K contributions in lieu of PBOP

401K Match Plan

- Offers employees a 401k match of 50% up to 6% of compensation subject to the IRS plan limitations
- Plan does not have any unfunded obligations



Investment Highlights

Diverse, Balanced and Scalable Water Utility

- Rare opportunity to invest in a water utility platform
- Experienced management team with scalable business units
- Well developed pipeline of growth opportunities

Strong Growth Through Increased Capital Investment and Service Territory Expansion

- Over \$200MM of regulated company funded capital investment driven by infrastructure replacements and upgrades
- Customer growth from improving economy

Increasing Margins and Improved Business Performance

- Initiative to improve efficiency have increased margins and profitability
- 37% EBITDA margin in 2014E
- Further margin improvement projected

Supportive Regulatory Jurisdictions

- Constructive state regulation
- Regulatory mechanisms mitigate risks
- Experienced and proven ratemaking team

Attractive Stable Industry with Strong Fundamentals

- Fully regulated business provides financial stability
- Significant capital investment opportunities
- Fragmented industry driving consolidation

Disclaimer



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Mountain Water Company Capital Budget Summary - 2015

Third Submittal

| Description | 2015 Budget | 2016 Budget | 2017 Budget | 2018 Budget | 2019 Budget | 5 Year Total Budget |
|---------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|---------------------|
| COMPANY FUNDED TOTALS | \$4,543,500 | \$4,980,500 | \$5,530,500 | \$6,981,900 | \$7,469,647 | \$29,506,047 |
| T&D | \$2,798,000 | \$3,846,500 | \$4,183,500 | \$5,517,900 | \$5,167,647 | \$21,513,547 |
| TDTK - T&D Reservoirs | \$30,000 | \$700,000 | \$470,000 | \$100,000 | \$2,400,000 | \$3,700,000 |
| TDMN - Main Extensions | \$362,500 | \$215,125 | \$215,125 | \$215,125 | \$316,000 | \$1,323,875 |
| TDMR - Main Replacements | \$1,564,082 | \$1,965,699 | \$2,616,835 | \$4,284,228 | \$1,433,100 | \$11,863,944 |
| TDVR - Replacement Valves | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| TDVN - New Valves | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| TDHR - Replacement Hydrants | \$105,287 | \$105,287 | \$105,287 | \$106,000 | \$106,000 | \$527,861 |
| TDHN - New Hydrants | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| TDSR - Replacement Services | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| TDSN - New Services | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| TDAV - Air and Vacuum Stations | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| TDPR - Pressure Regulating Facilities | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| TDMS - T&D MISC Appurtenances | \$50,000 | \$150,000 | \$50,000 | \$50,000 | \$150,000 | \$450,000 |
| TDMT - Meters | \$686,131 | \$710,389 | \$726,253 | \$762,547 | \$762,547 | \$3,647,867 |
| TDLD - T&D Land | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Source of Supply - Production | \$1,505,500 | \$905,000 | \$1,055,000 | \$890,000 | \$1,840,000 | \$6,195,500 |
| PDPE - Pumping Equipment | \$600,000 | \$85,000 | \$85,000 | \$120,000 | \$830,000 | \$1,720,000 |
| PDSS - Site & Structure Improvements | \$495,000 | \$420,000 | \$570,000 | \$370,000 | \$370,000 | \$2,225,000 |
| PDWT - Water Treatment | \$15,000 | \$15,000 | \$15,000 | \$15,000 | \$15,000 | \$75,000 |
| PDSC - SCADA & Security | \$341,500 | \$345,000 | \$345,000 | \$345,000 | \$195,000 | \$1,571,500 |
| PDMS - Production MISC | \$54,000 | \$40,000 | \$40,000 | \$40,000 | \$430,000 | \$604,000 |
| PDLD - Production Land | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| General Plant | \$230,000 | \$219,000 | \$282,000 | \$564,000 | \$452,000 | \$1,747,000 |
| GPCM - Communication Equipment | \$10,000 | \$0 | \$50,000 | \$0 | \$0 | \$60,000 |
| GPCE - Computer Equip & Software | \$143,000 | \$112,000 | \$125,000 | \$182,000 | \$125,000 | \$687,000 |
| GPSS - Site & Structure Improvements | \$0 | \$0 | \$0 | \$275,000 | \$220,000 | \$495,000 |
| GPFE - Furniture and Equipment | \$10,000 | \$10,000 | \$10,000 | \$10,000 | \$10,000 | \$50,000 |
| GPSE - Security Equipment | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| GPSF - Safety Equipment | \$5,000 | \$5,000 | \$5,000 | \$5,000 | \$5,000 | \$25,000 |
| GPTE - Tools and Equipment | \$22,000 | \$22,000 | \$22,000 | \$22,000 | \$22,000 | \$110,000 |
| GPTP - Transportation | \$40,000 | \$70,000 | \$70,000 | \$70,000 | \$70,000 | \$320,000 |
| GPLD - General Plant Land | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Cost of Removal | \$10,000 | \$10,000 | \$10,000 | \$10,000 | \$10,000 | \$50,000 |
| Preliminary Survey | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| FUNDED BY OTHERS TOTALS | \$2,600,000 | \$3,000,000 | \$3,000,000 | \$3,000,000 | \$3,000,000 | \$14,600,000 |
| Advances | \$2,200,000 | \$2,500,000 | \$2,500,000 | \$2,500,000 | \$2,500,000 | \$12,200,000 |
| Contributions | \$400,000 | \$500,000 | \$500,000 | \$500,000 | \$500,000 | \$2,400,000 |

| Project Number | Description | 2015 Budget | 2016 Budget | 2017 Budget | 2018 Budget | 2019 Budget | 5 Year Total Budget | Quantity | Comments |
|----------------|--|--------------------|--------------------|--------------------|--------------------|--------------------|---------------------|-------------|-----------------------------|
| | COMPANY FUNDED TOTALS | \$4,543,500 | \$4,980,500 | \$5,530,500 | \$6,981,900 | \$7,469,647 | \$29,506,047 | | Includes Preliminary Survey |
| | T&D | \$2,798,000 | \$3,846,500 | \$4,183,500 | \$5,517,900 | \$5,167,647 | \$21,513,547 | | |
| | TDTK - T&D Reservoirs | \$30,000 | \$700,000 | \$470,000 | \$100,000 | \$2,400,000 | \$3,700,000 | | |
| | Tank - Lower Lincoln Hills | | | \$250,000 | | | \$250,000 | | |
| | Tank - Upper Lincoln Hills | \$30,000 | \$700,000 | | | | \$730,000 | | |
| | Crestline Tanks | | | \$200,000 | | | \$200,000 | | |
| | Hillview Tank | | | \$20,000 | \$100,000 | | \$100,000 | | |
| | Install Irrigation at North Reservoir | | | | | | \$20,000 | | |
| | Replace Irrigation at South Reservoir | | | | | | \$0 | | |
| | Reservoir - North side | | | | | \$2,400,000 | \$2,400,000 | | |
| | | | | | | | | | |
| | TDMN - Main Extensions | \$362,500 | \$215,125 | \$215,125 | \$215,125 | \$316,000 | \$1,323,875 | 0.00 | |
| | Taps for Advances | \$75,000 | \$75,000 | \$75,000 | \$75,000 | \$75,000 | \$375,000 | | |
| | Taps on existing mains | \$52,500 | \$55,125 | \$55,125 | \$55,125 | \$56,000 | \$273,875 | | |
| | Upsize New Mains | \$50,000 | \$50,000 | \$50,000 | \$50,000 | \$50,000 | \$250,000 | | |
| | Connect 24" to 14" at Broadway/Reserve | | | | | \$100,000 | \$100,000 | | |
| | Tie main - Twite/Maloney | \$150,000 | | | | | \$150,000 | | |
| | BO - New | \$35,000 | \$35,000 | \$35,000 | \$35,000 | \$35,000 | \$175,000 | | |
| | | | | | | | | | |
| | TDMR - Main Replacements | \$1,564,082 | \$1,965,699 | \$2,616,835 | \$4,284,228 | \$1,433,100 | \$11,863,944 | 5.04 | Quantity in Miles |
| | Main Repl - Design for Future Projects | \$39,664 | \$156,649 | \$170,635 | \$66,975 | \$48,761 | \$482,684 | | |
| | Main Repl - Misc/Emergency | \$100,000 | \$100,000 | \$100,000 | \$100,000 | \$100,000 | \$500,000 | | |
| | Broadway - Pattee to Madison | \$651,950 | | | | | \$651,950 | 0.29 | |
| | 3rd St - Darlene to 10" east, past Davis | \$120,250 | | | | | \$120,250 | 0.07 | |
| | Pine - Higgins to Adams (flop services) | \$180,000 | | | | | \$180,000 | | |
| | Spruce - Jefferson to Madison (flop services) | \$97,500 | | | | | \$97,500 | | |
| | Howell - Bulwer to Burton | \$137,100 | | | | | \$137,100 | 0.08 | |
| | Kennett Ave - N 5th to N 6th | \$87,618 | | | | | \$87,618 | 0.06 | |
| | Front - Madison to Jackson, etc. Monroe - Front to Broadway, etc. | | \$778,300 | | | | \$778,300 | 0.24 | |
| | Pine - Adams to Madison | | \$333,750 | | | | \$333,750 | 0.14 | |
| | Pine - McCormick, two blocks west & McCormick - Pine to Spruce | | \$349,500 | | | | \$349,500 | 0.17 | |
| | Jefferson - Spruce to Pine | | \$97,500 | | | | \$97,500 | 0.06 | |
| | 5th St - Russell to Orange | | | \$1,234,200 | | | \$1,234,200 | 0.71 | |
| | S 4th St W - Higgins to Orange | | | \$420,000 | | | \$420,000 | 0.27 | |
| | Spruce - Higgins to Adams | | | \$542,000 | | | \$542,000 | 0.23 | |
| | Cherry St & Poplar St - between Van Buren and Harrison (11 services) | | | | \$219,000 | | \$219,000 | | |
| | Spruce - Nora to May | | | | \$226,795 | | \$226,795 | 0.13 | |
| | Howell - Worden to Milton | | | | \$295,500 | | \$295,500 | 0.19 | |
| | 1st W - Hickory to Walnut | | | | \$117,915 | | \$117,915 | 0.07 | |
| | Pine - Woody to Owen | | | | \$223,500 | | \$223,500 | 0.14 | |
| | Philips - Worden to Holmes | | | | \$217,800 | | \$217,800 | 0.14 | |
| | Burns St - Cooper alley to Sherwood alley & Sherwood alley | | | | \$201,900 | | \$201,900 | 0.13 | |
| | S 5th St W - Russell to Grant | | | | \$576,000 | | \$576,000 | 0.36 | |
| | Dickens - Stoddard to Defoe | | | | \$108,516 | | \$108,516 | 0.07 | |
| | Cooper - Shakespear to Dickens (flop services) | | | | \$405,000 | | \$405,000 | | |
| | Grand Ave - N 2nd to N 4th | | | | \$162,900 | | \$162,900 | 0.10 | |
| | Woodworth - Mansfield to Madeline | | | | \$102,000 | | \$102,000 | 0.06 | |
| | Toole - Milton to Holmes | | | | \$130,266 | | \$130,266 | 0.08 | |
| | Cottonwood - 3rd to 2nd | | | | \$133,261 | | \$133,261 | 0.07 | |
| | Shakespeare - Philips to Sherwood | | | | \$366,000 | | \$366,000 | 0.23 | |
| | Ford - Hill alley to Mount to Higgins | | | | \$270,000 | | \$270,000 | 0.17 | |
| | Philips - Shakespeare to Hawthorne | | | | \$208,039 | | \$208,039 | 0.13 | |
| | Palmer - Dickens to Scott | | | | \$43,500 | | \$43,500 | 0.03 | |
| | Harve - Garfield to Grant | | | | \$96,000 | | \$96,000 | 0.06 | |

| Project Number | Description | 2015 Budget | 2016 Budget | 2017 Budget | 2018 Budget | 2019 Budget | 5 Year Total Budget | Quantity | Comments |
|----------------|--|-------------|-------------|-------------|-------------|-------------|---------------------|----------|----------------------------|
| | Pine - Higgins to Ryman (flop services) | | | | | \$35,000 | \$35,000 | | |
| | Railroad - Orange to McCormick & Alder - McCormick to Owen (flop services) | | | | \$279,900 | \$279,900 | \$279,900 | 0.18 | |
| | Kensington - Grant to W of Grant | | | | | \$77,100 | \$77,100 | 0.05 | |
| | Beckwith - Ronald to Higgins | | | | | \$374,700 | \$374,700 | 0.20 | |
| | Ash St - 3rd to Oak | | | | \$201,000 | \$201,000 | \$201,000 | 0.13 | |
| | Repl BO | \$50,000 | \$50,000 | \$50,000 | \$50,000 | \$50,000 | \$260,000 | | |
| | Repl Valves | \$50,000 | \$50,000 | \$50,000 | \$50,000 | \$50,000 | \$260,000 | | |
| | Repl Service Saddles | \$50,000 | \$50,000 | \$50,000 | \$50,000 | \$50,000 | \$260,000 | | |
| | TDVR - Replacement Valves | | | | | | \$0 | | |
| | TDVN - New Valves | | | | | | \$0 | | |
| | TDHR - Replacement Hydrants | \$105,287 | \$105,287 | \$105,287 | \$106,000 | \$106,000 | \$527,861 | | |
| | TDHN - New Hydrants | | | | | | \$0 | | |
| | TDSR - Replacement Services | | | | | | \$0 | | |
| | TDSN - New Services | | | | | | \$0 | | |
| | TDAV - Air and Vacuum Stations | | | | | | \$0 | | |
| | TDPR - Pressure Regulating Facilities | | | | | | \$0 | | |
| | TDMS - T&D MISC | \$50,000 | \$150,000 | \$50,000 | \$50,000 | \$150,000 | \$450,000 | | |
| | System Monitoring/Inspection Equipment | \$0 | \$100,000 | \$0 | \$0 | \$100,000 | \$200,000 | | |
| | Surge analysis - Infrastructure improvements | \$50,000 | \$50,000 | \$50,000 | \$50,000 | \$50,000 | \$250,000 | | |
| | TDMT - Meters | \$686,131 | \$710,389 | \$726,253 | \$762,547 | \$762,547 | \$3,647,867 | | |
| | Meter Reading Equipment | \$10,000 | \$10,000 | \$10,000 | \$10,000 | \$10,000 | \$50,000 | | |
| | Meters | \$676,131 | \$700,389 | \$716,253 | \$752,547 | \$752,547 | \$3,597,867 | | |
| | TDLD - T&D Land | | | | | | \$0 | | |
| | Source of Supply - Production | \$1,505,500 | \$905,000 | \$1,055,000 | \$890,000 | \$1,840,000 | \$6,195,500 | | |
| | PDPE - Pumping Equipment | \$600,000 | \$85,000 | \$85,000 | \$120,000 | \$830,000 | \$1,720,000 | | |
| | Mag flow meters | \$15,000 | \$15,000 | \$15,000 | \$15,000 | \$15,000 | \$75,000 | | |
| | Motor starters | \$15,000 | \$15,000 | \$15,000 | \$15,000 | \$15,000 | \$75,000 | | |
| | Surge anticipator flow indicator | \$5,000 | \$5,000 | \$5,000 | \$5,000 | \$5,000 | \$20,000 | | |
| | Well - Palmer Street | \$300,000 | | | | | \$300,000 | | |
| | Well - South Avenue upsize | \$200,000 | | | | | \$200,000 | | |
| | Well - 24th Street pump | | | | | \$150,000 | \$150,000 | | |
| | Premium efficiency motors | \$50,000 | \$50,000 | \$50,000 | \$50,000 | \$50,000 | \$250,000 | | |
| | Motor starter - Hilda Well | \$15,000 | | | | | \$15,000 | | |
| | Repl Well | | | | | \$600,000 | \$600,000 | | |
| | Well - Dickens | | | | \$35,000 | | \$35,000 | | |
| | PDSS - Site & Structure Improvements | \$495,000 | \$420,000 | \$570,000 | \$370,000 | \$370,000 | \$2,225,000 | | |
| | Generator containment | \$5,000 | \$5,000 | \$5,000 | \$5,000 | \$5,000 | \$25,000 | | List all specific projects |
| | Auto Transfer Switch/Generators | \$125,000 | \$125,000 | \$125,000 | \$125,000 | \$125,000 | \$625,000 | | |
| | Lakes - cribs/outlets/etc | \$100,000 | \$100,000 | \$50,000 | \$50,000 | \$50,000 | \$350,000 | | |
| | Pumphouse/Chlorine room improvements | \$50,000 | \$50,000 | \$50,000 | \$50,000 | \$50,000 | \$250,000 | | |
| | Security-1 res/tank site w/lights,cameras,hatch reinforce | \$60,000 | \$60,000 | \$60,000 | \$60,000 | \$60,000 | \$300,000 | | |
| | Upgrade Service entrances | \$10,000 | \$10,000 | \$10,000 | \$10,000 | \$10,000 | \$50,000 | | |
| | Well Casing vents | \$20,000 | \$20,000 | \$20,000 | \$20,000 | \$20,000 | \$100,000 | | |
| | Pipe insulation | \$50,000 | \$50,000 | \$50,000 | \$50,000 | \$50,000 | \$250,000 | | |
| | Intake Dam | \$75,000 | | \$200,000 | | | \$275,000 | | |
| | PDWT - Water Treatment | \$15,000 | \$15,000 | \$15,000 | \$15,000 | \$15,000 | \$75,000 | | |
| | Chlorine monitors | \$10,000 | \$10,000 | \$10,000 | \$10,000 | \$10,000 | \$50,000 | | List all specific projects |
| | Chlorine pump replacement | \$5,000 | \$5,000 | \$5,000 | \$5,000 | \$5,000 | \$25,000 | | |

Mountain Water Company Capital Budget Details - 2015

Third Submittal

| Project Number | Description | 2015 Budget | 2016 Budget | 2017 Budget | 2018 Budget | 2019 Budget | 5 Year Total Budget | Quantity | Comments |
|----------------|---|--------------------|--------------------|--------------------|--------------------|--------------------|---------------------|----------|----------|
| | | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | | |
| | Preliminary Survey | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | | |
| | Misc. Studies in Support of Capital Needs | | | | | | | | |
| | FUNDED BY OTHERS TOTALS | \$2,600,000 | \$3,000,000 | \$3,000,000 | \$3,000,000 | \$3,000,000 | \$14,600,000 | | |
| | Advances | \$2,200,000 | \$2,500,000 | \$2,500,000 | \$2,500,000 | \$2,500,000 | \$12,200,000 | | |
| | MISC Advances | \$2,200,000 | \$2,500,000 | \$2,500,000 | \$2,500,000 | \$2,500,000 | \$12,200,000 | | |
| | Contributions | \$400,000 | \$500,000 | \$500,000 | \$500,000 | \$500,000 | \$2,400,000 | | |
| | MISC Contributions | \$400,000 | \$500,000 | \$500,000 | \$500,000 | \$500,000 | \$2,400,000 | | |

From: Robert Dove [Robert.Dove@carlyle.com]
Sent: Wednesday, April 03, 2013 7:12 AM
To: Roger Wood (roger.wood@moelis.com)
Cc: Bryan Lin
Subject: Mountain Water

Roger;

Thank you for coming over to our offices yesterday.

As requested here are the specific numbers for the tax and make whole payments that we would incur under the transaction that your client offered.

1. Estimated tax on gains, at 40% rate, is \$18.6 million;
2. Make-whole premium on the \$52 million private placement bonds is \$27 million.

Both figures are calculated by Park Water advisor/agent;

RD



May 21, 2014

VIA E-MAIL

Mr. Jim Nugent, Esq.
City of Missoula
City Attorney
435 Ryman
Missoula, MT 59802

Re: Notice to the City of Missoula under Letter Agreement

Dear Mr. Nugent:

Pursuant to Section 2.b. of the Letter Agreement between the City of Missoula ("City"), the Clark Fork Coalition, and Carlyle Infrastructure Partners L.P. ("Carlyle Infrastructure") dated September 22, 2011 (the "Letter Agreement"), you are hereby notified that Western Water Holdings, LLC ("Western Water") has decided to offer for sale its stock in the Park Water Company ("Park"). Under the terms of Section 2.b. of the Letter Agreement, the City is entitled to notification of the intention of Western Water to sell its stock in Park at least 120 days prior to the consummation of any sale. During the notification period, the City is entitled to make an offer to purchase Mountain Water Company ("Mountain"), the Missoula water system, or the stock in Mountain. In accordance with Section 2.b. of the Letter Agreement, Carlyle Infrastructure will consider in good faith any offer made by the City during this notification period.

I have attached for your convenience a copy of the Letter Agreement.

Very truly yours,

Thorvald A. Nelson
of Holland & Hart LLP

Enclosure

cc: The Honorable John Engen
Mr. Robert Dove, Carlyle Infrastructure
Mr. Bryan Lin, Carlyle Infrastructure

THE CARLYLE GROUP

1001 Pennsylvania Avenue, NW • Washington, DC 20004-2505
Tel (202) 347-2626 • Fax (202) 347-1818

November 4, 2013

The Honorable John Engen
Mayor, City of Missoula
435 Ryman Street
Missoula, MT 59802

Re: Mountain Water Company

Dear Mayor Engen:

I write with reference to your letter dated October 29, 2013, setting forth the offer by the City of Missoula (the "City") to acquire 100% of the equity of Mountain Water Company (the "Company") for \$65 million (the "Offer").

We appreciate your continued interest in the Company. As owner of the Company, we too are very proud of the Company and its employees, and of the great achievements by our Company in serving the Missoula community. Some of the achievements are listed in my letter to you dated October 9, 2013, which you subsequently acknowledged and agreed with.

You have requested a response to the Offer by November 5, 2013. Whilst we have no current intention to undertake a sale of the Company, I would like to reiterate that we will honor our commitment under the letter agreement, dated September 22, 2011, and will consider the Offer in good faith. To that end, in order to help us adequately analyze the Offer, we respectfully request the following additional information:

1. Proposed purchase price – please describe in greater details how the City arrived at the \$65 million proposed purchase price. In your response, please describe the specific valuation methodology and main assumptions.
2. Financing – has the City set aside funds for the proposed acquisition? How much, if any, of the proposed purchase price would be financed in debt? Has the City secured fully committed/underwritten financing? What are the main financing terms: amount, maturity, interest rate, key covenants, targeted bond ratings (if the proposed acquisition debt is to be rated), market of execution, etc.? Which financial institution has been selected as underwriter or agent bank?
3. CAPEX – the Company currently spends approximately \$4 million per annum in replacing and upgrading its infrastructure assets. Does the City intend to change the CAPEX spending going forward? How does the City plan to fund the ongoing CAPEX?
4. Customer impact – what impact would your proposed acquisition financing have on customer rates? Please describe any potential rate impact that the proposed acquisition would have in each of the subsequent five years. In addition, as customary for public utility financing, rating agency and/or

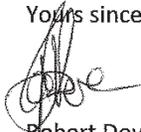
bond investors typically require automatic rate increase in the case of operating shortfall, therefore directly exposing rate payers to operating risk. Please confirm whether your proposed financing would contain such automatic rate increase clause.

5. Employees – our employees are key assets of the Company and they are all long-time Missoula residents. Please describe the City's plan regarding Company staff and management, including their employment, compensation and benefits.

Finally, please note that we cannot provide any confidential information on the Company, Park Water Company, or Carlyle Infrastructure Partners, LP, as we have been advised by counsel that, under Montana law, any information provided to the City is available for public disclosure which makes any attempt at a confidentiality provision uncertain, at best.

We look forward to receiving your written response to the above request for information which would help us conduct good faith consideration of your Offer.

Yours sincerely,



Robert Dove, Managing Director
CARLYLE INFRASTRUCTURE PARTNERS

THE CARLYLE GROUP

1001 Pennsylvania Avenue, NW • Washington, DC 20004-2505
Tel (202) 347-2626 • Fax (202) 347-1818

December 13, 2013

The Honorable John Engen
Mayor, City of Missoula
435 Ryman
Missoula, MT 59802

Re: Mountain Water Company

Dear Mayor Engen:

Thank you for your letter of December 5th. We understand your keen desire for the City of Missoula to own Mountain Water Company ("Mountain Water" or the "Company"). With that in mind, and as we pledged to do, we have in good faith carefully considered and evaluated your unsolicited offer to purchase the Company made under a threat of condemnation.

On behalf of Carlyle Infrastructure Partners, I respectfully decline the City's offer. We have only owned the Company for two years, believe the Company has thrived under our ownership, and believe Mountain Water's customers have directly benefitted from our ownership.

To reaffirm, we know this is important to you and have in good faith carefully considered your offer made under a threat of condemnation. However, we must respectfully decline your offer. We have enjoyed getting to know the community and are honored to provide a vital product and service to citizens and businesses. We look forward to continuing to work with your administration and the Missoula community as Mountain Water continues to provide exemplary services to the community.

Yours sincerely,



Robert Dove, Managing Director
CARLYLE INFRASTRUCTURE PARTNERS

WWH001083



JOHN ENGEN

OFFICE OF THE MAYOR

435 RYMAN MISSOULA, MONTANA 59802-4297

January 28, 2014

Mountain Water Company
c/o Robert Dove, Managing Director
Carlyle Infrastructure Partners Western Water, L.P.
1001 Pennsylvania Ave. NW, Suite 220 South
Washington, DC 20004-2505

Dear Mr. Dove:

On behalf of the City of Missoula (the "City"), I am pleased to submit this offer to acquire the public water supply, transmission and distribution system and related operating assets described below (collectively, the "System") of Mountain Water Company (the "Company") upon the terms set forth below.

Purchased Assets. The assets purchased will include all real property and improvements owned by the Company, together with all tangible personal property used to support the System and any and all water rights and any other associated rights. The City would assume none of the Company's liabilities.

Purchase Price. The City would purchase the System for a purchase price of \$50 million (the "Purchase Price") on a cash-free, debt-free basis.

Employee Matters. The City and the Company will mutually agree upon appropriate roles for management, and the City will provide at-will employment offers. Such employment offers will be effective as of and contingent upon the closing of the transaction.

Due Diligence. The Company will facilitate customary due diligence investigations by the City with respect to the Company's assets, liabilities, finances and operations, including providing the City and its representatives with reasonable access to the Company's personnel, vendors and customers. Without limiting the foregoing, the City will engage an engineering firm to advise it on infrastructure conditions and capital requirements, and the Company will cooperate with the reasonable requests of such engineers for access to the Company's and its affiliates' property, facilities, records and personnel. The Company will immediately make available to the City copies of third party due diligence reports relating to Mountain Water prepared for purposes of Carlyle's acquisition of Park Water and any similar reports prepared since the closing of that transaction.

Fees and Expenses. Each of the City and the Company will pay all of their own expenses (including legal, accounting, engineering, investment banking and financial advisory fees and expenses) incident to this transaction.

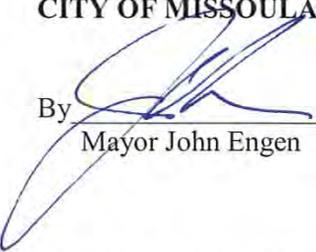
Timing. We would like to move forward quickly. We believe that the due diligence and financing processes can both be completed (in parallel) in less than four months.

Approvals. The Missoula City Council has approved the offer set forth in this letter.

This letter summarizes our present understanding and intent with respect to the proposed transaction. This letter is not intended to, and shall not, create a legally binding agreement or contract in any respect and shall not create any rights, either expressed or implied, in favor of the City, the Company or any other person. Unless and until written, definitive agreements are executed and delivered (and subject to the conditions expressed therein), neither party is under any obligation of any kind whatsoever with respect to our offer or any other matter referred to herein by virtue of this letter or any oral or other written expression with respect to the foregoing. The failure to execute and deliver any definitive agreements with respect to the foregoing shall not impose any liability on any of the parties, their respective subsidiaries or other affiliates or any of their respective representatives.

Please indicate your acceptance of the terms of this letter by signing below and returning by fax or PDF an executed copy of this letter to our financial advisers, Moelis & Company, no later than 5:00 p.m. Eastern time on February 4, 2014 at (212) 880-4260, Attention: Roger Wood, or to roger.wood@moelis.com (returning an executed physical copy to such person by overnight delivery). Your failure to submit an acceptance by that date will constitute a rejection of the City's offer for purposes of Montana law governing condemnation proceedings. Please feel free to contact Roger Wood at (212) 883-4565, or roger.wood@moelis.com, should you have any questions.

CITY OF MISSOULA

By 

Mayor John Engen

Accepted and agreed as of the
date first written above:

MOUNTAIN WATER COMPANY

By _____
Name: _____
Date: _____



JOHN ENGEN

OFFICE OF THE MAYOR

435 RYMAN MISSOULA, MONTANA 59802-4297

December 5, 2013

Robert Dove, Managing Director
Carlyle Infrastructure Partners Western Water, L.P.
1001 Pennsylvania Avenue NW, Suite 220 South
Washington, DC 20004-2505

Dear Mr. Dove:

Thank you for your recent correspondence regarding our offer to purchase Mountain Water Company. I'm disappointed in the response, inasmuch as we've been discussing the City of Missoula's purchase of Mountain Water for more than two years and each of our recent exchanges seems to push us farther away from, rather than closer to, a fair transaction. These exchanges are particularly disappointing because we've worked diligently to address impediments raised by you to a negotiated sale, ranging from timing of an offer, to tax implications, to potential make-whole payments to bondholders. In each case, we've done our best to overcome obstacles to a sale that makes sense for Carlyle and Missoula.

I will briefly address the concerns you express in your November 26, 2013, letter.

Price: The City of Missoula stands by its offer, which has nothing to do with pessimism and everything to do with the facts, including the fact that the Montana Public Service Commission recently awarded Mountain Water only a partial rate increase, one that does not reflect the company's stated desires or expectations – and one which has already been challenged by the Montana Consumer Counsel. The “lower expected profitability” of Mountain Water reflects your own guidance to our advisors regarding projected levels of EBITDA for the company – no more, no less.

And while multiples of EBITDA are among the methods we employed in arriving at our offer, we'd be happy to understand what Carlyle believes is a fair price based on the replacement-cost-minus-depreciation model or any other methodology. Today, we only know that in previous conversations, you suggested our offer was a very fair one but for make-whole provisions and tax implications. We'd be interested in knowing what's changed. We would also argue that for every transaction involving a high multiple, we can find more than one involving a low multiple – especially multiples other than EBITDA multiples, though we continue to believe other measures are more relevant when valuing regulated utilities like Mountain Water.

Financing: It is ridiculous to assert that the City of Missoula would begin pursuing the purchase of any asset without being confident in its ability to pay, and we'll be happy to produce evidence of our ability to raise the financing and manage the debt if we ever get to the negotiating table. We're working with eager underwriters today and have had fruitful conversations with rating

agencies, who have considerable faith in the quality of our credit and capacity. To raise this as an objection to our offer, before we have even begun substantive discussions between ourselves, calls into question your assertions that you have considered the offer in good faith.

With regard to the public interest, which is what I assume you cite in the closing paragraphs of your letter, we continue to believe that despite an occasional opinion piece from unsuccessful political candidates or a public service commission member with little experience and understanding of his constituents' interests, public support for this transaction is high in Missoula. All of the candidates who ran for city council and mayor clearly stated their support for municipal ownership of the water utility won their seats by wide margins.

These council members would set the rates for Missoula's water utility. They are all elected and accountable to the people they serve. State law, as a function of the Montana Constitution, provides for municipal ownership and governance of utilities, which is a more common practice in the state than is private ownership. Having Mountain Water's customers vote directly for its board of directors and CEO seems far more beneficial and direct than the structure you cite.

Again, we've worked hard to bring Carlyle to the table, overcome reasonable objections and make a fair offer in good faith, all predicated on a long series of conversations in which you said you'd like to sell me a water company and my efforts to support your purchase of Mountain Water from Sam Wheeler. Fact is, our conversations led me to believe that we'd have a deal done by now, assuming we had all of the necessary approvals.

We're no longer interested in a volley of correspondence that doesn't get us closer to a transaction. At this point, I'd appreciate a clear message from Carlyle that it intends to enter into negotiations to sell Mountain Water to the City of Missoula, that you'll provide a reasonable counter to our offer and that we can move forward on arriving at a price and beginning our diligence. I believe we both agree that the City of Missoula is a better owner of Mountain Water than Carlyle, and the timing is long overdue for us to be taking concrete steps together to make this happen.

We think it may be constructive to meet in person to set the framework for such a negotiation. We will make our team available on reasonable notice for such a meeting, which we think should take place within the next 3 weeks. I've asked Roger Wood to be in touch with you once you've acknowledged receipt of this letter to discuss next steps.

In lieu of such a clear message, we'll begin pursuing alternatives as authorized by ordinance.

Sincerely,



John Engen
Mayor



JOHN ENGEN

OFFICE OF THE MAYOR

435 RYMAN MISSOULA, MONTANA 59802-4297

STRICTLY CONFIDENTIAL

November 13, 2013

Robert Dove, Managing Director
Carlyle Infrastructure Partners Western Water, L.P.
1001 Pennsylvania Avenue NW, Suite 220 South
Washington, DC 20004-2505

Dear Robert:

Thank you for your letter of November 4, 2013 in response to our letter of October 29, 2013 which set forth our proposal to acquire 100% of the equity of Mountain Water Company (the "Company") for \$65 million (the "Offer").

We appreciate your confirmation that Carlyle will honor its commitment to consider our Offer in good faith. While we believe that your letter makes numerous requests which are not necessary in order for Carlyle to evaluate our Offer, we are pleased to respond as follows:

1. Proposed Purchase Price – We arrived at our proposed purchase price using a number of commonly-used valuation methodologies and based on publicly-available information. These methodologies included a review of comparable recent transactions involving the sale of water companies; a discounted cash flow analysis; and an analysis of publicly-traded water companies. We expect that Carlyle will be thoroughly familiar with each of these methodologies and how they can be applied to an assessment of the value of Mountain Water.

As we pointed out in our October 29th letter, the implied EBITDA multiple of 10x (assuming \$6.5 million of EBITDA for Mountain Water, based on your guidance) compares favorably for Carlyle to recent transactions involving the sale of water companies, including in particular the most recent one which involved the acquisition of Aqua Indiana in July 2013 by the City of Fort Wayne, Indiana for \$67 million at an implied valuation of 7.3x EBITDA. Our Offer also implies a rate base multiple of 1.7x, which compares favorably (for Carlyle) to the 1.2x multiple paid by Liberty Energy Utilities in its purchase of United Water Arkansas in July 2012, the next most recent water company transaction on which information is publicly available. We also note the announcement this week by Avista Corp. that it had agreed to buy Alaska Energy and Resources Co., the parent company of the electric utility serving the City of Juneau, for a price equivalent to 1.5x rate base. And at over 25x net income (after adjusting for interest on the debt allocated by Park Water) the value of our Offer is at a significant premium to publicly-traded water utilities.

By any objective standards we believe that our Offer is unarguably a full and fair one, and it is at a level where Carlyle is clearly obligated to negotiate in good faith. While we understand that a sale of the Company may result in a taxable gain for Carlyle, we note that Carlyle has at least three (3) full tax years following closing of the sale during which it can re-invest the proceeds in a similar business and defer payment of any capital gains. We also note that tax consequences to the owner of an asset would not be considered in any condemnation proceeding.

As part of a good faith negotiation, we will of course review any new information which you bring to our attention which supports a valuation of Mountain Water above \$65 million.

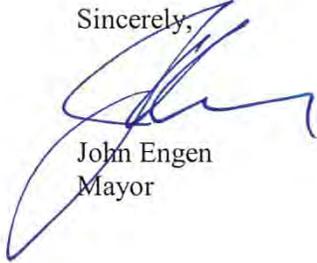
2. Financing – As we also indicated in our October 29th letter, the City is very confident that it will be able to raise the funds necessary to pay for the acquisition. We have already had detailed discussions with our financial advisors and potential underwriters, and since October 29th we have had additional discussions with an investor who has indicated an interest in buying the entirety of the proposed bond offering. We have also had preliminary discussions with credit ratings agencies which confirm our initial expectations that bonds offered to support 100% of the purchase price would likely be rated in the range single A to BBB+. The exact rating would depend on many factors including expected debt service coverage ratios and covenant packages. Maturities would be up to 40 years.
3. CAPEX – For purposes of the analysis underpinning our Offer, we have assumed – consistent with your guidance – that annual capital expenditures remain in line with their current level of approximately \$4 million per year. A thorough assessment of the condition of the Company’s system, and corresponding required capital expenditure levels, will represent a key element of the City’s due diligence. This would be performed by a recognized national engineering firm. We expect that future capital expenditures will be funded through a combination of existing cash flow and additional debt issuances, as required.
4. Customer Impact – We expect that customer rates will be lower than they would be under continued ownership by Carlyle, assuming the same level of capital investment. The City Council would be responsible for setting rates. Consistent with previous financing transactions for city-owned water utilities, we expect to include a rate covenant which would give investors comfort that rates would be set at a level to ensure sufficient coverage of debt service obligations.
5. Employees – The City agrees that the Company’s employees represent key assets of the Company and is fully committed to a smooth transition. The City has not yet been able to review the compensation and benefits currently offered to the Company’s employees and therefore cannot provide details of what it would be prepared to offer to individual employees.

6. Confidentiality – While the Company’s public filings have provided the City with sufficient information to inform a thoughtful and credible offer, the City will require access to non-public information in order to enter into a binding agreement to acquire the Company. To the extent that Carlyle has relevant information regarding the Company that is not contained in public filings and that has therefore not been adequately reflected in the City’s Offer, the City believes it should be in Carlyle’s interest to provide such information. We believe that there are procedures for the exchange of such information that should continue to protect its confidentiality, and would be happy to have our legal advisors discuss those procedures with yours.

We hope that this addresses your questions and allows you to respond to the substance of our Offer. If you have any remaining questions, we suggest that you contact Roger Wood of Moelis & Company directly at 212-883-4565.

We would be delighted to meet with you to discuss our Offer in more detail. We believe that moving ahead promptly with a sale of the Company on the basis of our Offer is clearly in the interests of all parties.

Sincerely,

A handwritten signature in blue ink, appearing to read 'John Engen', is written over the typed name.

John Engen
Mayor

THE CARLYLE GROUP

1001 Pennsylvania Avenue, NW • Washington, DC 20004-2505
Tel (202) 347-2626 • Fax (202) 347-1818

November 26, 2013

The Honorable John Engen
Mayor, City of Missoula
435 Ryman Street
Missoula, MT 59802

Re: Mountain Water Company

Dear Mayor Engen:

I write with reference to your letter dated October 29, 2013 (the "Offer Letter"), setting forth the offer by the City of Missoula (the "City") to acquire 100% of the equity of Mountain Water Company (the "Company" or "Mountain Water") for \$65 million (the "Offer"). This response is based upon and subject to Rule 408, M.R.Evid., and is inadmissible in any proceeding.

I also confirm receipt of your letter dated November 13, 2013 (the "Subsequent Response Letter"), in response to our request for certain additional information regarding the Offer. Regrettably, your response did not address the specific questions that we hoped you would address.

In accordance with the letter agreement dated September 22, 2011, we considered the Offer in good faith. We solicited advice and input from a number of special advisors to supplement our own internal analysis. After careful review and consideration, and based on information received from our advisors as well as our own internal analysis, we concluded that the Offer does not reflect full value of the Company's business and prospects. Therefore, we respectfully decline the Offer.

Specifically, the Offer is inadequate because of low valuation and the lack of evidence that the City can fund the Offer.

Offer price

The Offer price does not reflect the full value of the Company's business and prospects. The City's pessimistic view of the Company's prospects, i.e. "lower expected profitability" as stated in the Offer Letter, is in stark contrast to the reality and the view of the Mountain Water's owner and employees.

We respectfully point out that, of the recent transactions stated in the Subsequent Response Letter, the \$67 million paid by City of Fort Wayne, Indiana does not represent the full value of that transaction which also called for the City of Fort Wayne to become a large sewage customer of Aqua Indiana through a simultaneous 10-year wholesale contract. Also, City of Fort Wayne paid \$67 million to acquire Aqua Indiana's infrastructure serving 12,600 water customer accounts, or \$5,317 per customer account, significantly higher than the \$2,826 per customer account implied in the Offer price.

The Subsequent Response Letter referenced the following valuation methodologies: comparable transactions, discounted cash flow analysis, and publicly traded comparables. We respectfully point out that a common valuation methodology used in public entity's acquisition of private enterprise is based on the methodology of replacement cost less depreciation.

Without prejudice to valuation methodology, we note that other prominent recent transactions in the water sector achieved significantly higher EBITDA multiple. Specifically, the following water utility acquisitions closed within the last three years:

- Corix acquired Utilities Inc. in December 2012 at 13x EBITDA multiple;
- Aqua America acquired Ohio American Water in May 2012 at 14x EBITDA;
- City of Nashua, New Hampshire acquired Pennichuck Corp. in January 2012 at 13.7x EBITDA; and
- Citizens Energy Group acquired Indianapolis Water in August 2011 at 13.1x EBITDA;
- JP Morgan Asset Management acquired Southwest Water Company in September 2010 at 18.5x EBITDA.

We also note that the Offer is identical to the offer submitted by the City through its advisor Moelis in February 2013 which we declined on March 25, 2013 as inadequate. The Company's strong performance since then has reaffirmed our belief that the Offer price significantly undervalues the Company.

Financing

The Offer is not supported by a financing commitment and we derive no comfort that the City would be able to fund the Offer. Currently, Mountain Water has no material direct debt obligation. The City's plan to finance at least 100 percent of the proposed Offer price by issuing debt would burden the Company with significant leverage. Neither the Offer Letter nor the Subsequent Response Letter includes specific financing terms or identity of underwriter, agent bank, or potential investor. There is no evidence that the proposed leverage of at least \$65 million can be supported with the Company's existing operation and rate levels.

Finally, we note that the Subsequent Response Letter stated that the Offer "... is clearly in the interest of all parties." We do not reach the same conclusion.

Mountain Water is currently regulated by the Montana Public Service Commission ("MPSC"), an elected political body with regulatory oversight on investor-owned utilities providing electric, telecom, or water services in the State of Montana. Customer rates are not set by Mountain Water, Park Water Company or Carlyle Infrastructure Partners, L.P. Rates are set by the MPSC, with active participation and input from Montana Consumer Counsel, a division of Montana Legislature whose statutory duties and responsibilities in representing Montana's utility consuming public are provided for under Montana Constitution.

The Honorable John Engen
November 26, 2013
Page 3

Under the current regulatory framework, equity owner and debt investors of an investor-owned utility assume operating risk and losses, if any. A municipally owned utility, particularly one with significant leverage, would be forced to accept automatic rate increase covenant for the benefit of bondholders, a fact that was acknowledged in the Subsequent Response Letter.

The proposed Offer would release the MPSC of any oversight responsibility of Mountain Water and would also discharge the ongoing role of the Montana Consumer Counsel both of which we view as beneficial for the customers of Mountain Water.

Once again, we thank you for your continued interest in the Company. Mountain Water has been a great partner in the Missoula community. We look forward to continuing the tradition of providing excellent water service to the community as a private enterprise.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "R. Dove", is written over a faint circular stamp.

Robert Dove, Managing Director
CARLYLE INFRASTRUCTURE PARTNERS

THE CARLYLE GROUP

1001 Pennsylvania Avenue, NW • Washington, DC 20004-2505
Tel (202) 347-2626 • Fax (202) 347-1818

January 31, 2014

The Honorable John Engen
Mayor, City of Missoula
435 Ryman Street
Missoula, MT 59802

Re: Mountain Water Company

Dear Mayor Engen:

We are in receipt of your letter dated January 28, 2014. Thank you for yet another offer by the City of Missoula (the “City”) to acquire Mountain Water Company (“Mountain Water” or the “Company”). In light of the discussions regarding this subject matter at the Missoula City Council (the “City Council”) public meeting on January 27, 2014, we believe it is important to include the City Council in our response to your latest offer. We hereby copy the City Council on this letter.

First of all, we are surprised that the latest offer of \$50 million for all of Mountain Water’s assets (the “Offer”), which the City Council approved at its January 27th public meeting, is significantly below the offer you made previously and which we rejected after careful evaluation and consideration in good faith. We are further surprised to see that the prior offer was characterized as an “informal overture” in your memo to the City Council dated January 27, 2014, as such characterization of the prior offer is in complete contrast to how the prior offer was presented and discussed.

Consistent with our past practice and as we pledged to do, we have in good faith carefully considered and evaluated your latest unsolicited offer, made under a threat of condemnation, to purchase Mountain Water’s assets for \$50 million. We respectfully decline your Offer.

You have made it clear that the City will begin condemnation proceedings upon rejection of the Offer. Carlyle Infrastructure Partners, LP (“Carlyle Infrastructure”) and Mountain Water will vigorously defend our legal rights. We do not see how condemnation will benefit the ratepayers or the taxpayers of the community, as (a) condemnation is extremely costly, (b) even if the City prevails, the end result is the loss of Mountain Water as one of the County’s largest taxpayers. Neither Carlyle Infrastructure nor Mountain Water owns the water. Mountain Water owns the right to use the water, and the necessary and critical infrastructure assets, for the purpose of serving the water users in Missoula. The Company has an exemplary record of serving Missoula under private ownership.

Achievements under Carlyle Infrastructure’s ownership

Carlyle Infrastructure acquired Mountain Water as part of its acquisition of Park Water Company in December 2011. Since that time, Carlyle Infrastructure, along with the fine employees of Mountain Water, have more than fulfilled our responsibilities to provide quality water service to this community

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and have carried through on our commitments we made at the time of the change in ownership. We are proud of these accomplishments, which you have also acknowledged and applauded on a number of occasions.

Under Carlyle Infrastructure's ownership, Mountain Water has made numerous improvements to its operations and community engagement, building on a fine tradition already in place. Specifically and without limitations:

- We have increased the annual capital investment by more than 40 percent to \$4 million. You may have seen some of the projects being completed, including the Hilltop reservoir (http://www.youtube.com/watch?v=YMNS6bWZZk&feature=player_embedded), the Madison Street Main Replacement and the Main Street Main Replacement, to name a few. This capital investment helps us improve our quality of service and provide reliability for current and future generations of Missoulians – with a particular focus on reducing leakage throughout the system.
- We have established an Advisory Committee of five well regarded community members with diverse perspectives to provide us input on issues important to this community. We thank these Committee members for the service they are providing to us and the community.
- We have increased our owner-funded charitable contributions to United Way, The Food Bank and other worthy local organizations.
- We continued our support of the University through their Excellence Fund and committed to help with the Montana Groundwater Science Academy.
- We established an open dialogue with the Clark Fork Coalition on issues pertaining to watershed protection as well as funding Kids River Expo and The Hidden Life of Water video.

We believe our relationship with the community is better than ever.

Questions regarding the Offer

Many questions remain unanswered regarding your intention to acquire Mountain Water:

1. Financing and leverage – it is our understanding that you would finance 100 percent of the purchase price with issuance of debt which would heavily burden Mountain Water with increased leverage. Without clear evidence of committed financing, there is no certainty that 100 percent debt financing is achievable or that it would achieve the desired credit rating(s) or cost, particularly when interest rates start to rise in a prolonged condemnation fight. Mountain Water is in great financial shape, which is critical to ensuring service reliability, and it is our intention to keep it that way. Significant increase in leverage could lead to financial distress and service reliability issues.
2. Capital expenditures – an acquisition by the City would result in loss of tax revenue from Mountain Water, which currently is the fifth largest tax payer and contributes \$1.2 million annually towards the County's tax coffers. The Company currently spends approximately \$4 million per year in

replacing and upgrading its infrastructure assets and anticipates a need of at least an equal amount annually going forward. We understand that you intend to borrow additional debt to finance part of the ongoing capital spending, which could potentially put even more financial burden on the Company.

3. Ratepayer impact – we have yet to see any proof that the acquisition of Mountain Water by the City would lead to lower water rates. In addition, as is customary for public utility financing, rating agencies and/or bond investors typically require automatic rate increases in the case of operating shortfalls, therefore directly exposing rate payers to operating risk.

Removal of Montana Public Service Commission (“Montana PSC”) Oversight

Mountain Water is currently regulated by the Montana PSC, an elected political body with regulatory oversight on investor-owned utilities providing electric, gas, telecom, or water services in the State of Montana. Customer rates are not set by Mountain Water, Park Water Company or Carlyle Infrastructure. Rates are set by the Montana PSC, with active participation and input from the Montana Consumer Counsel, a division of Montana Legislature whose statutory duties and responsibilities in representing Montana’s utility consuming public are provided for under Montana Constitution.

Montana PSC limits the amount of debt that can be incurred to 55 percent of the Company’s capital structure. Such protection would go away under the City’s ownership. Under the current regulatory framework, equity owners and debt investors of an investor-owned utility assume operating risk and losses, if any. A municipally owned utility, particularly one with significant leverage, could be forced to accept an automatic rate increase covenant for the benefit of bondholders.

An acquisition by the City would release the Montana PSC of any oversight responsibility of Mountain Water and would also discharge the ongoing role of the Montana Consumer Counsel both of which we view as beneficial for the customers of Mountain Water.

I reiterate that Carlyle Infrastructure and Mountain Water will vigorously defend our legal rights in event of condemnation and we urge you and the City Council to carefully consider the points raised in this letter and carefully weigh the cost and benefit of a condemnation. Mountain Water under private ownership has been a great partner in the Missoula community so we believe it is in the best interests of the people of Missoula to keep it that way.

Yours sincerely,



Robert Dove, Managing Director
CARLYLE INFRASTRUCTURE PARTNERS

Cc: Members of Missoula City Council