

**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
SUPPLEMENTAL RESPONSES TO MONTANA PUBLIC SERVICE COMMISSION'S
DATA REQUESTS PSC-028 AND PSC-029**

Western Water Holdings, LLC (“Western Water”) and Mountain Water Company (“Mountain Water”) provide the attached supplemental responses to the Montana Public Service Commission’s Data Requests PSC-028 and PSC-029.

Respectfully submitted this 27th day of May, 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.

Supplemental Response to PSC-028:

- b. Attached is a complete copy of the Confidential Information Memorandum. See WWH001306-WWH001426. 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.

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.

Supplemental Response to PSC-029:

- b. Attached is a complete copy of the Management Presentation. See WWH001427-
WWH001490. 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.

CERTIFICATE OF SERVICE

I hereby certify that on this, the 26th day of May, 2015, **WESTERN WATER HOLDINGS, LLC AND MOUNTAIN WATER COMPANY'S SUPPLEMENTAL RESPONSES TO MONTANA PUBLIC SERVICE COMMISSION'S DATA REQUESTS PSC-028 AND PSC-029** 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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s/ Adele C. Lee

Project Orchard

Confidential Information Memorandum

June 2014



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.

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Section I:
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 2014^E 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 2014^E.

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 2019^E. As a result, and in combination with continued business improvements and initiatives, EBITDA is expected to grow from \$30 million in 2015^E to \$43 million in 2019^E.

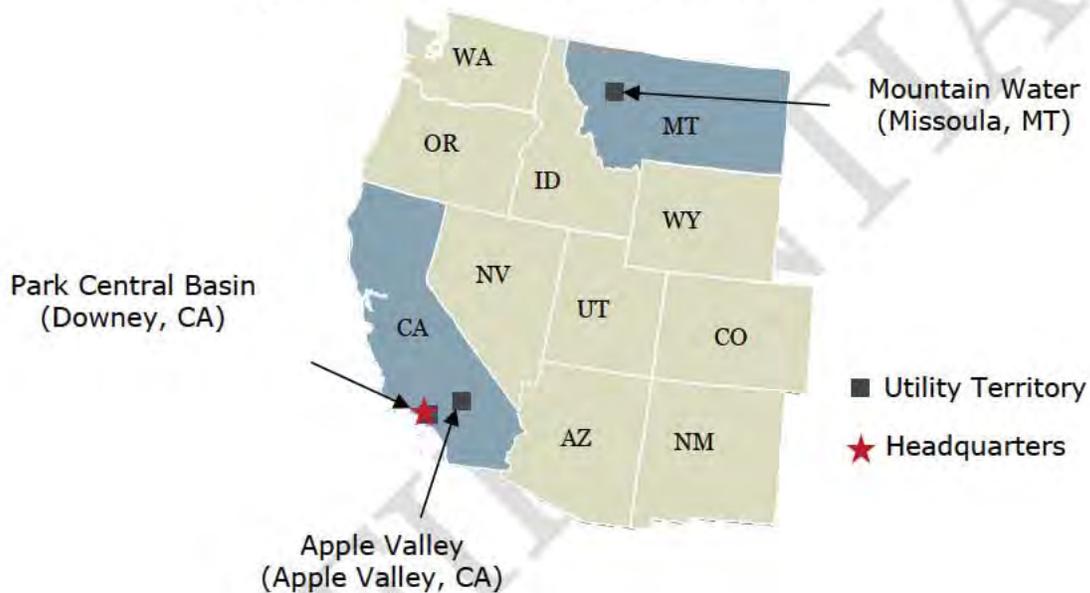
¹ Excluding contributions in aid of construction (“CIAC”) and advances for construction (“Advances”)



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





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 ▪ [REDACTED]
<p>Diverse, Balanced and Scalable Water Utility</p>	<ul style="list-style-type: none"> ▪ [REDACTED] ▪ [REDACTED] ▪ [REDACTED] ▪ [REDACTED]
<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 ▪ [REDACTED] ▪ Annual filings with post-test year adjustments in Montana align ratepayer and utility objectives while reducing regulatory lag



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

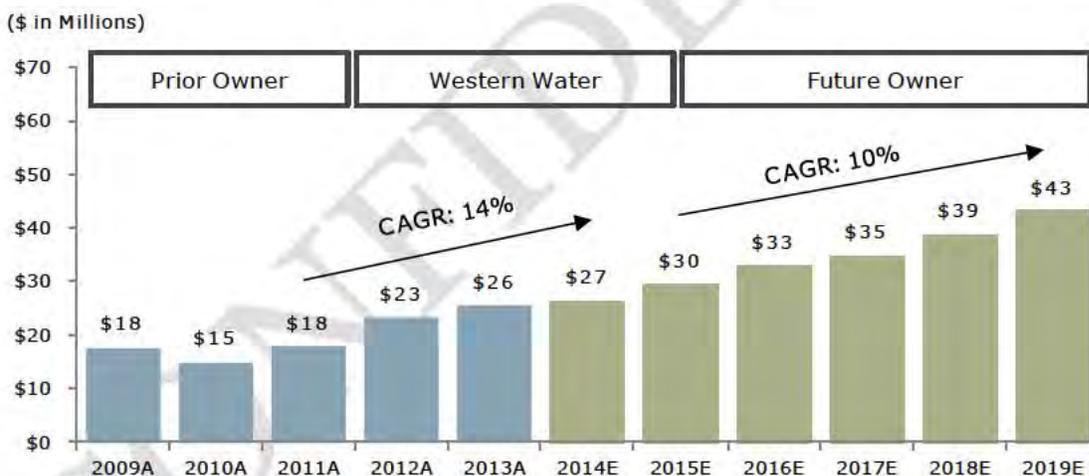




Figure 3: Company-Funded Capital Investment Summary

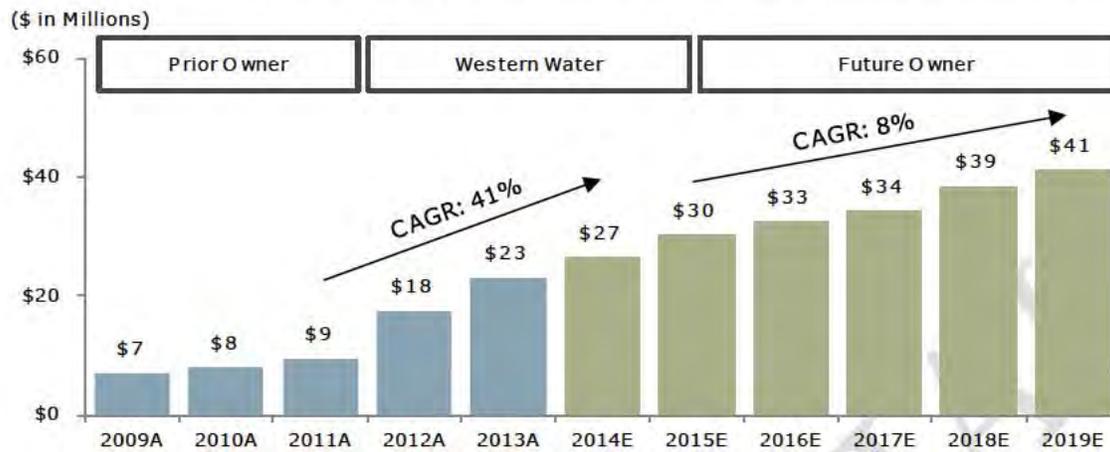
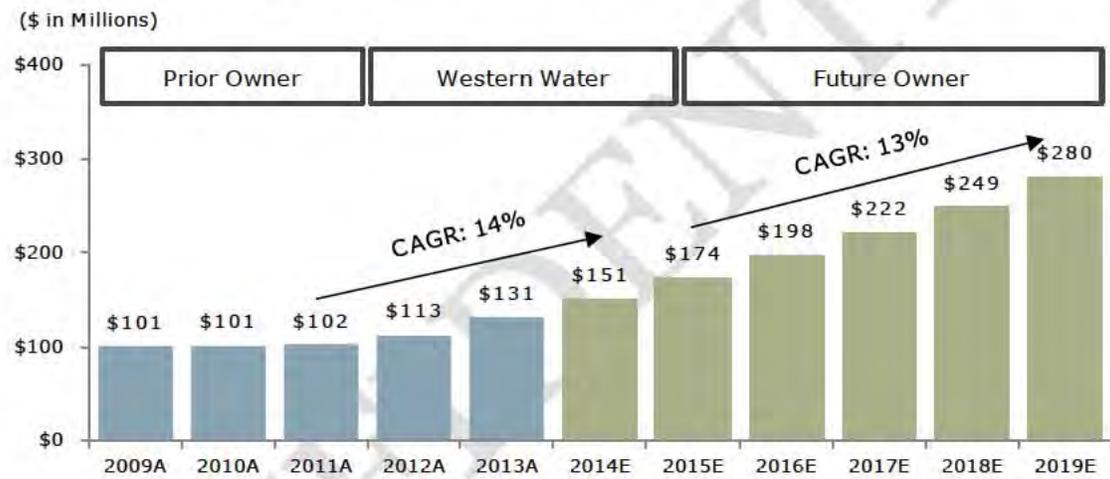


Figure 4: End of Year Rate Base Summary

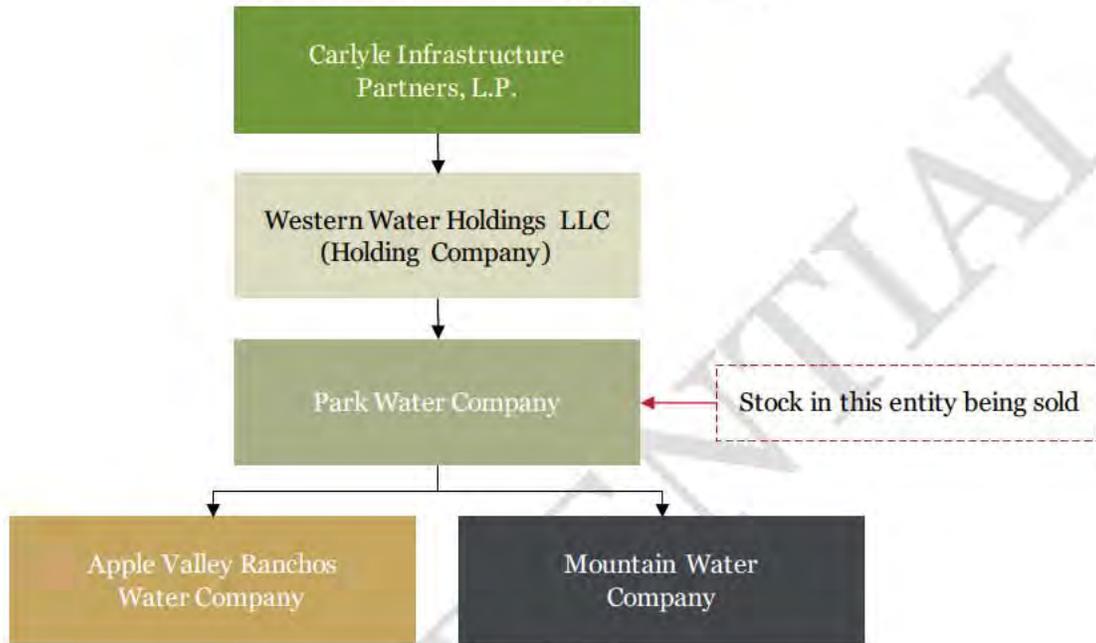




Transaction Structure

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.



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

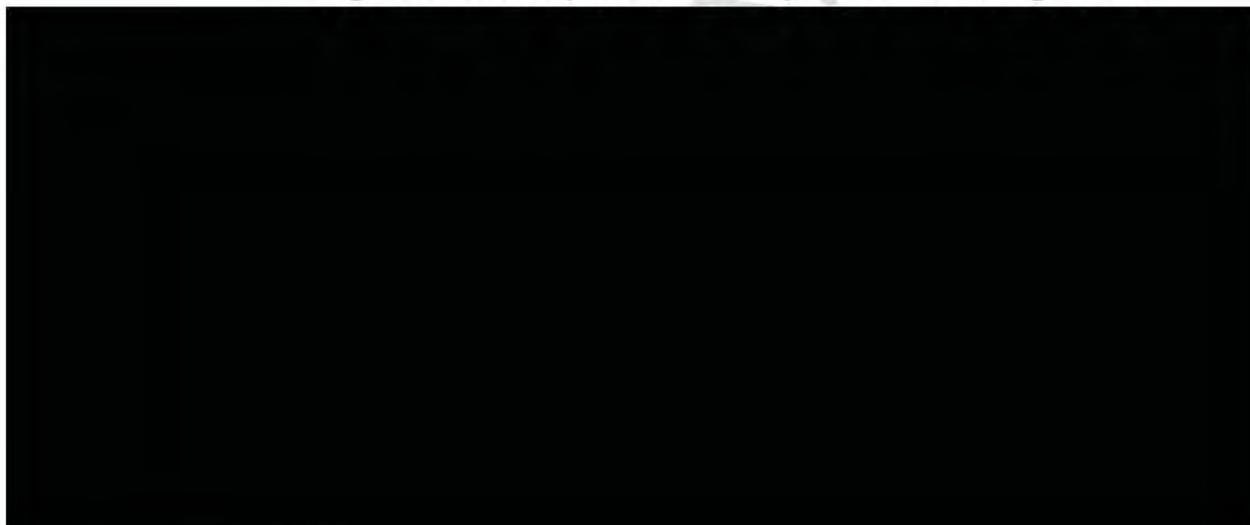


Attractive Stable Industry with Strong Fundamentals

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

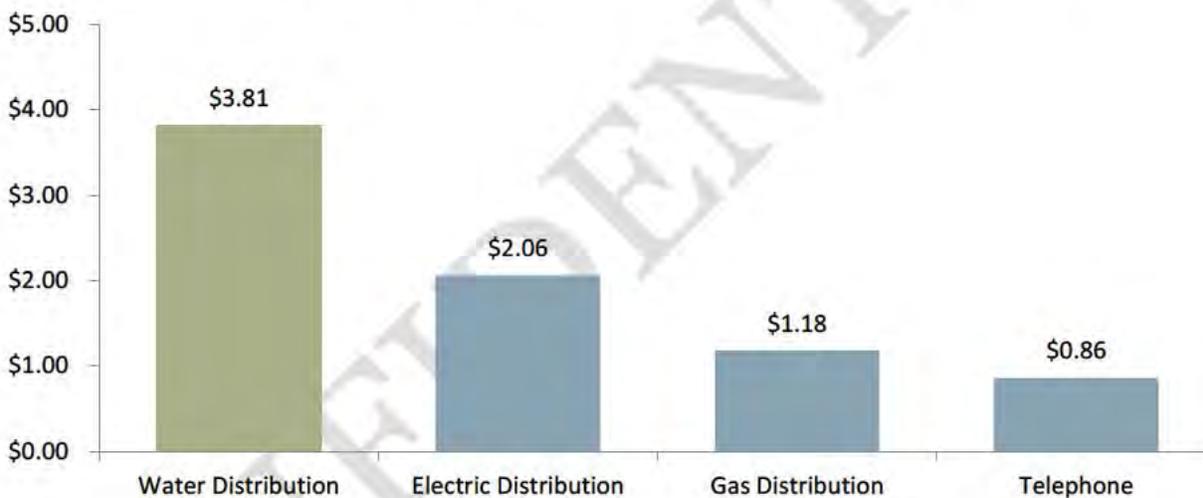


Fully regulated industry with significant barriers to entry and financial stability from regulated cash flows

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



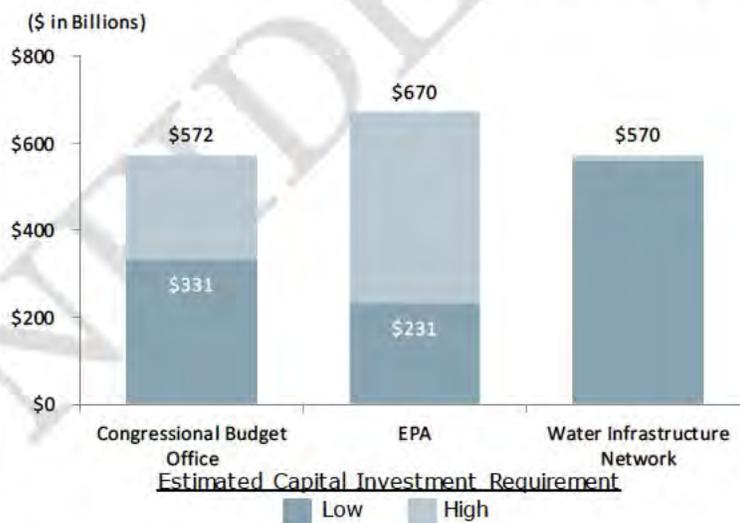
Significant capital investment opportunities driven by replacement of aging infrastructure, system improvement and growth

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

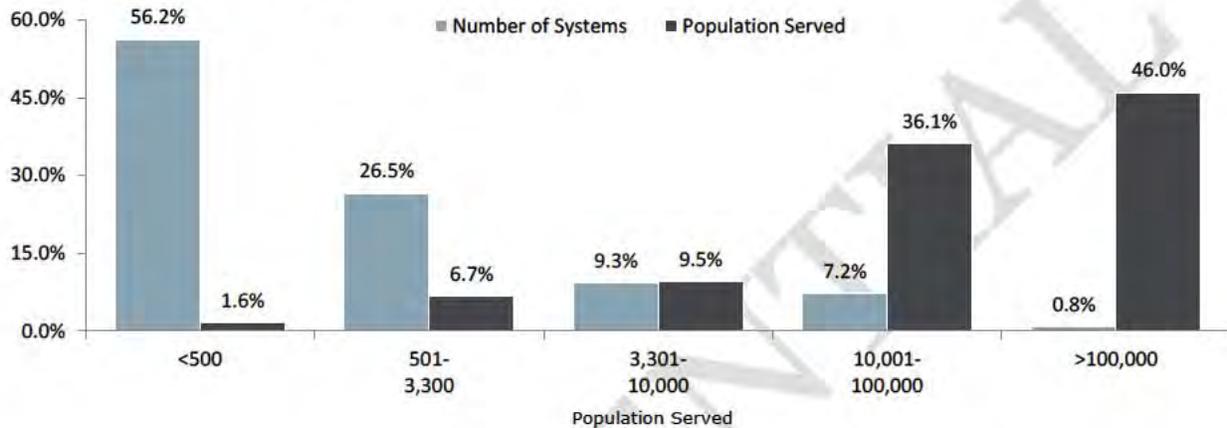
¹⁰ The EPA Infrastructure Needs Assessment was performed by directly surveying the nation’s drinking water utilities



Industry fragmentation and economies of scale support ongoing consolidation

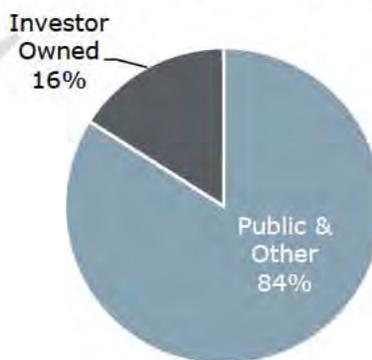
The water utility sector is highly fragmented, providing significant consolidation opportunities for investor-owned water utilities. The U.S. water utility market has 51,651 community water systems with 83% serving fewer than 3,300 people.¹¹

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)



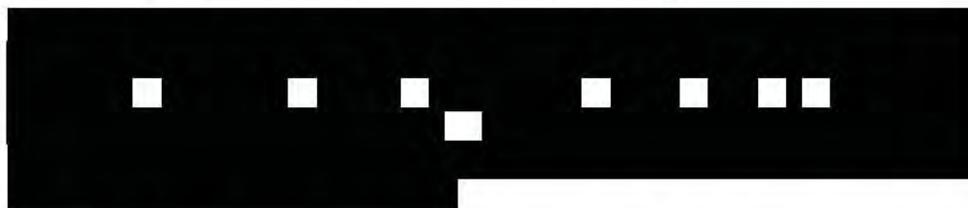
¹¹ EPA, "Public Drinking Water Systems by Size of Community Served and Source of Water," 2009



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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.

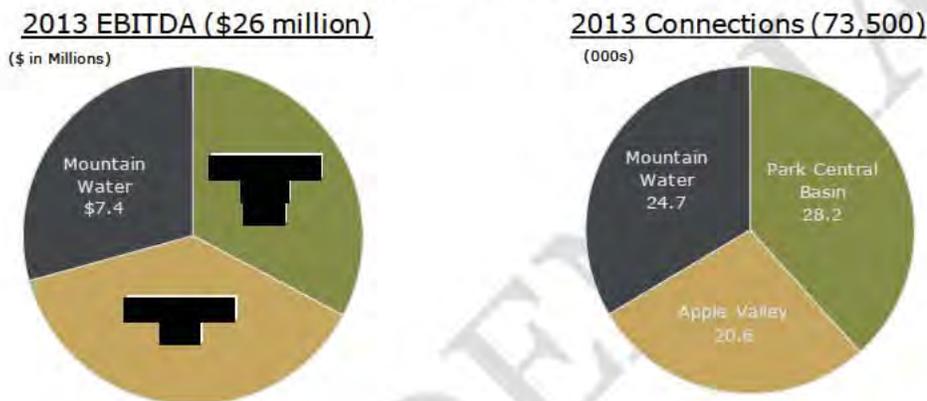
¹² Market data as of May 23, 2014



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

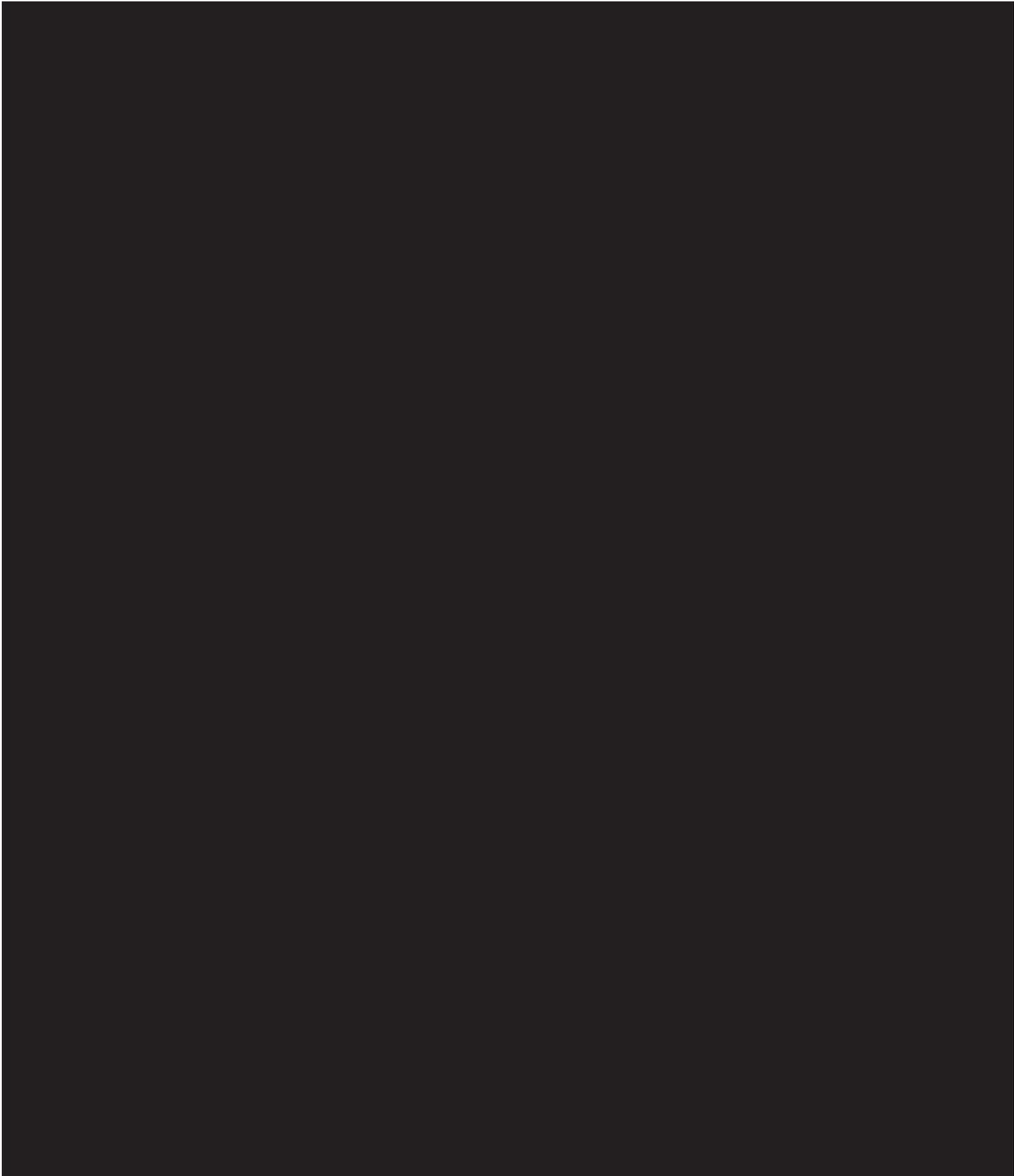


Scalable corporate and IT system supports service territory expansion and strategic growth

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



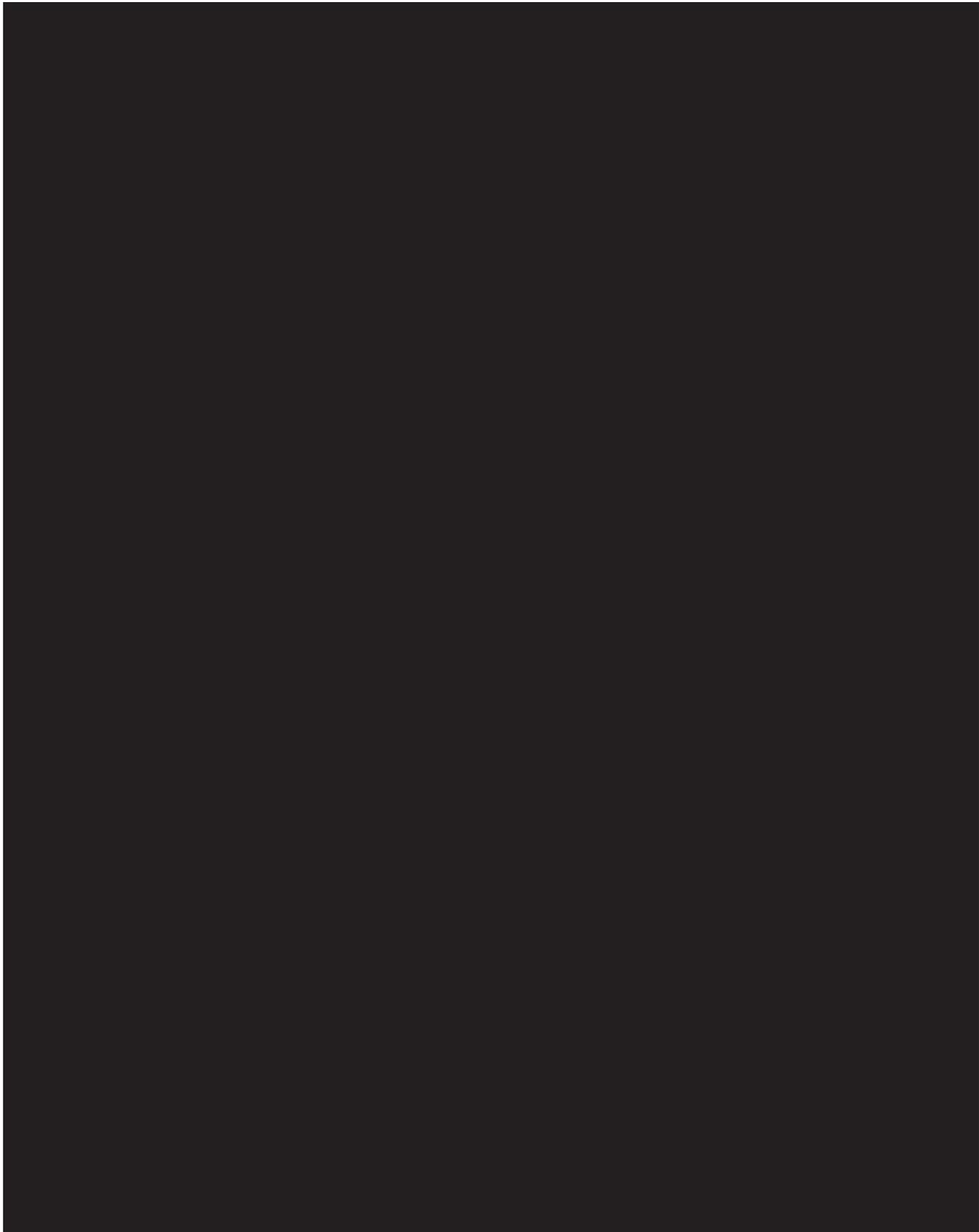




Figure 15: Management Team Overview

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



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.

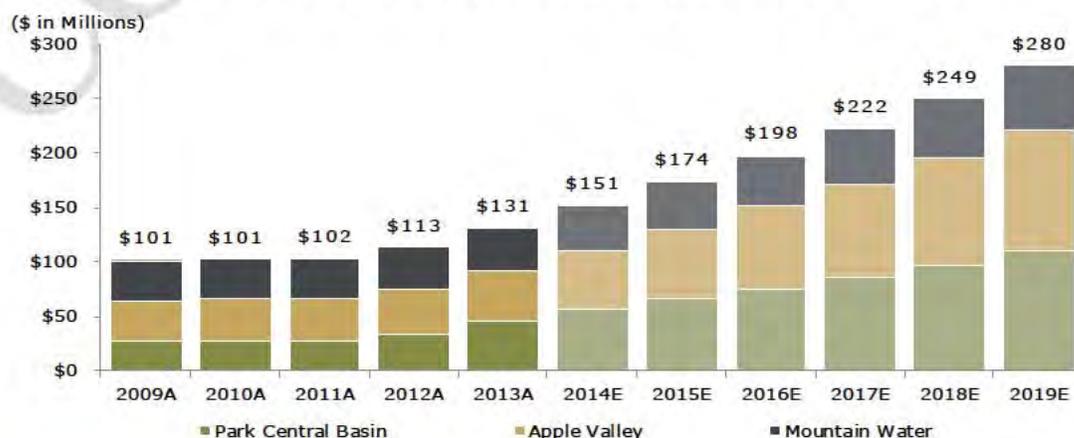
While the economic recession dampened customer growth, signs of strong customer growth are emerging particularly in the Apple Valley and Mountain Water service territories. In light of these factors, Park Water is well-positioned to achieve strong and stable organic growth in the next five years.

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)



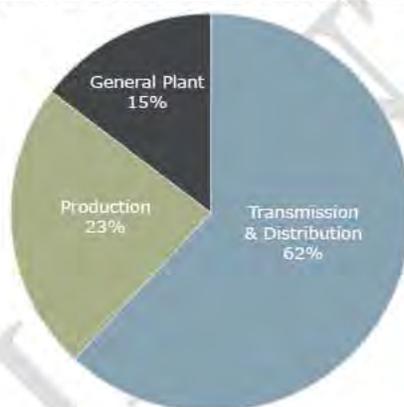


Over \$200 million of planned regulated Company-funded capital investment through 2019E

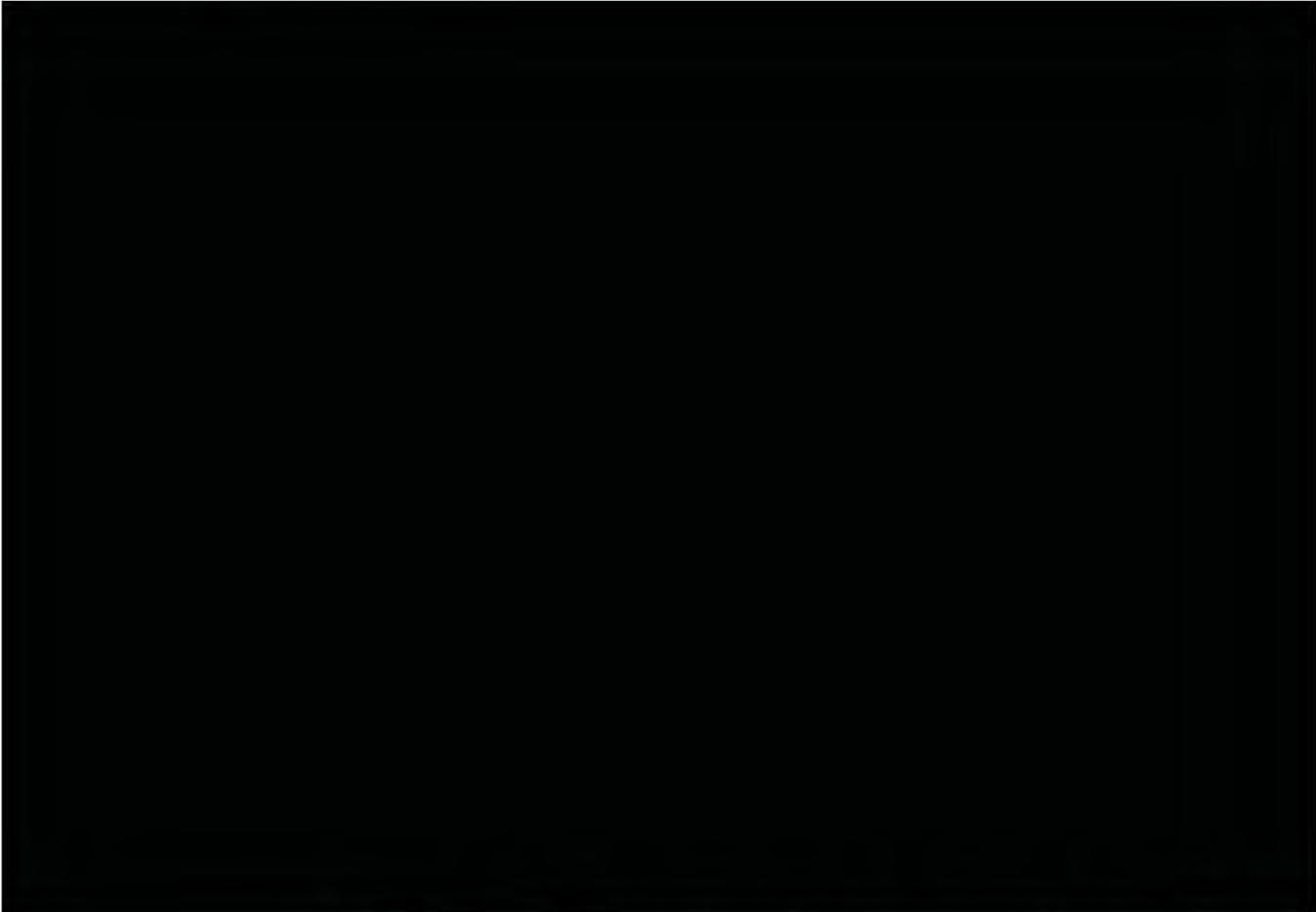
Park Water has increased its annual Company-funded capital investment program from \$9 million in 2011 to a budgeted \$27 million in 2014E. Park Water projects \$200 million of Company-funded capital investment between 2014E and 2019E focused on numerous projects focused on replacing aging distribution 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.



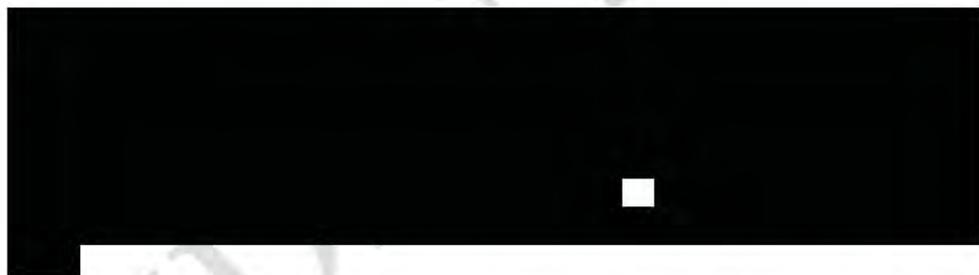
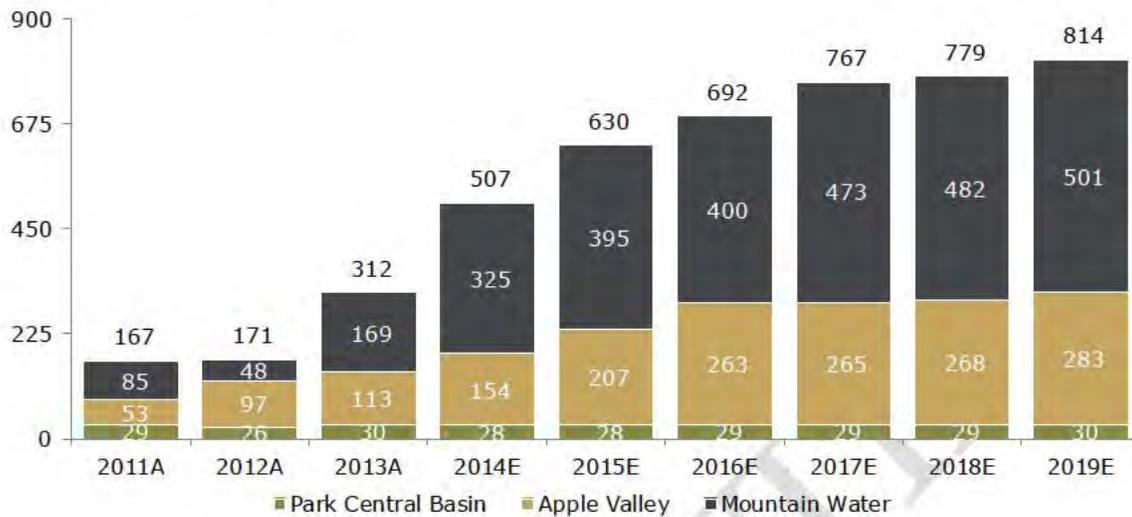
Improving economic conditions driving customer growth across each of Park Water's service territories

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.

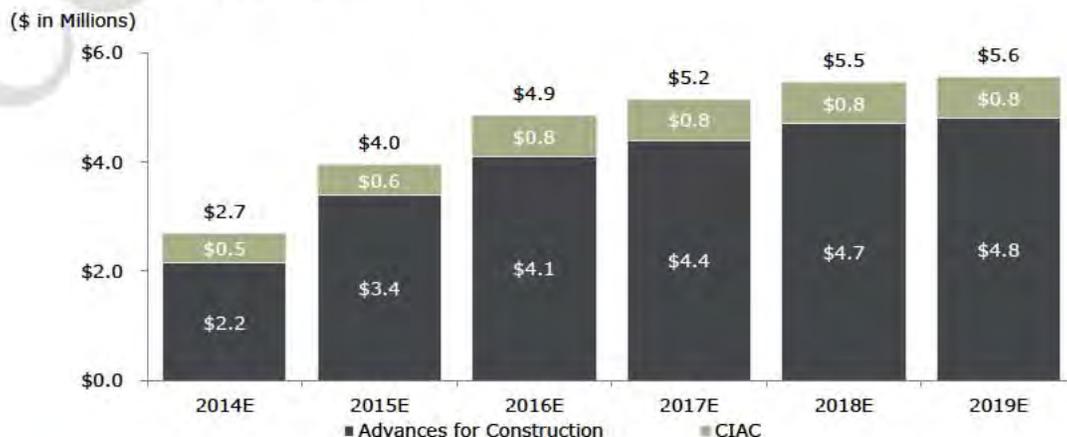


Figure 19: New Connections (2011A - 2019E)



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)

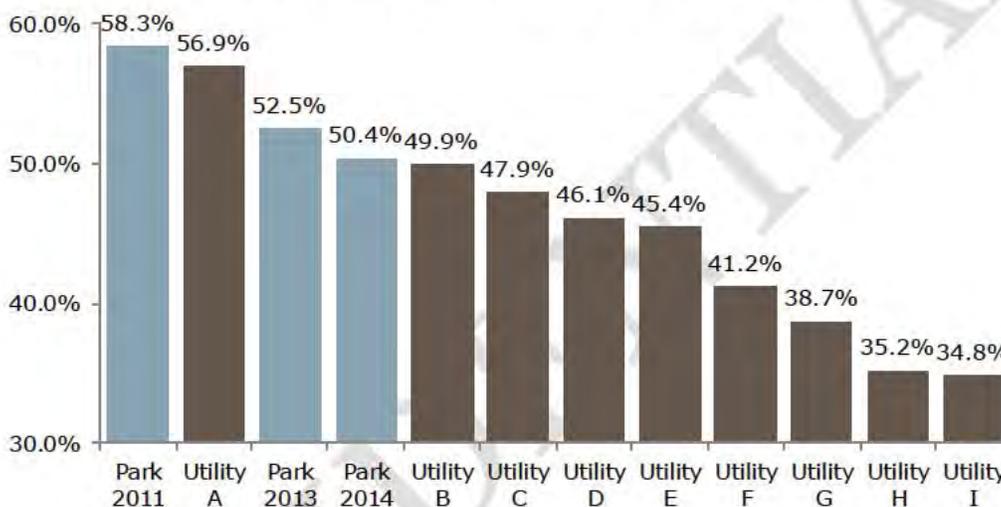




Increasing Margins and Improved Business Performance

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



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.

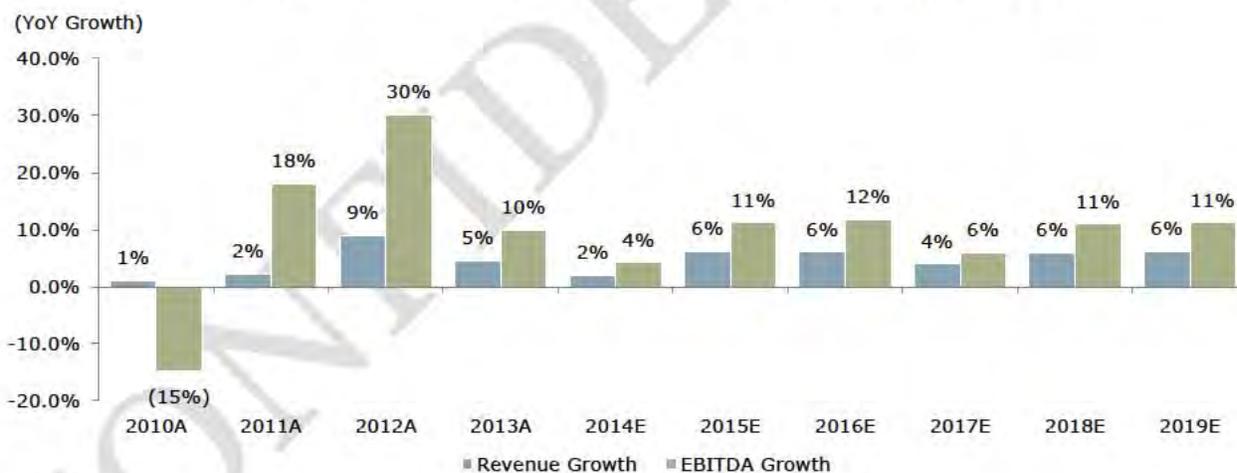
Additional expense savings have been achieved through competitive bidding of employee benefits and general insurance brokerage services, redesign of post-retirement medical benefits, professionalizing pension plan asset management, amending employee policies and better management of customer account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

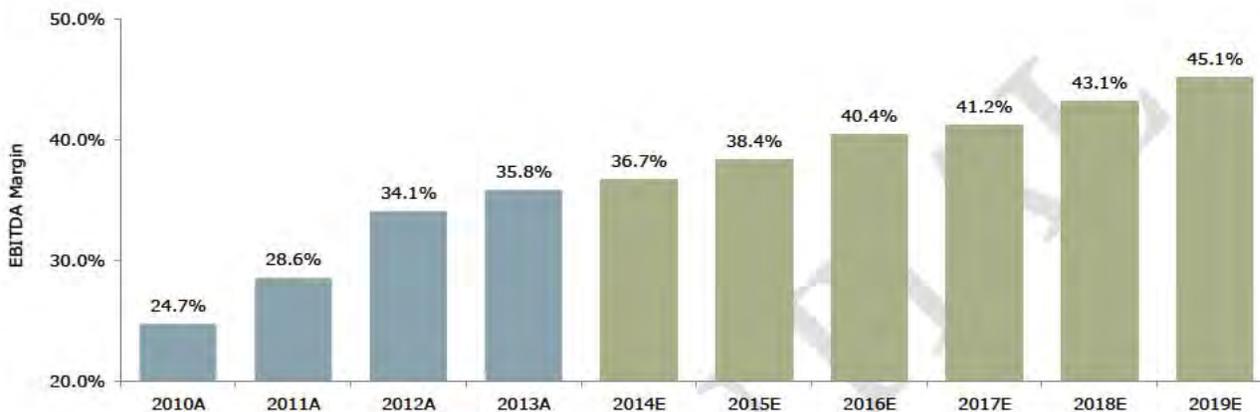
Figure 22: EBITDA Growth Outpaces Revenue Growth





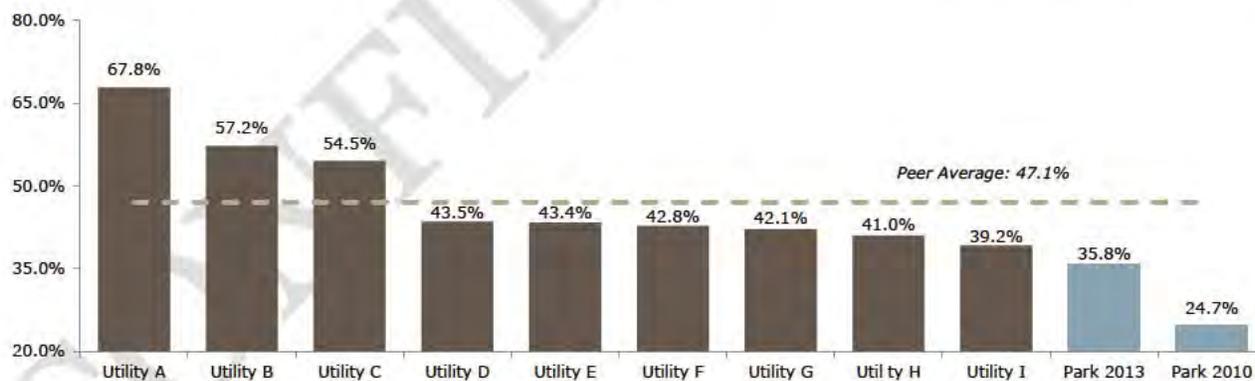
Park Water’s EBITDA margins have increased from 24.7% in 2010A to 36.7% in 2014E.

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 Revenue ¹⁶



¹⁶ Source: Utility 10K filings



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.





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%.

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Section III:
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.

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.⁴⁷ 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.

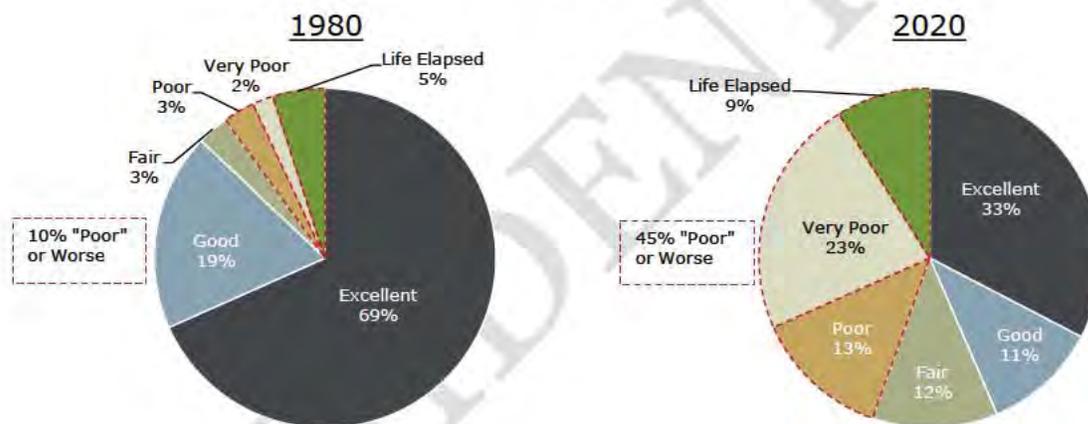
⁴⁷ Environmental Protection Agency (www.epa.gov), May 2014

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 America 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"

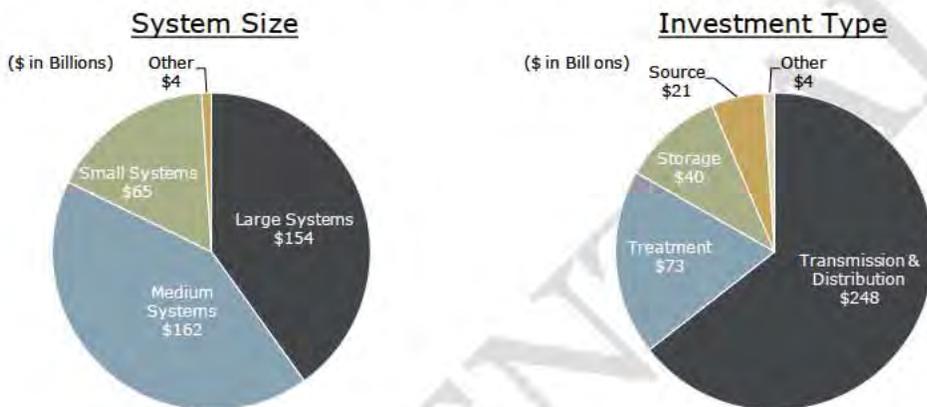
²⁰ Water utilities serving communities with 3,301-100,000 persons

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



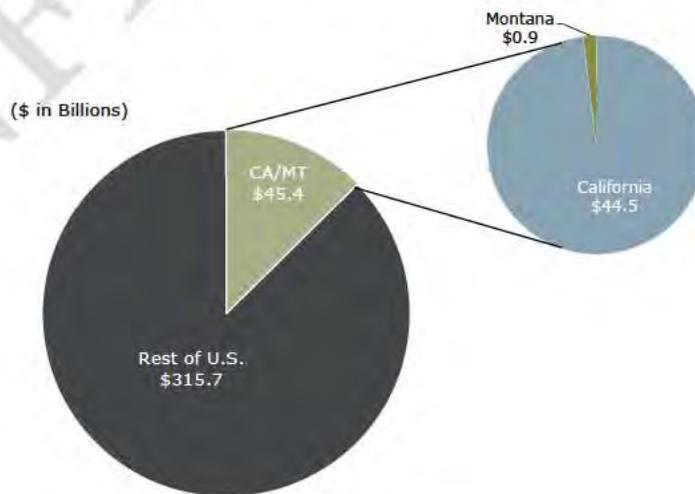
The EPA’s infrastructure investment forecast focuses on maintaining the physical integrity of utility systems. Transmission and distribution rehabilitation comprises \$248 billion (64% of total) of the EPA designated need. Roughly \$60 billion (15% of total) is required for water source and storage updates, 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





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

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.

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

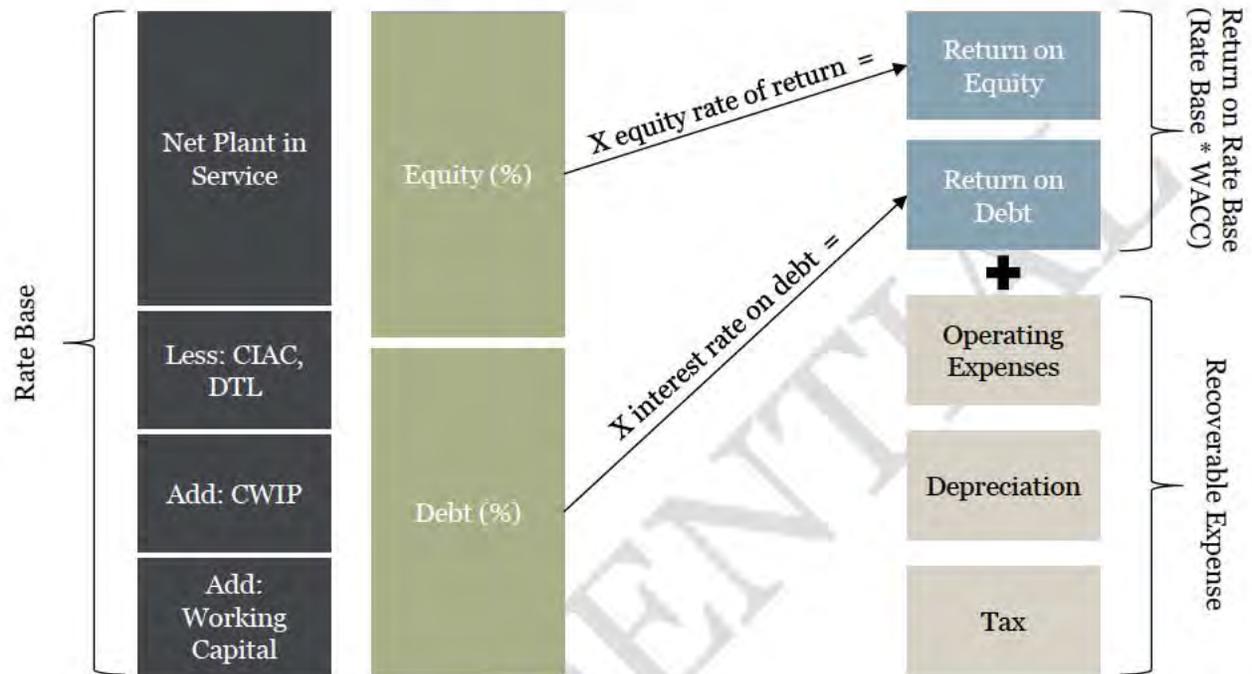
In addition to a return on rate base, utilities are generally allowed to recover certain expenses in rates.

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.

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 (“BPPRA”) 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,

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 Act 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 Act, all three utilities have developed Emergency Response and Recovery Plans, and regularly perform exercises to establish readiness for either natural disasters or terrorist acts.



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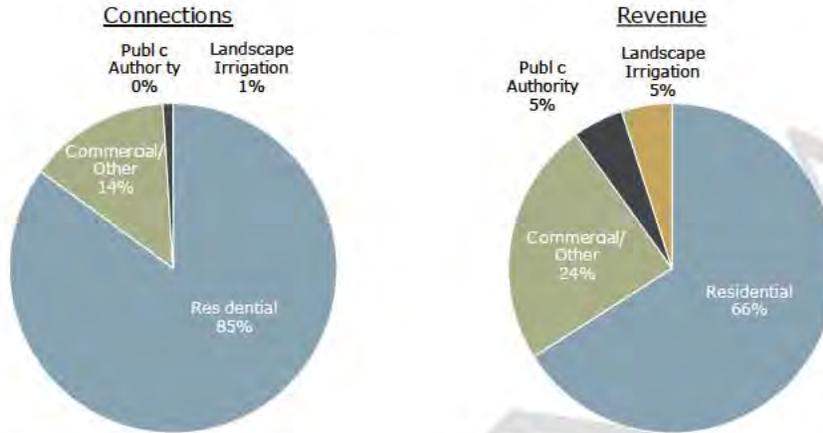
Section IV:
BUSINESS OVERVIEW



Company Description

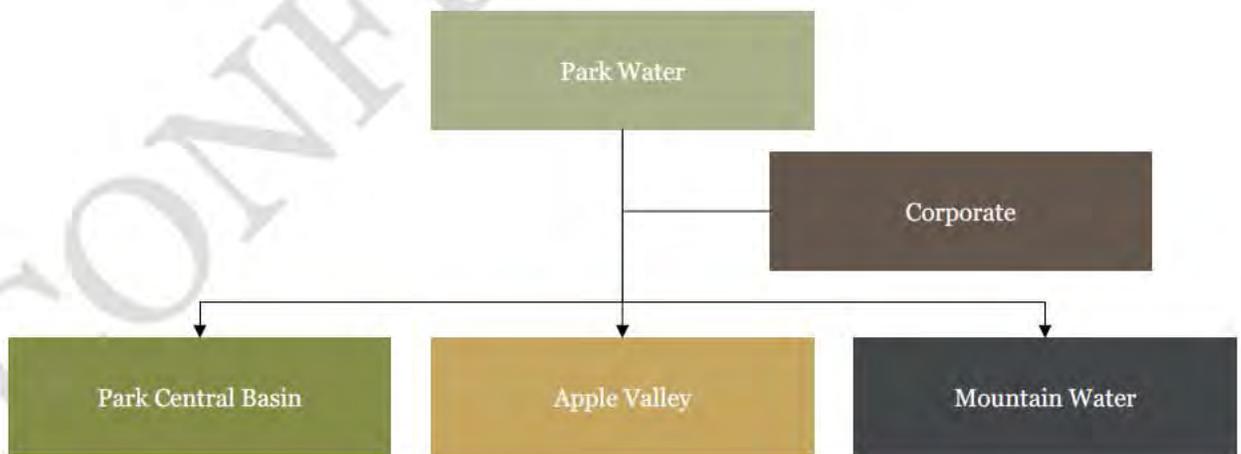
Park Water is a regulated water utility engaged in the production, treatment, storage, distribution and sale of water to 73,500 predominantly residential connections in Southern California and Western Montana, serving a combined population of 266,700 people.

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





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

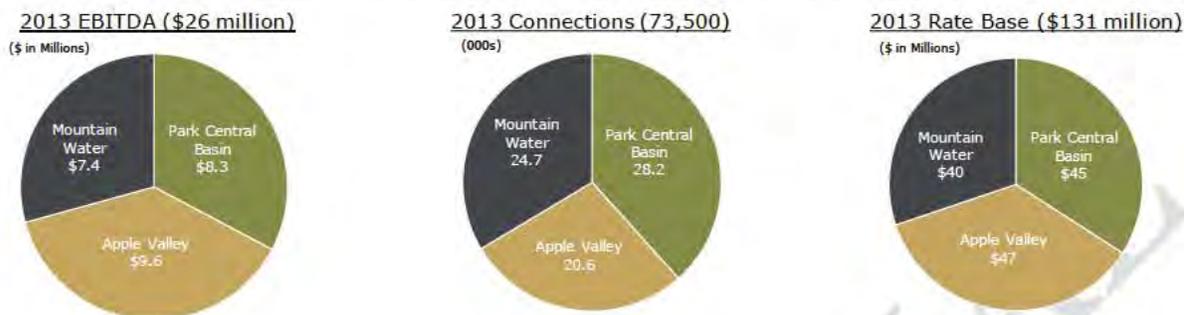


Figure 32: Year End 2013 Summary Utility Statistics

	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



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.

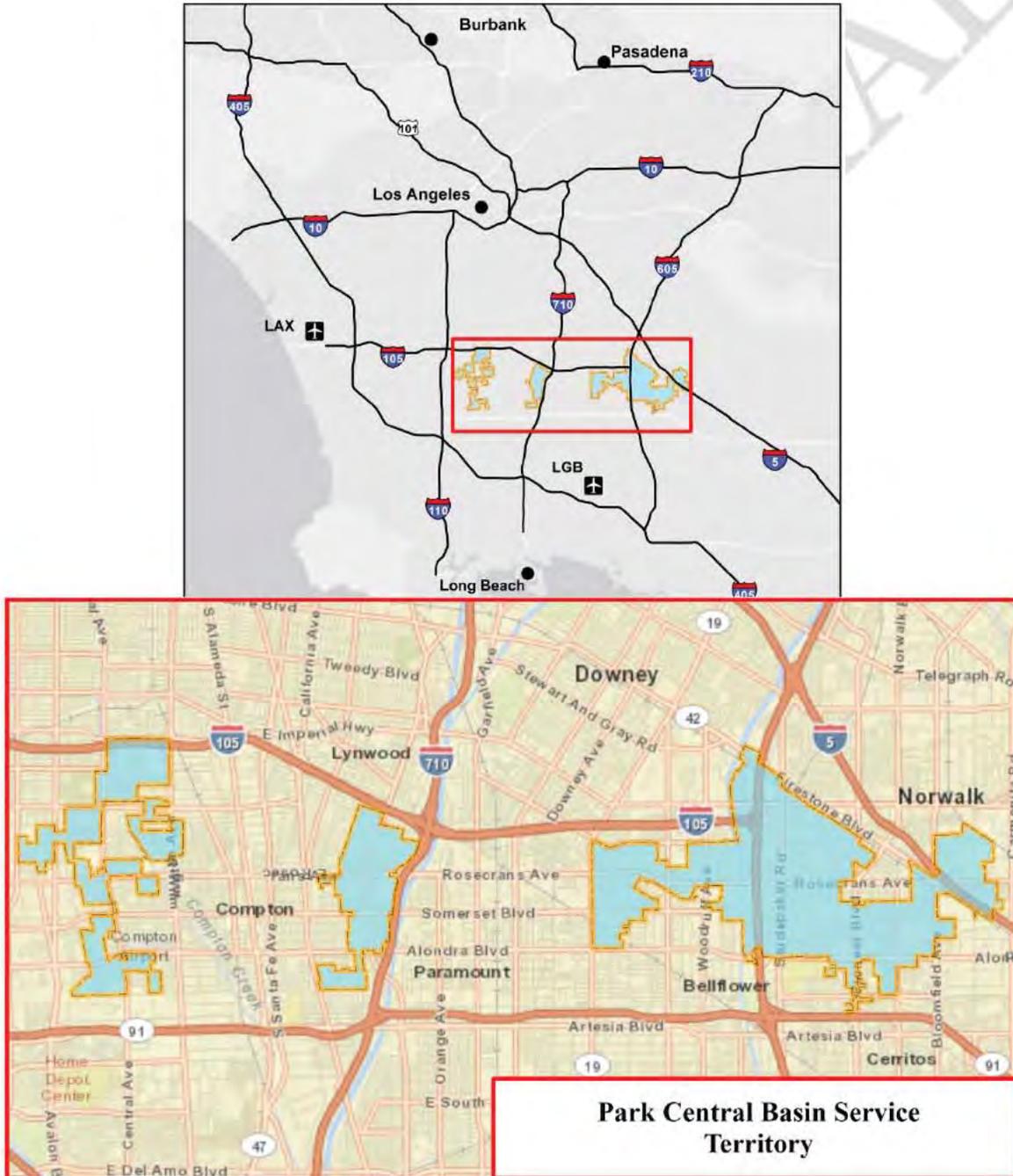
The Company has also made progress in increasing accountability within the organization and is moving towards a more performance-based culture. Recent changes to the performance management system underscore these efforts. The Company is implementing performance dashboards to monitor and track key performance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

Park Central Basin Operations

Park Central Basin began providing water services in the rapidly developing Southern Los Angeles County region in 1937. Park Central Basin currently serves 28,200 connections along the east/west Interstate 105 corridor, in a service territory encompassing 11 square miles and a population of 133,000 people. Park Central Basin's certificated service territory is divided into three separate water systems: Compton/Willowbrook (Compton West), Lynwood/Rancho Dominguez (Compton East) and Bellflower/Norwalk.

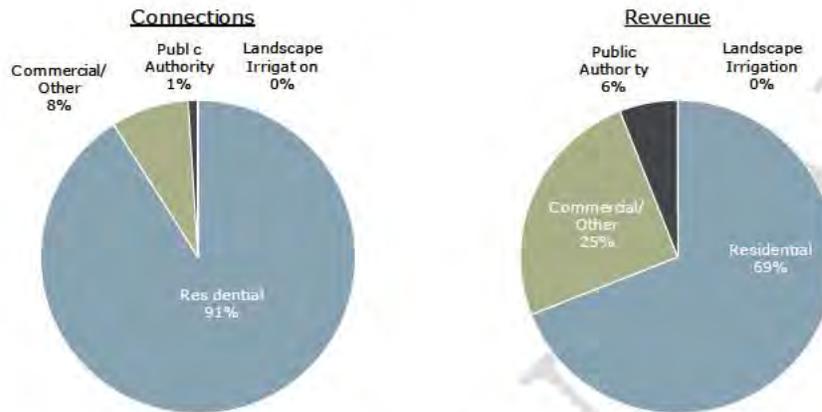
Figure 33: Park Central Basin Service Territory





Park Central Basin’s customers are predominantly residential, representing 91% of total connections and 69% of revenue. Park Central Basin’s commercial customers are highly diversified with no single customer exceeding 5% of total revenues.

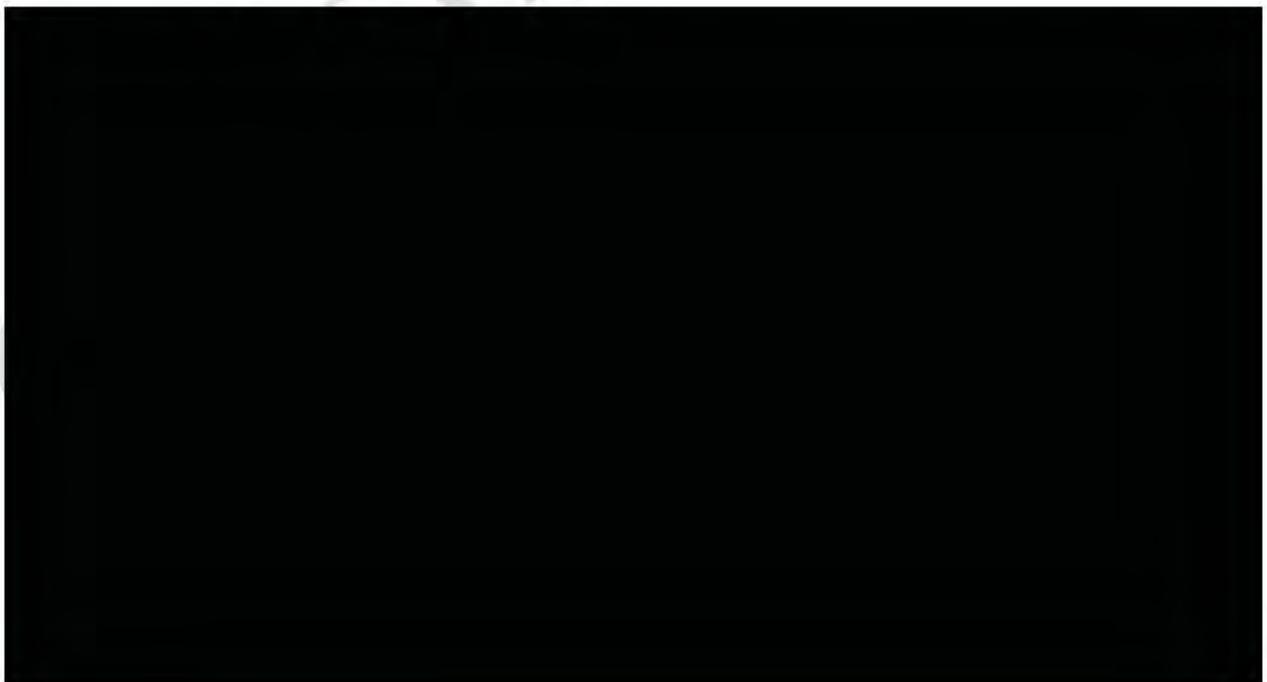
Figure 34: Park Central Basin 2013 Connections and Revenues by Class



Financial Performance

Park Central Basin contributed approximately [REDACTED] of the total revenue and [REDACTED] of the total EBITDA of consolidated Park Water in 2013.

Park Central Basin EBITDA has increased significantly over the last four years to [REDACTED] million in 2013 representing an EBITDA CAGR of [REDACTED] since 2009 [REDACTED]





Service Territory Overview

The Park Central Basin service territory is conveniently located near the core population centers of the Los Angeles area, including downtown Los Angeles and the Los Angeles International Airport (“LAX”). This strategic location is poised for rapid development as Los Angeles’ high cost of living is expected to drive a population shift toward areas such as Compton and Norwalk, CA. Forecasted housing and income growth, driven by construction and professional services, should provide a significant improvement to the area’s economy.

The South Los Angeles Metro region where Park Central Basin operates has seen population increases from 415,200 in 2010A to 422,400 in 2014E. The population is projected to increase further to 431,300 by 2018E.

Figure 36: Forecasted Park Central Basin Population ²⁴



As economic conditions within southern Los Angeles improve, per capita income in the service territory is forecasted to increase 11.2% through 2018E, comparing favorably to the 10.3% national average. Additionally, Los Angeles county payrolls are estimated to grow by 1.9% from 2014 - 2015, exceeding the 1.6% national average.²⁵

Park Central Basin’s service territory is well served by major east-west and north-south transportation corridors and has mass transit rail service to LAX, downtown Los Angeles and Long Beach. Compton is the

²⁴ Data from ESRI and U.S. Census Bureau for zip codes 90059, 90061, 90220, 90221, 90222, 90248, 90650, 90706

²⁵ IHS Global Insight



headquarters of grocery chains Ralph’s and Food 4 Less, divisions of The Kroger Co. Martin Luther King Jr. Community Hospital is a state-of-the-art hospital located in Park Central Basin’s service territory expected to open in 2015. The hospital will serve 1.2 million residents in South Los Angeles providing inpatient primary care, basic emergency services and outreach services while directly employing 900 healthcare workers. Studies are underway by the City of Norwalk to evaluate redevelopment options for a 55 acre closed Department of Defense facility, including development of light industrial, commercial and recreational facilities.

Space Exploration Technologies Corp. (SpaceX) and Tesla Motors, Inc. are headquartered in neighboring Hawthorne. The Charles R. Drew University of Medicine and Science is a private, nonprofit medical and health services education institution located in Park Central Basin’s service territory in South Los Angeles. The nearby Forum re-opened in 2014, after a comprehensive \$100 million renovation, as a 17,500 seat indoor performance venue with a focus on live musical acts with a legendary history.

Growth Opportunities

[REDACTED]

[REDACTED]

Operations

Park Central Basin owns 260 miles of pipe with an average age of 52 years and ranging in diameter from 2” to 24”. Approximately 66% of the pipe distribution system is comprised of cast iron with the remainder asbestos cement (18%), ductile iron (10%) and PVC (6%).

Park Central Basin also owns and maintains 2.6 million gallons (“mg”) of storage capacity, approximately 1,800 fire hydrants and 4,900 valves. Six portable diesel generators are used as a back-up electrical supply to the groundwater wells and treatment plant and one stationary diesel generator is in place to operate the office facility in the event of a power outage.

Operating Plan

Park Central Basin’s utility operations, including production, treatment, distribution and storage are monitored and controlled remotely through SCADA. Pressure, flow, and disinfectant and fluoride concentrations are monitored constantly through SCADA. If levels fall outside of normal



operating ranges, alarms are sent to operators and Park Central Basin’s 24/7 Communications Center. SCADA also controls flow at certain well and reservoir sites to optimize groundwater and minimize higher cost imported water use.

Park Central Basin’s operations plan is based on industry standards and follows best management practices. Water quality sampling and monitoring is conducted in compliance with all federal and state drinking water regulations. Park Central Basin implements the California Department of Public Health (“CDPH”) approved Cross Connection Control Program.

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

Customer Billing

Customers are on metered service and billed bi-monthly, with 85% of connections converted to automatic meter reading. Average monthly residential consumption is 11 hundred cubic feet (“ccf”), resulting in an average residential monthly bill of \$66.51, based on currently authorized service charges and commodity rates. Residential rates are tiered on an increasing basis to promote conservation.

Capital Investment Program

To address aging of the distribution system and to maintain system reliability, Park Central Basin has increased its Company-funded capital investment program from \$2.5 million in 2009 to \$11.3 million in 2013. The capital investment program is projected to increase further. The capital investment program is comprised of a wide range of small-scale projects targeting main replacement, production and storage facilities, operation facility upgrades, water rights and other system improvements, including SCADA and technology enhancements.

Figure 37: Park Central Basin Historical Capital Investment



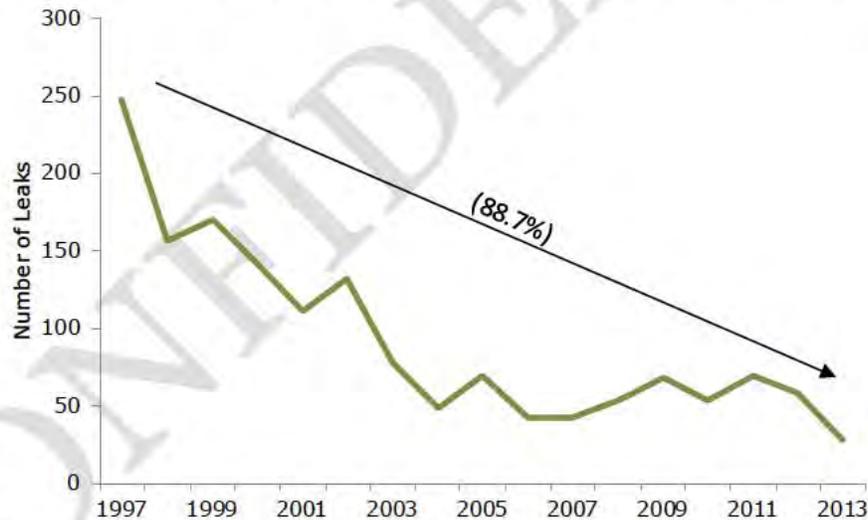


Figure 38: Park Central Basin Historical Rate Base



Non-revenue water production accounts for under 5% of total water production. Main leaks have declined from 69 in 2011 to 28 in 2013 due to Park Central Basin’s pipeline prioritization replacement program.

Figure 39: Park Central Basin Historical Water Leakage



Water Sources

Park Central Basin’s water supply is sourced through a combination of ground water, purchased imported and recycled water. Park Central Basin’s water quality is supported by its excellent ground water and imported water sources.

Park Central Basin has seven active wells with an average age of 48 years, three standby wells and six active imported water interconnections. Ground water produced is disinfected, and fluoride is added through fluoridation facilities at the active wells.

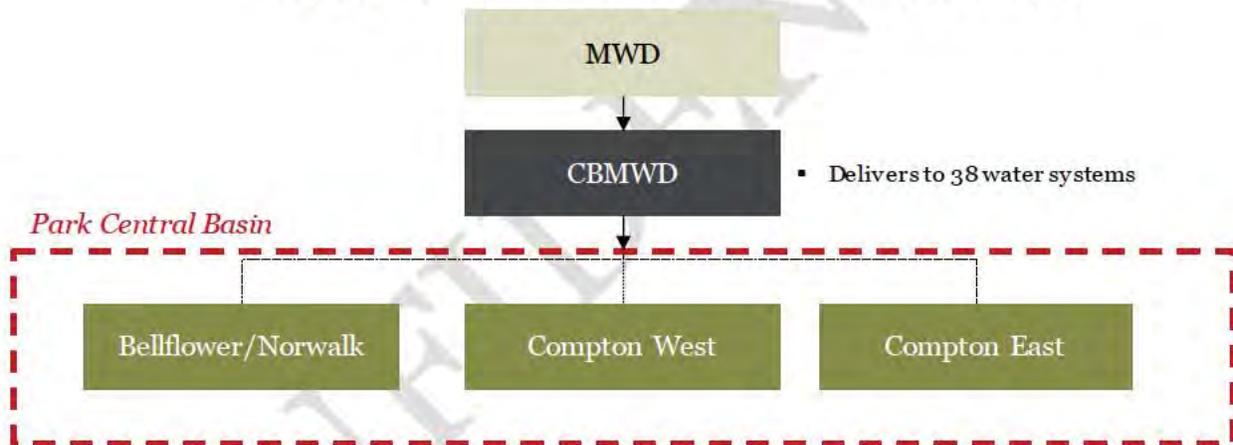


One well is equipped with a wellhead water treatment facility for the removal of naturally occurring arsenic and manganese to below the maximum contaminant level. The construction of the treatment facility was completed in 2012 and funded entirely through a California Proposition 50 grant (Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002). In addition, a new well with disinfection and fluoridation is expected to begin service in late 2015.

No new emerging contaminants have been identified for the immediate or near future that potentially could impact Park Central Basin’s wells. Park Central Basin is in compliance with all federal and state drinking water standards.

Imported and recycled water supply is purchased through the Central Basin Municipal Water District (“CBMWD”), which is a water wholesaler for areas of Southeast Los Angeles County known as the Central Basin. CBMWD is a member agency of the MWD and serves 38 water purveyors. MWD wholesales imported treated water to CBMWD who in turn wholesales the water to Park Central Basin.

Figure 40: Park Central Basin Imported Water Supply



MWD was established in 1928 by a consortium of 26 cities and water districts to provide supplemental water supply to Los Angeles, Orange, San Diego, Riverside, San Bernardino and Ventura counties. The mission of MWD is to provide its nearly 19 million people in a 5,200 square-mile service territory with adequate and reliable supplies of high-quality water to meet present and future needs in an environmentally and economically responsible way.²⁶

²⁶ MWD Annual Progress Report to the California State Legislature; February 2012



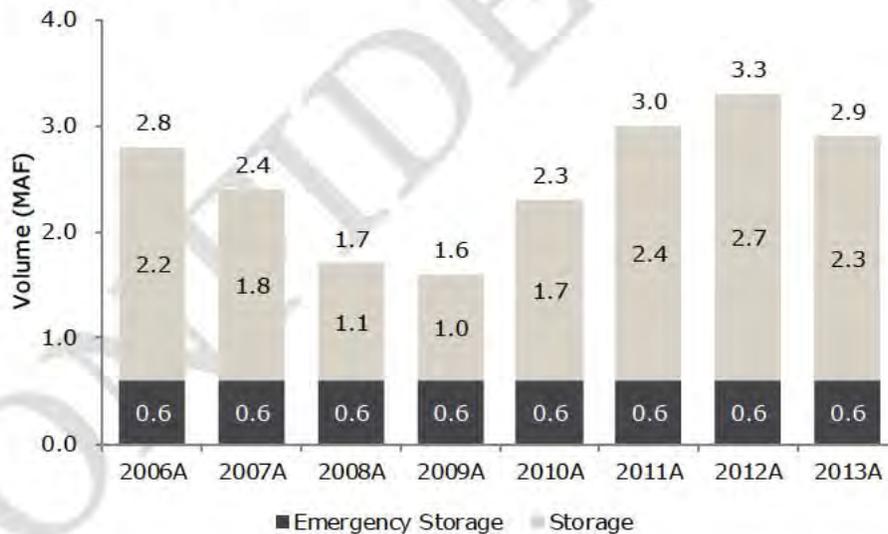
Imported Water Reliability

MWD obtains supplies through the Colorado River Aqueduct (which it owns and operates), from Northern California via the State Water Project, and from local programs and transfer arrangements. An increasing percentage of Southern California’s water supply comes from conservation, water recycling and recovered groundwater.

MWD adopted a long-term water plan to protect the region from future supply shortages. The Integrated Water Resources Plan 2010 Update provides a roadmap for regional water supply reliability over the next 25 years by stabilizing MWD’s traditional imported water supplies and establishing water reserves to withstand California’s dry cycles and continuing growth in demand. The plan emphasizes water-use efficiency through accelerated conservation and local supply development such as recycled water and groundwater recovery. The plan also advances potential future contingency resources such as storm water capture and large-scale seawater desalination.

MWD’s programs have helped prepare the region for the current drought situation. While many areas in the State are facing drastic water shortages, the MWD has significant storage available to avoid mandatory rationing in the near term.

Figure 41: MWD Storage Reserves



Park Central Basin also relies on ground water supply from the adjudicated Central Groundwater Basin. Ground water is pumped pursuant to owned or leased ground water rights. The Water Replenishment District of Southern California (“WRD”) is responsible for recharging the groundwater basin.

Groundwater Reliability

WRD is the agency that purchases artificial replenishment water (recycled and imported water) and funds programs and projects for replenishment and groundwater quality projects for the Central Basin and West Coast



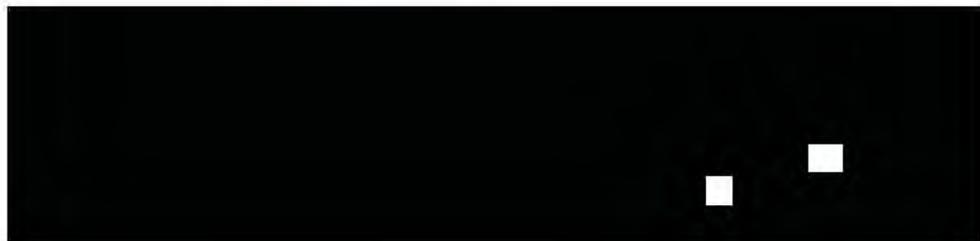
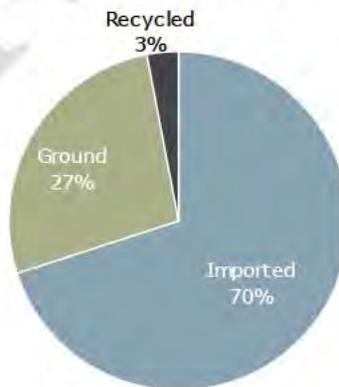
Basin. WRD’s “Engineering Survey and Report, 2014” states “... the groundwater basins are enormous underground reservoirs that are able to accommodate large swings in storage and water level changes. So far, the basins are operating within range and there should not be any problems with the groundwater supply meeting the needs of the overlying users in the current and ensuing years.” To recharge the Central Groundwater Basin, WRD uses storm water when it is available. Recycled water is also used because it is high quality, relatively low cost, and a reliable source throughout the year. Imported water is also used for recharge to make up the annual replenishment amount.

WRD is currently limited by regulatory agencies in the amount of recycled water it can use for replenishment. However, WRD is designing an advanced water treatment facility to treat recycled water to an even higher degree that will allow more recycled water to be used for replenishment. WRD’s Groundwater Reliability Improvement Program (“GRIP”) will offset the current use of imported water by providing up to 21,000 acre feet per year (“AFY”) of recharge from reliable, alternative supplies. The GRIP will provide a sustainable and reliable supply for replenishing the Central Groundwater Basin and will minimize the cost to agencies using groundwater.

Water Sourcing Strategy



Figure 42: Park Central Basin 2013 Water Sources





Recycled water accounts for a small portion of Park Central Basin’s overall water supply. Customer demand is limited for recycled water primarily because of high relative cost and the upfront expense for customers to retrofit their own plumbing.

Park Central Basin’s 2010 Urban Water Management Plan (“UWMP”) projects water supplies and demands for the utility through 2035. Based on water supply and demand assumptions over the next 25 years, Park Central Basin’s UWMP predicts the ability to deliver a reliable and high quality water supply for their customers even during dry years.

The Water Conservation Bill of 2009 (SBX7-7) was enacted as part of the November 2009 Comprehensive Water Package to provide the regulatory framework to support the statewide reduction in urban per capita water use described in the 20 by 2020 Water Conservation Plan. Consistent with SBX7-7, each water supplier must determine and report its existing baseline water consumption and establish future water use targets in gallons per capita per day (“gpcd”).

SBX7-7 requires that water retailers identify water demand reduction targets to meet interim targets by 2015 and compliance targets by 2020. The compliance targets include either a 20% reduction in per capita daily water use, or 95% of a hydrological region target, as well as other



alternative targets. Park Central Basin’s hydrologic region target is 149 gpcd. Park Central Basin’s UWMP calculated the ten year average base daily per capita water use at 99 gpcd, well below the hydrological region target.

Figure 44: Park Central Basin Water Systems

	Compton West	Compton East	Bellflower/Norwalk
Infrastructure			
Active Wells	1	2	4
MWD Connections	2	1	3
Recycled Water Connections	-	1	28
Reservoirs	2	-	1
Water Sources			
Imported	86%	60%	68%
Ground	14%	40%	27%
Recycled	-	-	5%

Local Presence and Community Involvement

Park Central Basin maintains a strong presence and is active in the local community. Management meets regularly with municipal staff to discuss water facilities, rates, and emergency preparedness and make presentations to city councils on water issues. Park Central Basin hosts an annual Conservation Celebration for its customers and also sponsors informational booths and exhibits at community events such as the City of Compton’s Fire Services Day, the Water Replenishment District of Southern California’s Annual Groundwater Festival, and the City of Norwalk’s Summer Concert Series. Additionally, Park Central Basin provides charitable contributions to various local community groups and organizations.

In an effort to support local industry, Park Central Basin looks to contract most construction to local business to serve capital investment requirements.

Park Water’s California operations have participated in the CPUC General Order 156 Diversity Supplier Program for ten years. Park Water has exceeded the GO 156 objectives of 21% diversity spend for the past three years. Park Water reported greater than 37% diversity spend in 2013, the highest for all reporting water utilities. Supplier diversity allows for Park Water to support minority- and women-owned businesses, as well as enterprises led by service disabled veterans. Park Central Basin also focuses on supporting businesses local to its operations.



Non-Tariff Services

In addition to providing regulated water services, Park Central Basin also provides two separate non-tariff services that account for less than 1% of Park Central Basin's annual revenues.

Since 1992, Park Central Basin has provided contract operations and management services for CBMWD's Century Recycled Water Distribution System.

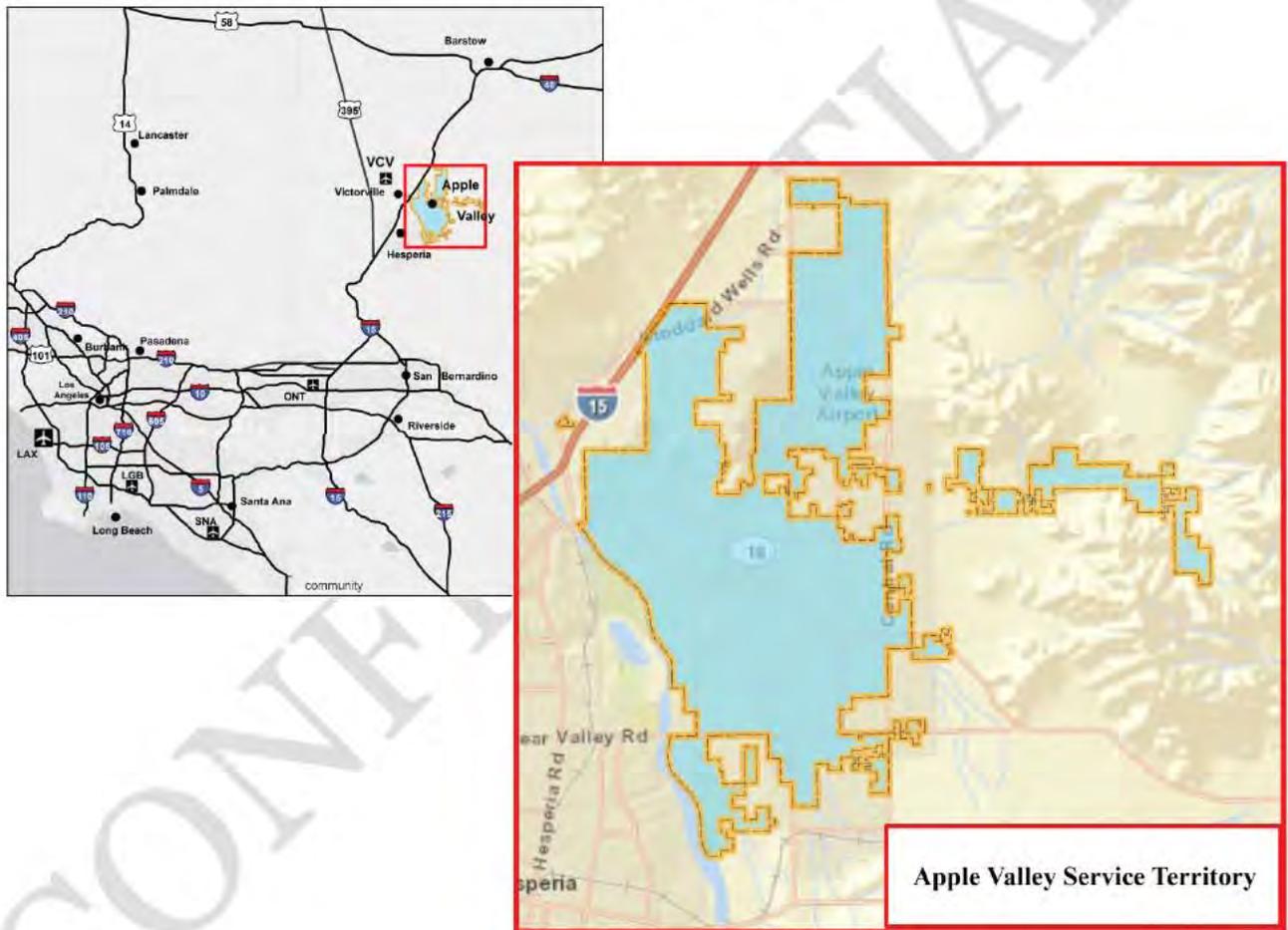
In early 2014, Park Central Basin began offering its customers an optional home protection plan through a licensing agreement with a third-party vendor, HomeServe USA Repair Management Corp. ("HomeServe"). This plan provides customers with insurance coverage for their exterior water lines, exterior sewer/septic lines and/or their interior plumbing and drainage systems.

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Apple Valley Operations

Apple Valley was acquired by Park Water from Texaco Oil Company in 1987. Apple Valley has been providing water service since 1945 and currently serves 20,600 connections in and around the Town of Apple Valley in San Bernardino County, California, located 90 miles northeast of Los Angeles along Interstate 15. The certificated service territory is 51 square miles with a population of 61,700 people. Apple Valley serves approximately 80% of the population in this high desert, commuter and retirement town.²⁷

Figure 45: Apple Valley Service Territory

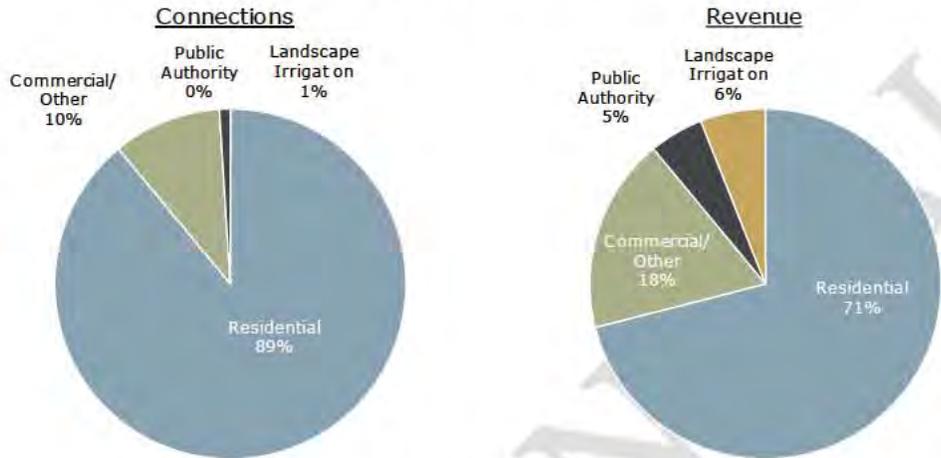


²⁷ Golden State Water Company, a subsidiary of American States Water Company, serves the remaining 20%



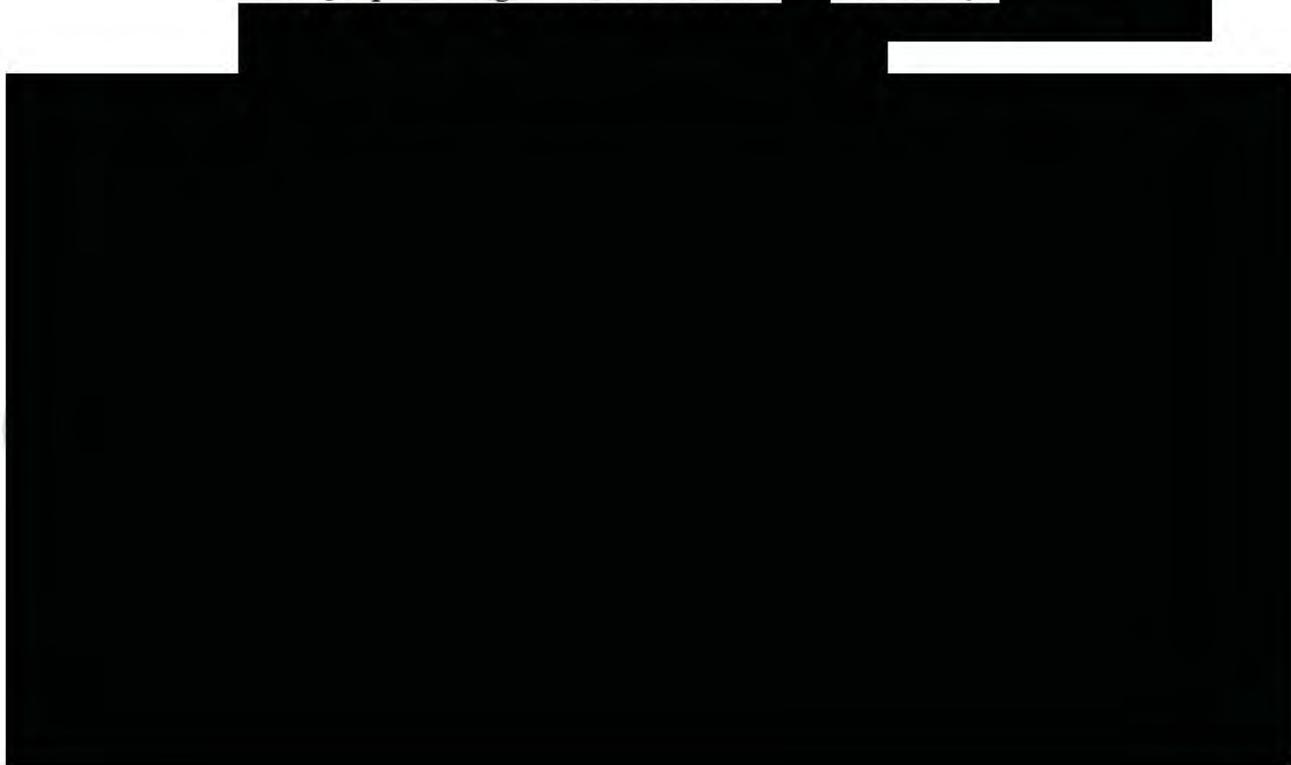
Apple Valley serves predominately residential customers which represent 89% of total connections and 71% of revenue. Apple Valley's commercial customers are highly diversified with no single customer exceeding 5% of the Company's total revenues

Figure 46: Apple Valley 2013 Connections and Revenue by Class



Financial Performance

Apple Valley contributed approximately [REDACTED] of the total revenue and [REDACTED] of the total EBITDA of consolidated Park Water in 2013. Apple Valley's EBITDA has increased significantly over the last four years to [REDACTED] million in 2013 representing an EBITDA CAGR of [REDACTED] since 2009. [REDACTED]

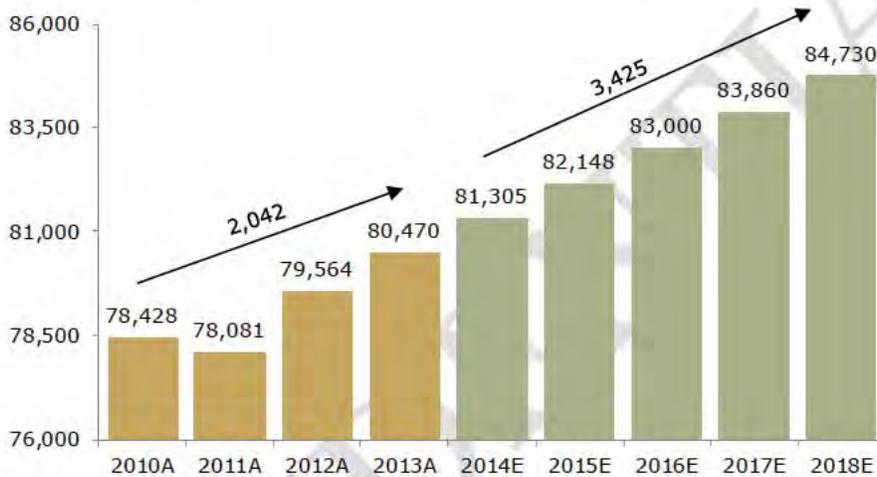




Service Territory Overview

The Town of Apple Valley is a highly desirable high desert commuter and retirement community within Southern California’s Inland Empire region. The Inland Empire population is expected to continue growing over the next several years as housing costs increase in coastal Southern California, driving many households inland. New housing starts in the Inland Empire are expected to increase from 6,400 in 2013 to 14,000 by 2018. In the region, the construction and leisure sectors are driving job growth of 1.7%, exceeding the 1.3% national average. Apple Valley is well-positioned to capitalize on the expected population and economic growth.

Figure 48: Forecasted Town of Apple Valley Population ²⁸



Per capita income in the service territory is forecasted to increase 11.9% through 2018E as residents continue to move to the Apple Valley region. This compares favorably to the national average of 10.3%.²⁹

The Town of Apple Valley is located in the Victor Valley in the County of San Bernardino at an elevation of 3,000 feet. Known as the High Desert, the Town is strategically located 95 miles northeast of the Los Angeles metropolitan area, 140 miles north of San Diego and 185 southwest of Las Vegas.

The area experiences an average of 350 days of sunshine annually. The combination of weather, landscape and affordable housing have led to sustained population growth. According to the United States Census

²⁸ ESRI Census Bureau for zip codes 92307 and 92308

²⁹ U.S. Bureau of Labor Statistics



Bureau, the Town's population grew from 14,303 in 1980 to 69,135 in 2010. For the ten year period ending 2010, population grew 27.5%.

The Town is home to the Lewis Center for Academic Excellence, a nationally recognized laboratory high school that gives students a hands-on science and math education. Additionally, a 1,400 acre planned retirement community, Sun City Apple Valley, offers a wide range of senior housing.

Regional growth is expected to be further supported with the planned construction of the High Desert Corridor, an up to eight lane east-west highway corridor between Palmdale and Apple Valley. The High Desert Corridor will also create a link with the 800 mile north-south high speed rail line the state is currently planning.

Neighboring Victorville is home to the Southern California Logistics Airport, a 2,500 acre aviation and air cargo facility, designated a foreign trade zone. The related logistics center has 60 million square feet of diverse development for commercial and residential use. A 3,500 acre intermodal rail and container complex is currently being planned.

Growth Opportunities

[REDACTED]

[REDACTED]

[REDACTED]

Operations

Apple Valley has approximately 465 miles of pipe with an average age of 27 years and ranging in diameter from 2" to 30". Approximately 52% of the pipe distribution system is comprised of PVC, with the remainder steel (30%), asbestos cement (10%) and ductile iron (7%).



Apple Valley has a storage capacity of about 12.0 mg. Apple Valley has approximately 2,600 fire hydrants and 8,000 valves. Nine permanent and six portable diesel generators are used as a back-up electrical supply to the groundwater wells and office facility in the event of a power outage.

Operating Plan

Apple Valley's operations, production, treatment, distribution and storage facilities are monitored and controlled remotely through SCADA. Pressure, flow, and disinfectant concentrations are monitored constantly through SCADA. If levels fall outside of normal operating ranges, alarms are sent to operators and Park Central Basin's 24/7 Communications Center. SCADA also controls flow at certain well and reservoir sites to optimize groundwater and minimize imported water use. Apple Valley's operations plan is based on industry standards and follows best management practices. Water quality sampling and monitoring complies with all federal and state drinking water regulations. Apple Valley implements the CDPH approved Cross Connection Control Program.

Apple Valley 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

All customers are on metered service and billed bi-monthly. Average monthly residential consumption is 17 ccf, resulting in an average residential monthly bill of \$65.23, based on currently authorized service charges and commodity rates. Residential rates are tiered on an increasing basis to promote conservation. Virtually all meters have been converted to AMR.

Capital Investment Program

To address aging of the distribution system and to maintain system reliability, Apple Valley has increased its Company-funded capital investment program from \$2.0 million in 2009 to \$7.5 million in 2013 and is projected to increase further. The capital investment program is comprised of a wide range of small-scale projects targeting main replacement, production and storage facilities, operation facility upgrades, water rights and other system improvements, including SCADA and technology enhancements.



Figure 49: Apple Valley Historical Capital Investment

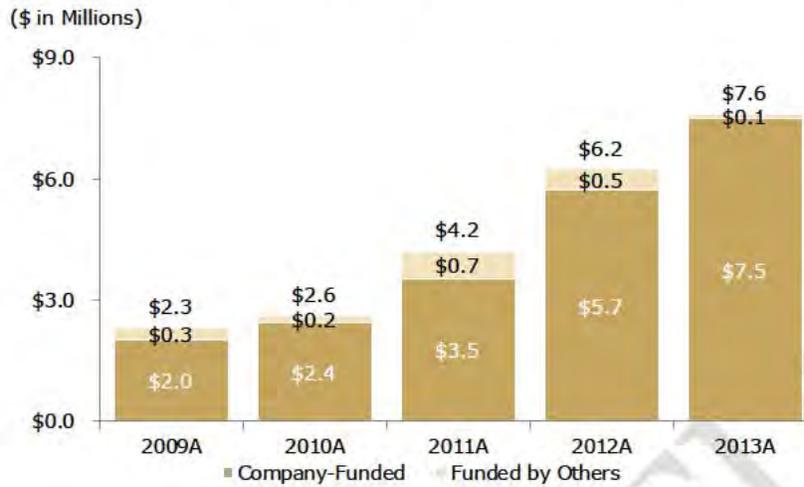


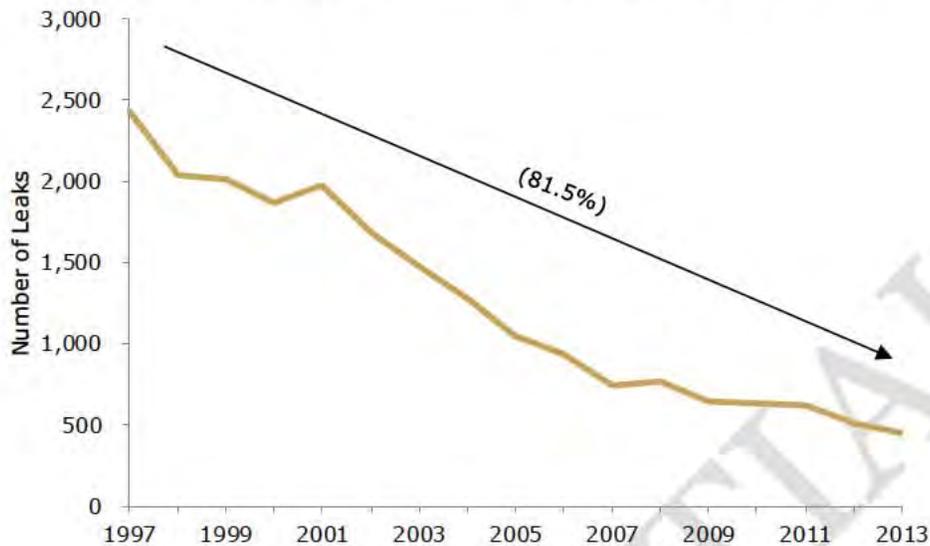
Figure 50: Apple Valley Historical Rate Base



Non-Revenue water production accounts for less than 6% of total water production. Main leaks have been steadily declining from 2,400 in 1997 to 450 in 2013. This decline is attributed to a successful and on-going program of pipeline replacements as well as enhancements in system pressure management.



Figure 51: Apple Valley Historical Water Leakage



Water Sources

Apple Valley pumps all of its water supply from its 21 active wells with an average age of 27 years. Apple Valley also maintains one standby well, and six interconnections with adjacent water utilities. Total well production is approximately 28,200 gallons per minute. Supplementing these active wells are eleven reservoirs located on nine different sites with a total storage capacity of 12 mg.

In addition, Apple Valley has 18 booster pumps in eight booster stations serving 14 pressure zones. Ground water produced is disinfected with 14 wells equipped with MIOX brand on-site generation hypochlorite disinfection solution and eight wells are disinfected with either sodium or calcium hypochlorite.

Apple Valley’s water quality is exceptional given its close proximity to the Mojave River. Additionally, Apple Valley has enhanced the quality of water delivered to customers by building four wells close to the Mojave River. The utility also installed improved distribution piping to move this water to customers. Apple Valley is in compliance with all federal and state drinking water standards.

Apple Valley’s water supply is sourced entirely from the Alto subunit of the Mojave Ground Water Basin (“Mojave Basin”). In 1996, the Mojave Basin was adjudicated and the Mojave Water Agency (“MWA”) was appointed watermaster of the basin. As part of the adjudication, Mojave Basin water rights were ramped down to prevent overdraft of the basin. Water producers were assigned a Base Annual Production (“BAP”) of which a reduced amount, referred to as the Free Production Allowance (“FPA”), can be pumped. However, the adjudication does allow water producers to pump in excess of their FPA subject to paying MWA for replacement water.



MWA is a state water contractor that is entitled to receive an annual allotment of up to 82,800 AF of water from the State Water Project via the East Branch of the California Aqueduct.³⁰ This facility extends south from the Sacramento Delta and runs locally into the Mojave Basin. To supplement the natural recharge of the Mojave Basin, MWA uses State Water Project water primarily to recharge the basin. MWA also operates the Regional Recharge and Recovery Project, which is a conjunctive use project to store water underground for future recovery to ensure sustainable supply for the region.

The adjudication also allows water producers to lease their excess Mojave Basin water rights that have not been pumped during the water year. The price for leased water rights has been less than the cost of MWA replacement water.

Apple Valley owns 13,610 AF of BAP that allows for 8,166 AF of FPA. In addition, Apple Valley has a long-term lease until 2093 that provides free annual use of up to 2,500 AF of FPA to serve an existing senior living housing development with planned expansion (Jess Ranch Development). Current production for the development is approximately 1,400 AF of FPA. Apple Valley also has another long-term lease until 2093 that provides free annual use of up to 1,500 AF of FPA of non-potable water for irrigation service for the same development. Apple Valley has a first call to lease an additional 2500 AF of FPA at a price not-to-exceed 90% of the cost of MWA replacement water.

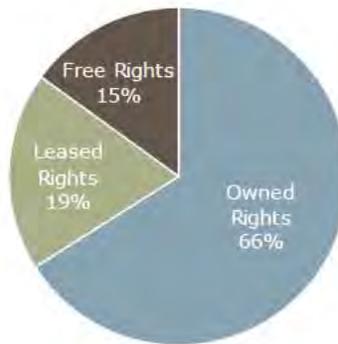
Apple Valley also has agreements with the Town of Apple Valley to serve a park and golf course. Under these agreements, the Town is obligated to make available sufficient water rights of approximately 400 AF of FPA to meet 110% of estimated demand and Apple Valley is required to lease the unused portion of the Town's water rights.

Apple Valley also has approximately 8,800 AF of FPA of developer-funded pre-purchased MWA replacement water available for future use. Currently the water rights available under the above agreements are sufficient to meet demand in excess of Apple Valley's owned water rights.

To reduce its dependence on the leased water market and hedge against the rising cost of imported water, Apple Valley purchased 280 AF of BAP for \$1.3 million in 2013. Apple Valley may pursue the purchase of additional water rights as they become available for sale. The need to maintain and expand its resources and production and storage facilities provides Apple Valley incremental capital investment opportunities.

³⁰ www.mojavewater.org

Figure 52: Apple Valley 2013 Water Sources



With its access to MWA replenishment water and an active water leasing market, Apple Valley believes it will continue to be able to meet current and future water demands in its growing service territory. The Apple Valley 2010 Urban Water Management Plan projects water supplies and demands through 2035. Based on water supply and demand assumptions over the next 25 years, Apple Valley’s UWMP predicts the ability to deliver a reliable and high quality water supply even during dry years.

Like Park Central Basin, Apple Valley is also subject to SBX7-7. SBX7-7 compliance targets include either a 20% reduction in per capita daily water use, or 95% of the hydrological region target, as well as other alternative targets. Apple Valley’s hydrologic region target is 162 gpcd. Apple Valley’s UWMP calculated the ten-year average base daily per capita water use at 306 gpcd. Current per capita consumption is approximately 200 gpcd. The lower levels of current consumption meet the bill’s 20% reduction target, suggesting that Apple Valley will be compliant with SBX7-7.

Local Presence and Community Involvement

Apple Valley maintains a strong local presence and is very active in the community. Staff are involved with different local community schools, boards and organizations, including Granite Hills High School SCADA Academy, Youth Environmental Leadership Conference, Fire Explorers, Chamber of Commerce and Mojave Environmental Education Consortium. Staff regularly participate in local events such as the Fire Department’s Health Fair, the Police Department’s Safety Fair and the regional Shake Rattle and Roll event that focuses on disaster preparedness. Additionally, Apple Valley provides charitable contributions to the Police Activity League, Victor Valley College Foundation, Secret Santa Program, Chips4Kids and others.

Apple Valley hosts an annual Spring Conservation Fair in Lyons Park, which is located in the center of town. The public has the opportunity to meet with landscape professionals to learn about desert adaptive and drought tolerant plants, the latest home irrigation systems and attractive alternatives to turf ground coverings.

As a California utility within Park Water, Apple Valley maintains the same diversity spending objectives as Park Central Basin, contributing to the



Company's diversity spend in 2013. This enables Apple Valley to support minority-and women-owned businesses, as well as enterprises led by service disabled veterans.

Apple Valley actively supports local business. When possible and subject to competitive services and price, Apple Valley purchases from local contractors and service providers. This includes a large portion of Apple Valley annual capital investments.

Non-Tariff Services

Like Park Central Basin, Apple Valley provides a non-tariff service to customers in its service territory. The utility has signed a licensing agreement with HomeServe to offer utility customers insurance coverage for their exterior water lines, exterior sewer/septic lines and/or their interior plumbing and drainage systems.

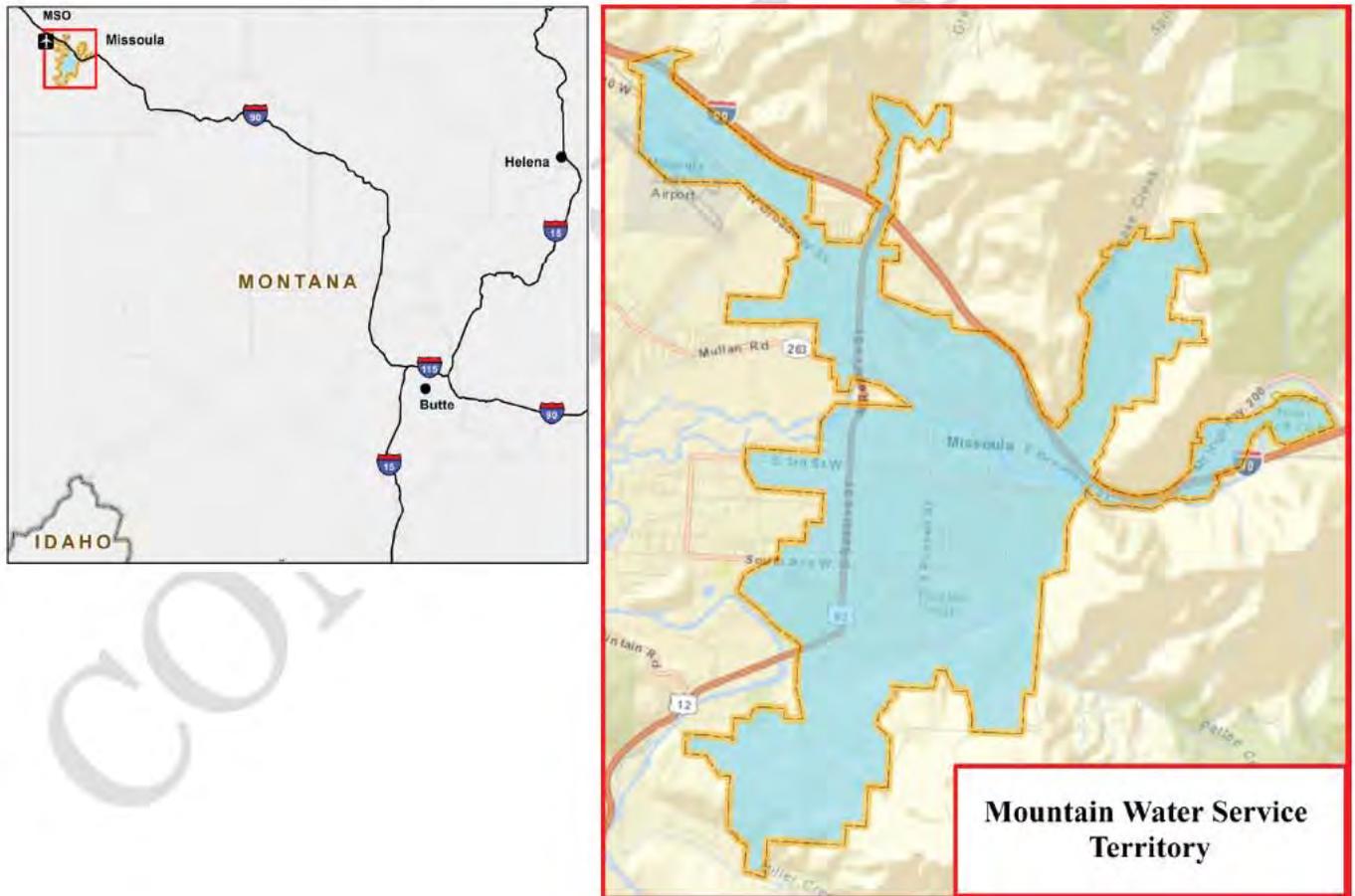
CONFIDENTIAL

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.

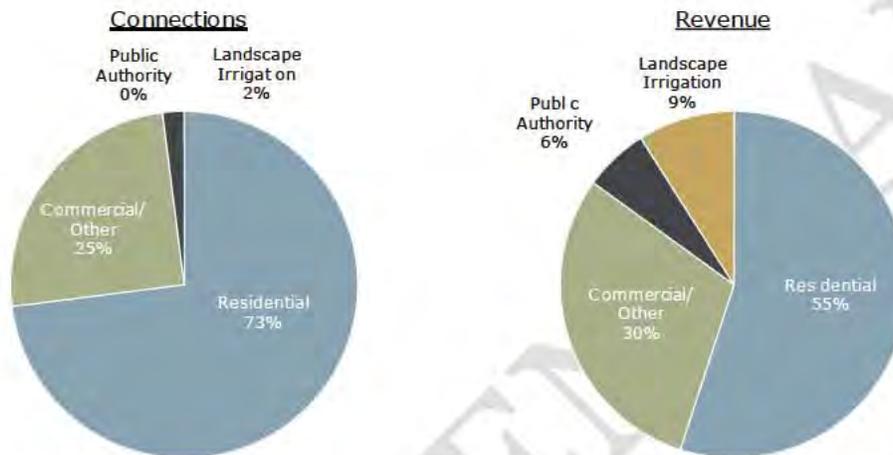
Figure 53: Mountain Water Service Territory





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





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)

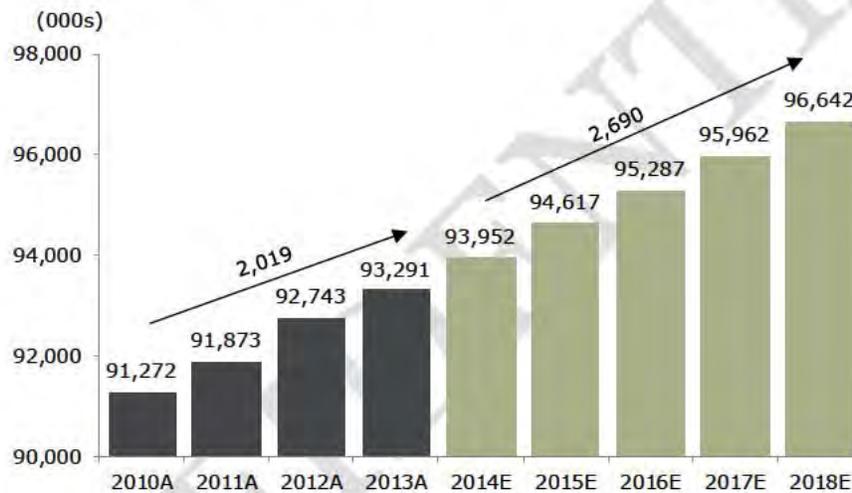
³³ CNN Money, 2010



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



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.



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.



Figure 57: Mountain Water Historical Capital Investment

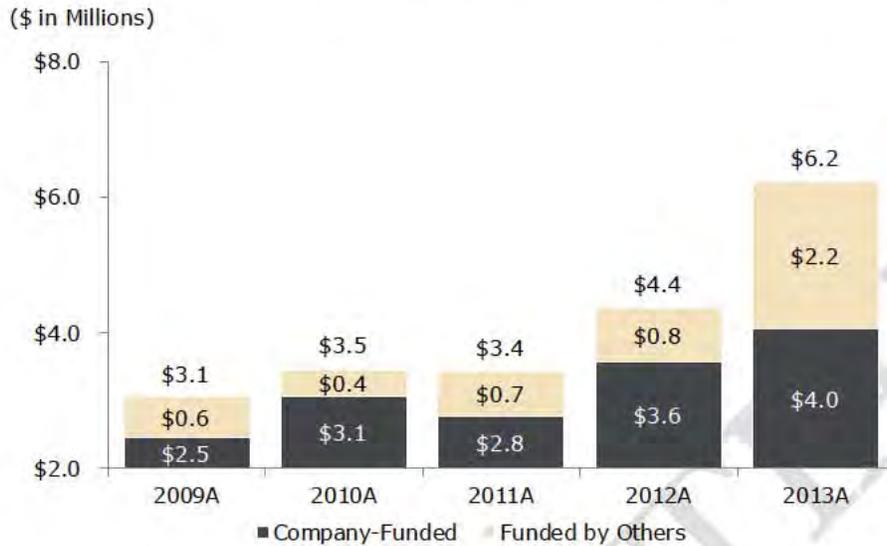
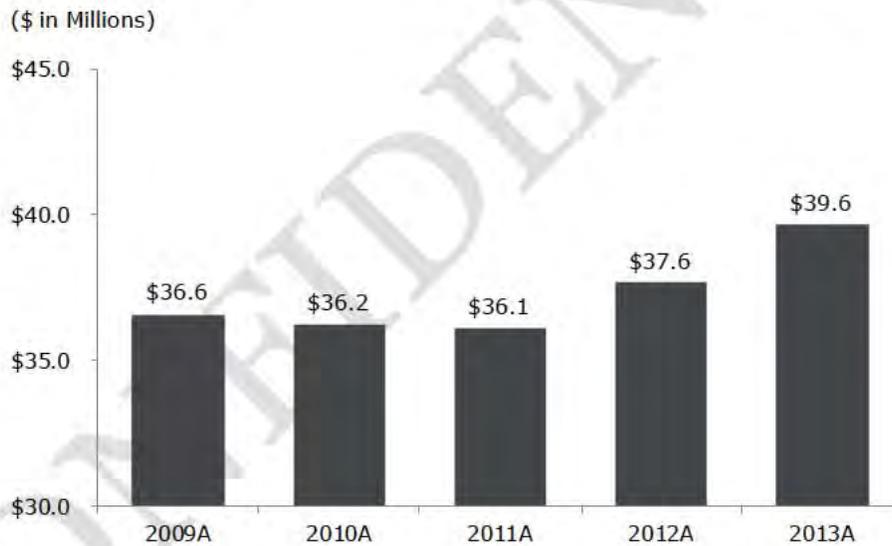


Figure 58: Mountain Water Historical Rate Base



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.



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.



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.



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.



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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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.

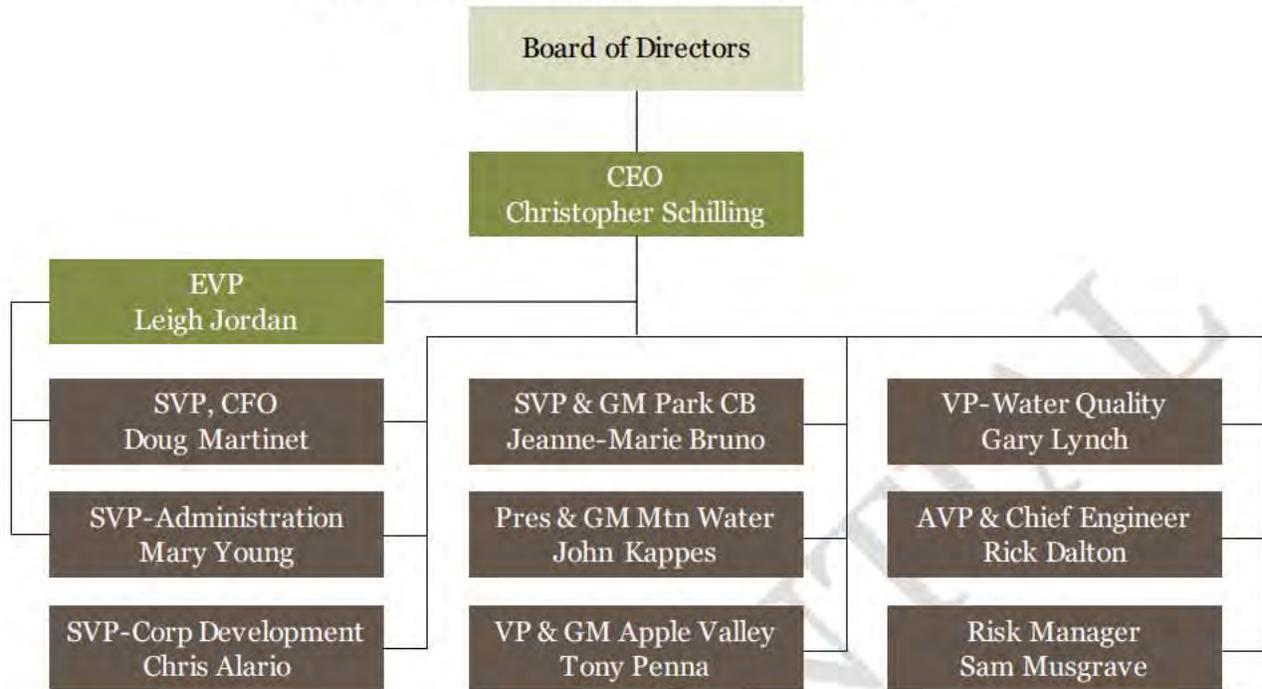
Management meets regularly with elected officials and other key local stakeholders. In addition, each of the utilities actively sponsor and support community events and local charities.

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



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

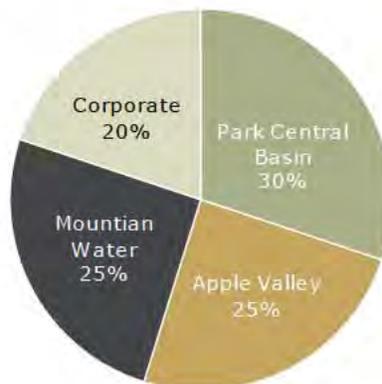




Figure 64: Park Water Employee Overview

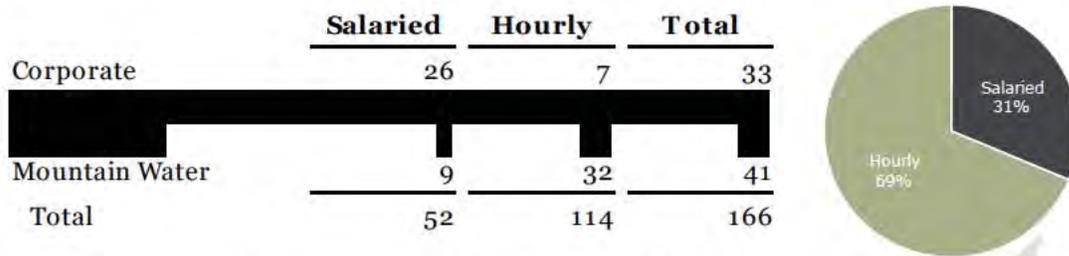


Figure 65: Park Water Employee Information

(\$ 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.



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



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.



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



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

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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.



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



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.



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.



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

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



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



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



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.

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



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



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



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

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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)

	As of 12/31/2013	% of Total	Leverage¹
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		

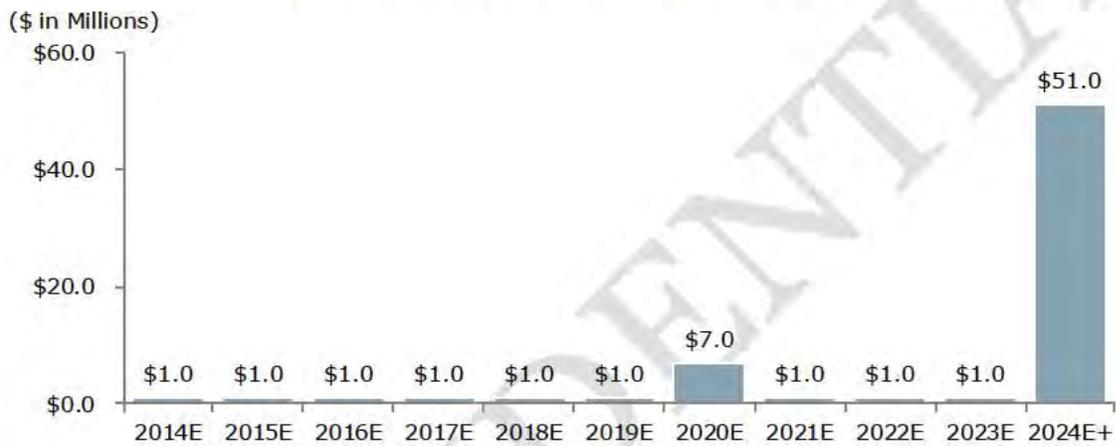
¹ Debt/2013A EBITDA of \$25.5 million



Figure 80: First Mortgage Bond Detail

	Amount	Interest 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		

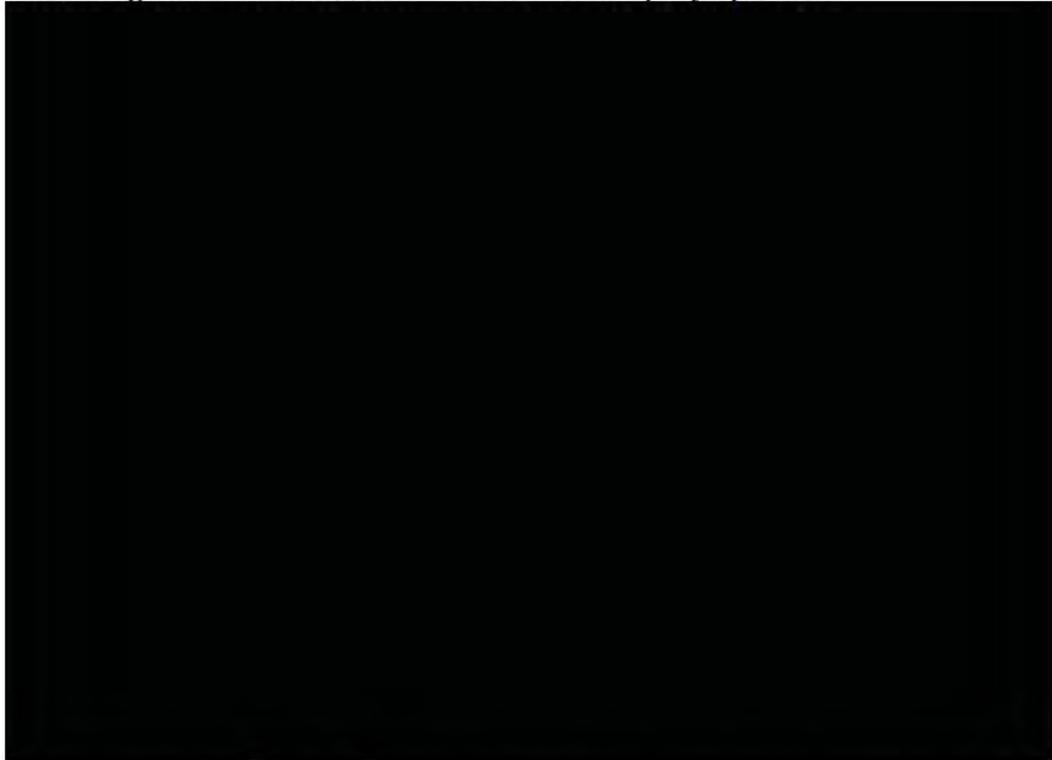
Figure 81: Long-Term Debt Maturity Profile





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

	<u>2015E</u>	<u>2016E</u>	<u>2017E</u>	<u>2018E</u>	<u>2019E</u>
<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			✓		



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 Mill ons)	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





Operating Expenses

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

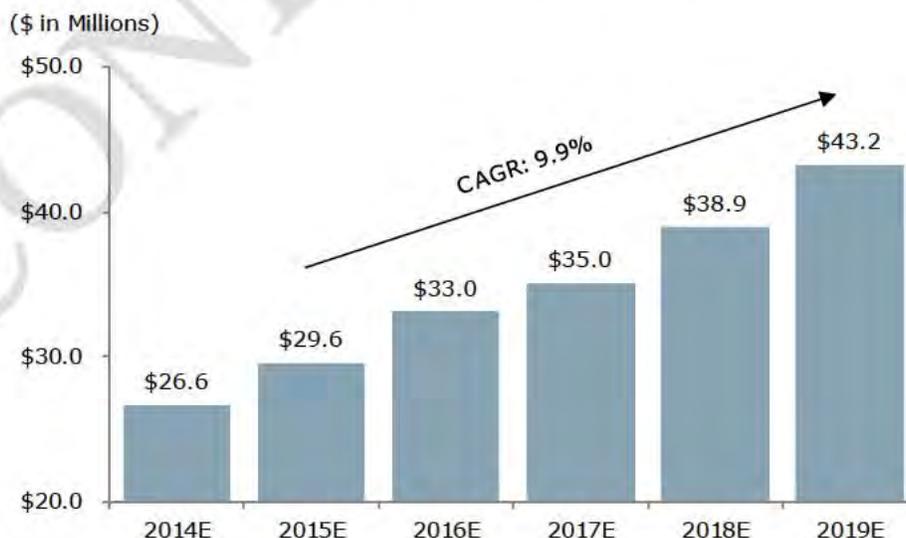
Figure 85: Segment Operating Expense Forecast

(\$ in Millions)	2013A	2014E	2015E	2016E	2017E	2018E	2019E	CAGR 2014E-2019E
Park Central Basin			[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	n/a
Apple Valley			[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	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			[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	2.5%
Apple Valley			[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	5.0%
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





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			
Park Central Basin														
Apple Valley														
Mountain Water														
Total Revenue	16.6	16.0	17.5	18.2	18.6	18.5	19.3	19.6	20.3	21.0	22.0			
Growth	\$60.5	\$61.2	\$62.6	\$68.2	\$71.3	\$72.7	\$77.1	\$81.8	\$85.1	\$90.1	\$95.8			
	10.6%	1.1%	2.2%	9.0%	4.5%	2.0%	6.1%	6.1%	4.0%	5.9%	6.2%			
Park Central Basin														
Apple Valley														
Mountain Water														
Total Operating Expenses	(10.9)	(11.0)	(11.3)	(11.2)	(11.1)	(11.3)	(11.6)	(11.9)	(12.2)	(12.5)	(12.8)			
Growth	(\$42.2)	(\$43.4)	(\$44.4)	(\$44.9)	(\$45.8)	(\$46.1)	(\$47.8)	(\$49.1)	(\$50.6)	(\$51.8)	(\$53.1)			
	3.8%	2.9%	2.1%	1.3%	2.1%	0.5%	3.7%	2.8%	2.9%	2.5%	2.5%			
Park Central Basin														
Apple Valley														
Mountain Water														
Utility Non-Regulated														
Total EBITDA	5.7	5.0	6.2	7.0	7.4	7.2	7.7	7.8	8.1	8.6	9.2			
% Margin	(0.5)	(2.6)	(0.3)	(0.0)	0.1	0.0	0.2	0.4	0.5	0.5	0.6			
Growth	\$17.8	\$15.1	\$17.9	\$23.3	\$25.5	\$26.6	\$29.6	\$33.0	\$35.0	\$38.9	\$43.2			
	29.4%	24.7%	28.6%	34.1%	35.8%	36.7%	38.4%	40.4%	41.1%	43.1%	45.1%			
	(14.9%)	18.0%	30.1%	9.9%	4.3%	11.1%	11.7%	6.0%	11.0%	11.2%				
Park Central Basin														
Apple Valley														
Mountain Water														
Total Depreciation and Amortization	(2.2)	(2.3)	(2.4)	(2.5)	(2.6)	(2.8)	(2.8)	(2.9)	(3.0)	(3.2)	(3.4)			
	(\$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			

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Figure 89: Park Water Capital Structure Summary

	Forecasted						
	2013A	2014E	2015E	2016E	2017E	2018E	2019E
(\$ in Millions)							
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

	Forecasted					
	2014E	2015E	2016E	2017E	2018E	2019E
(\$ in Millions)						
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



Figure 91: Park Water Regulated Summary

(\$ in Millions)	Forecasted						
	2013A	2014E	2015E	2016E	2017E	2018E	2019E
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%	56.2%	56.0%	56.0%	52.4%	52.5%	52.4%
Equity in Rate Base	85.0	85.0	97.4	110.7	116.2	130.8	146.8
Year End Rate Base by Segment							
Park Central Basin							
Apple Valley							
Mountain Water	39.6	42.0	44.4	47.2	50.2	54.6	59.6
Average Rate Base by Segment							
Park Central Basin							
Apple Valley							
Mountain Water	40.8	40.8	43.2	45.8	48.7	52.4	57.1
Authorized ROE							
Park Central Basin							
Apple Valley							
Mountain Water	9.80%	9.80%	9.80%	9.80%	9.80%	9.80%	9.80%

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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



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.



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.



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



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.

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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Project Orchard Management Presentation

July / August 2014



WWH001427

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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

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

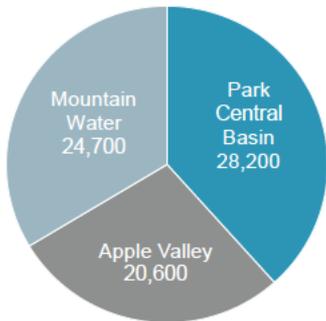


- Park Water owns three regulated utilities serving a population of 266,700 in California and Montana

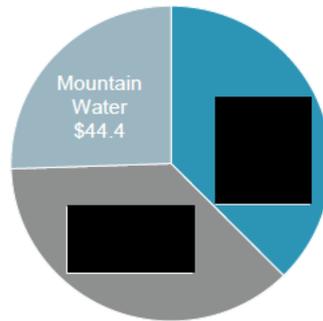
	Park Central Basin	Apple Valley	Mountain Water
2013 Customer Connections	28,200	20,600	24,700
Population Served	133,000	61,700	72,000
Year Established	1937	1947	1885
Year Acquired	N/A	1987	1979



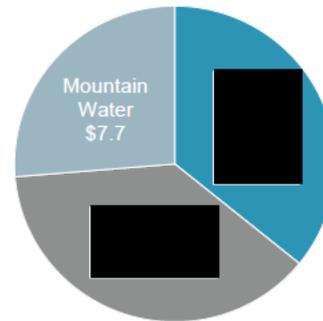
2013A Customer Connections
(73,500)



2015E Rate Base
(\$174.0MM)

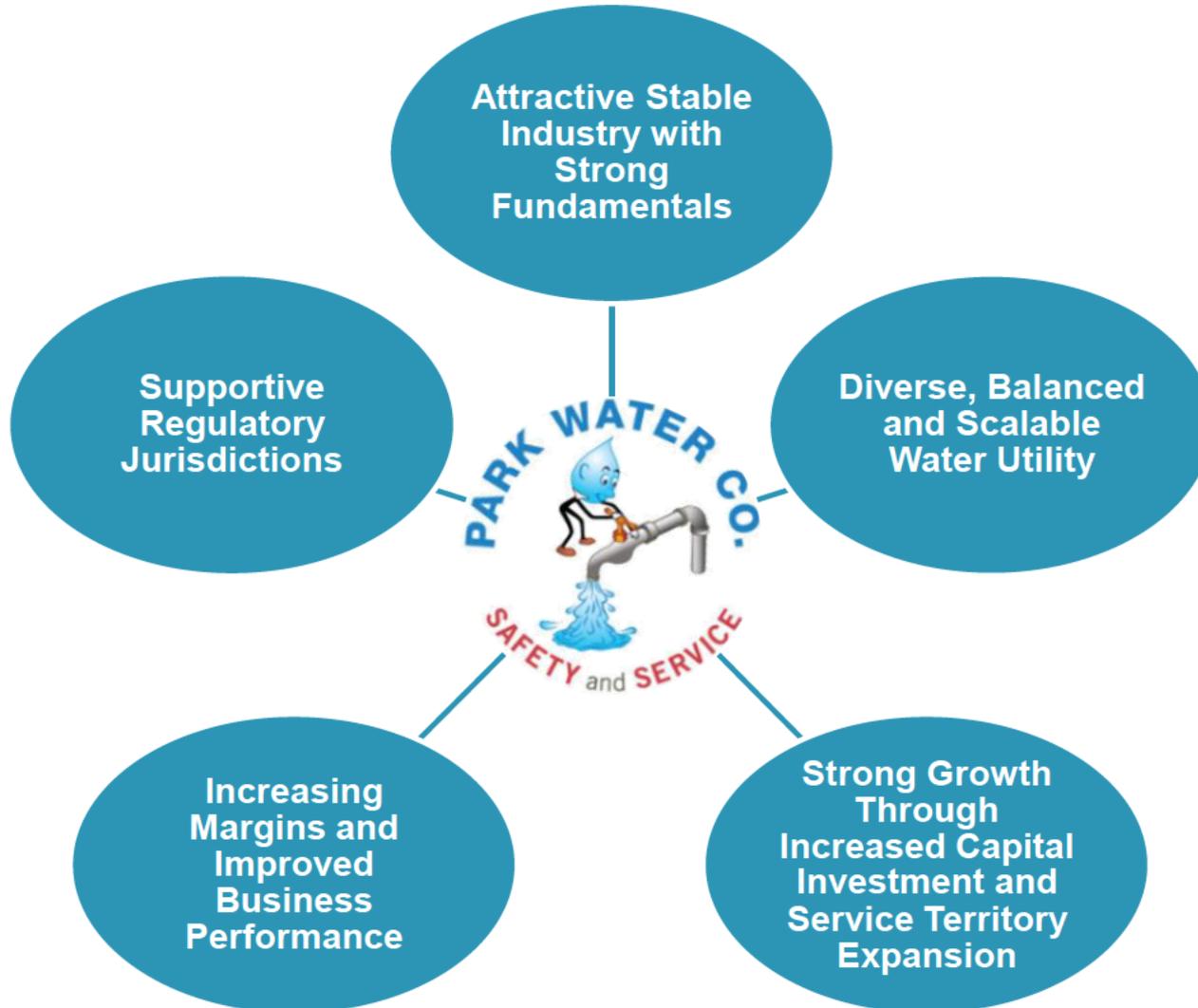


2015E Regulated EBITDA¹
(\$29.3MM)



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

WWH001434

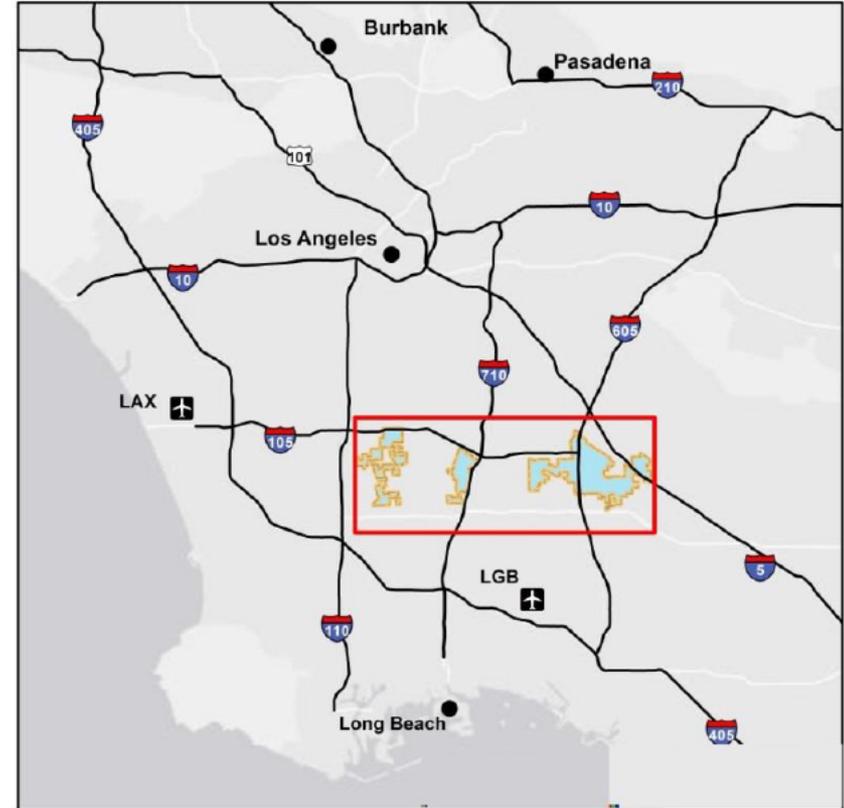
Park Central Basin



Park Central Basin Overview



- 28,200 connections along the east / west Interstate 105 corridor in Southern Los Angeles County
 - 11 square mile territory serving a population of 133,000
- Conveniently located near core population centers of the Los Angeles area, LAX and Long Beach
 - Well served by major transportation corridors
- Service territory is comprised of three separate water systems:
 - Compton / Willowbrook (Compton West)
 - Lynwood / Rancho Dominguez (Compton East)
 - Bellflower / Norwalk
- - Park Central Basin is one of the top three regional water utilities



Water Utility	Connections
City of Long Beach	89,800
Golden State Water Company ¹	40,200
Park Central Basin	28,200
California Water Service ²	26,700
City of Downey	23,300

¹ Includes Central Basin West and Central Basin East systems of the Central District

² Includes East Los Angeles District



General Manager: Jeanne-Marie Bruno

- Joined Park Water in 2000
- Previously Associate Director of Water Quality for the Metropolitan Water District of Southern California

WWH001436

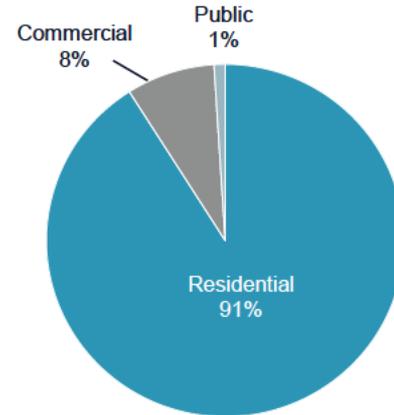
Park Central Basin Customers



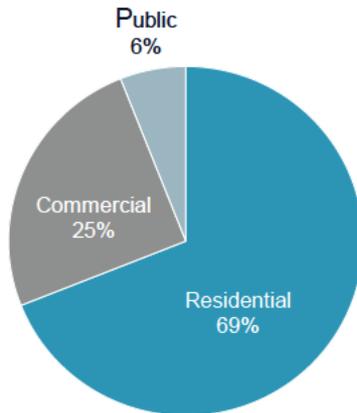
- Mature urban area with 91% residential customers
 - Increasing cost of living is expected to drive population toward service territory

- [Redacted]
- [Redacted]
- Average monthly residential consumption is 11 ccf
 - \$69.66 average monthly bill
- [Redacted]

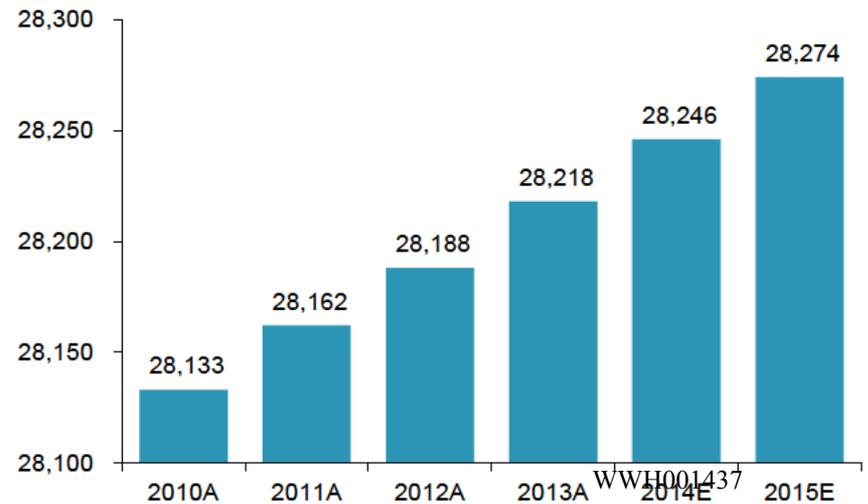
Predominantly Residential Customers



Revenue by Customer Class



Customer Connections



Park Central Basin Infrastructure

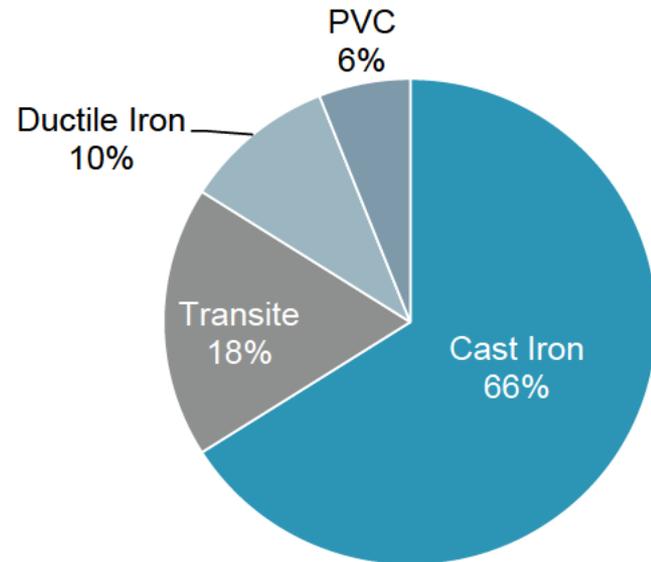


- Through SCADA, Park Central Basin remotely controls operations, production, distribution, storage, monitors pressure, flow, disinfectant and fluoride concentrations

Summary Utility Infrastructure

Operating Wells (Excluding standby wells)	7
Average Age of Wells (Years)	48
Production Capacity (Gallons per minute)	41,400
Interconnections	16
Imported Water Connections	6
Total Pipeline Miles	260
Average Age of Pipelines (Years)	52
Storage Capacity (Million gallons)	2.6
Fire Hydrants	1,800
Valves	4,900

Pipeline Material Breakdown

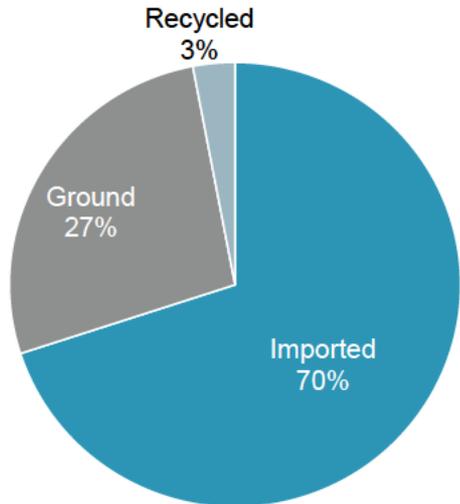


Park Central Basin Water Supply and Quality



- Water supply is sourced through a combination of ground water, purchased imported and recycled water
- Water quality characteristics are excellent with no known challenges for meeting current or future drinking water standards
- Seven active wells (average age of 48 years), three standby wells and six active imported water interconnections
- Imported water is sourced through Central Basin Municipal Water District, a member agency of the Metropolitan Water District

2013 Water Supply Sources



Imported & Recycled

Central Basin Municipal Water District

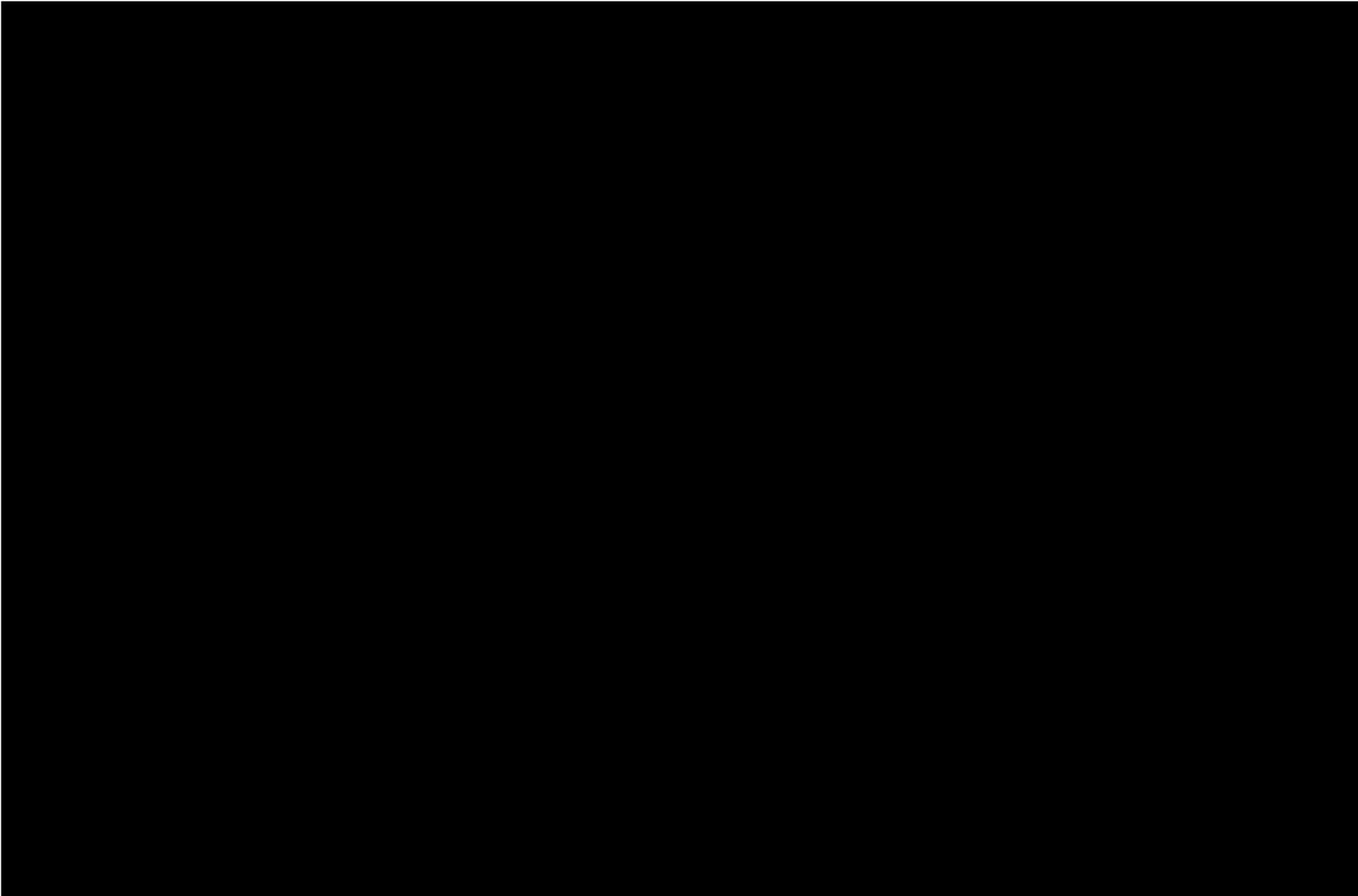
- Provides imported and recycled water to the three Park Water Company regions
- Sourced primarily via the Colorado River Aqueduct and State Water Project
- Supplies water to 38 water purveyors in the region

Bellflower /
Norwalk

Compton West

Compton East

Park Central Basin Water Rebalancing Plan



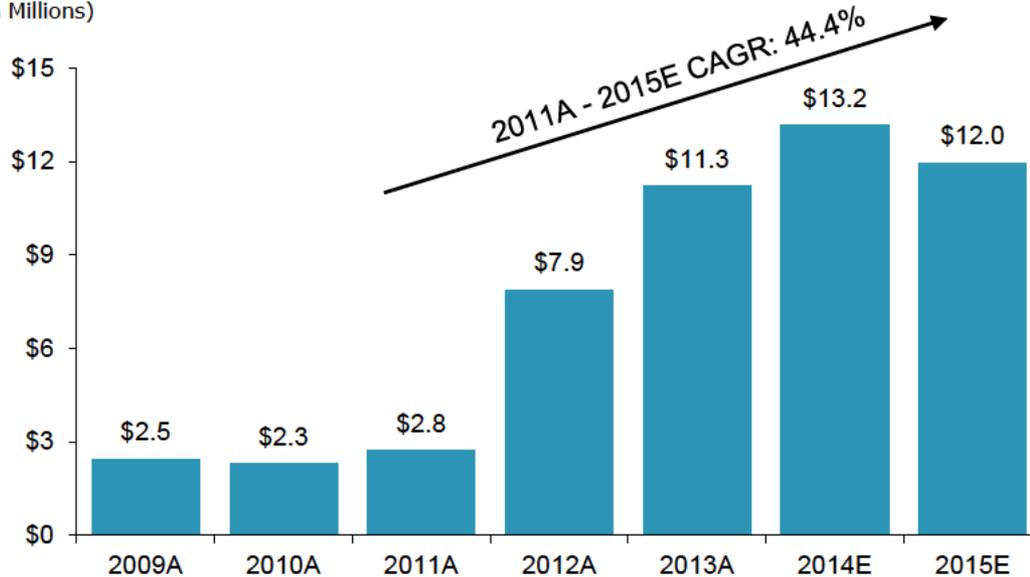
Park Central Basin Capital Investment



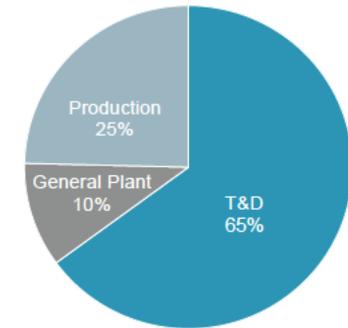
- Aging infrastructure and production / storage improvements will drive capital investment plan
- Small-scale projects including main replacement, production and storage facilities, operation facility upgrades, SCADA and technology enhancements

Company Funded Capital Investment

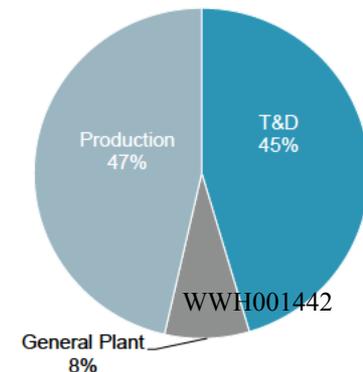
(\$ in Millions)



2011 - 2013 Total: \$21.9MM



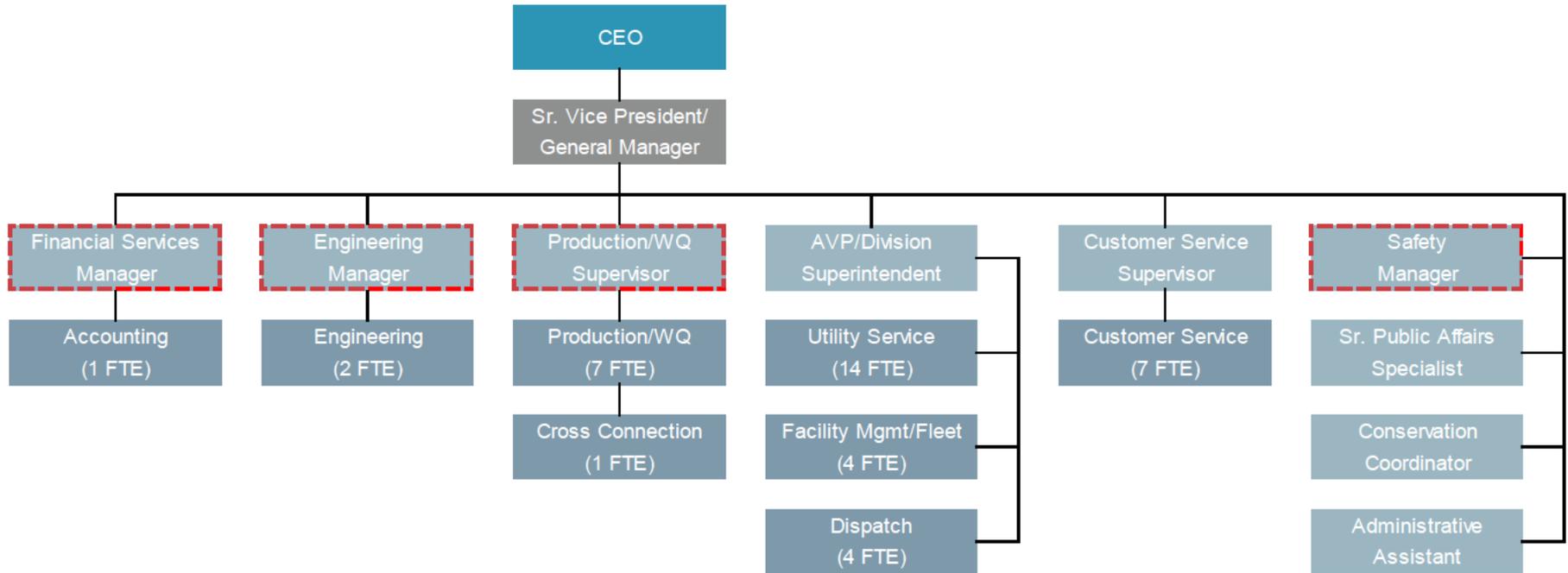
2014E - 2015E Total: \$25.2MM



Park Central Basin Organization Structure



- 50 employees across eleven functional areas located in Downey, CA office



Denotes matrix reporting relationship to Park Corporate Executive

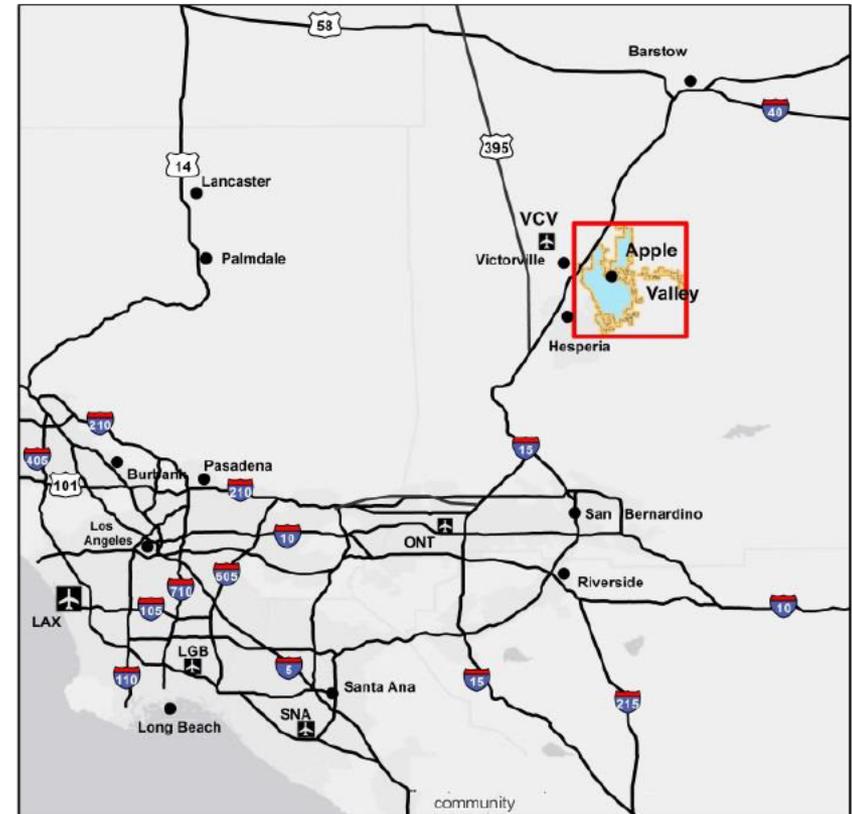
Apple Valley



Apple Valley Overview



- 20,600 connections located 95 miles northeast of Los Angeles in San Bernardino county
 - 51 square mile territory serving population of 61,700
- Primarily residential and retirement community
 - Attractive weather, affordable housing and proximity to major metro regions have sustained population growth
- Proposed construction of an eight lane highway between Palmdale and Apple Valley will drive future growth
- The High Desert region is served by 40 utilities
 - Apple Valley is one of the top three regional water utilities by connections



Water Utility	Connections
Victorville Water District	32,900
City of Hesperia	25,200
Apple Valley	20,600
Golden State Water Company ¹	11,800
City of Adelanto	7,300



General Manager: Tony Penna

- Joined Apple Valley in 2012
- Previously VP of Development at Inland Energy Group and Sr. Project Manager and Plant Engineer for Constellation Energy

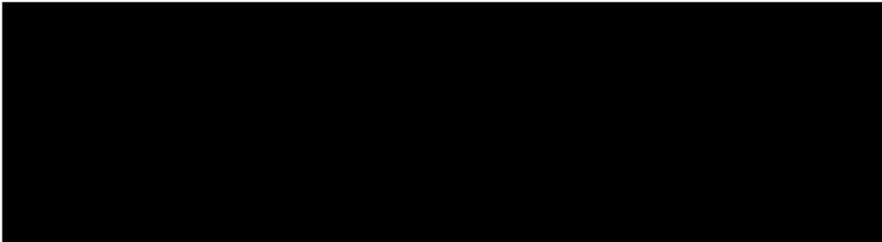
WWH001445

¹ Includes the Barstow and Apple Valley systems of the Mountain / Desert District

Apple Valley Customers



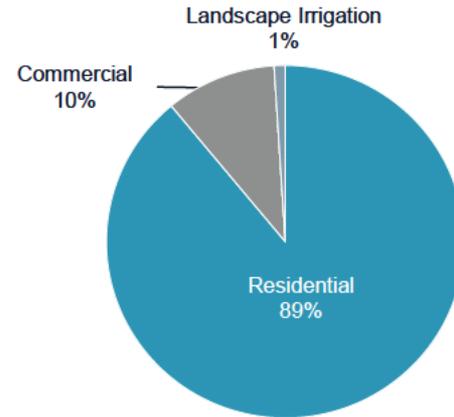
- Customer base is 89% residential households



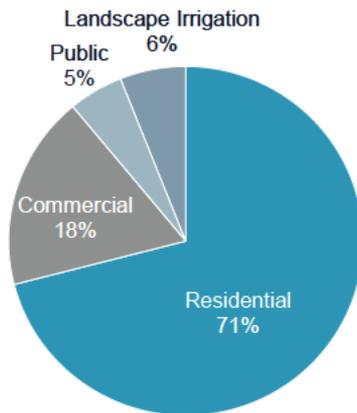
- Average monthly residential consumption is 17 ccf
 - \$65.23 average monthly bill



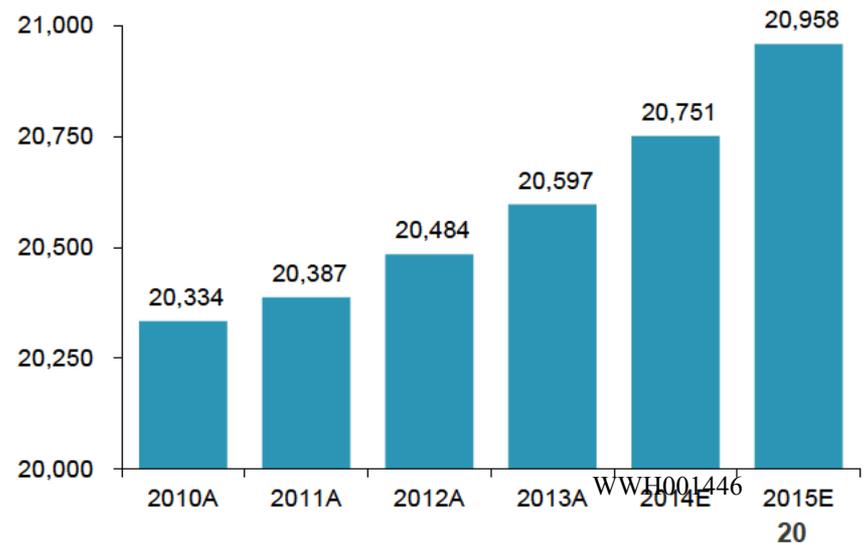
Predominantly Residential Customers



Revenue by Customer Class



Customer Connections



Apple Valley Customer Growth



Apple Valley Infrastructure

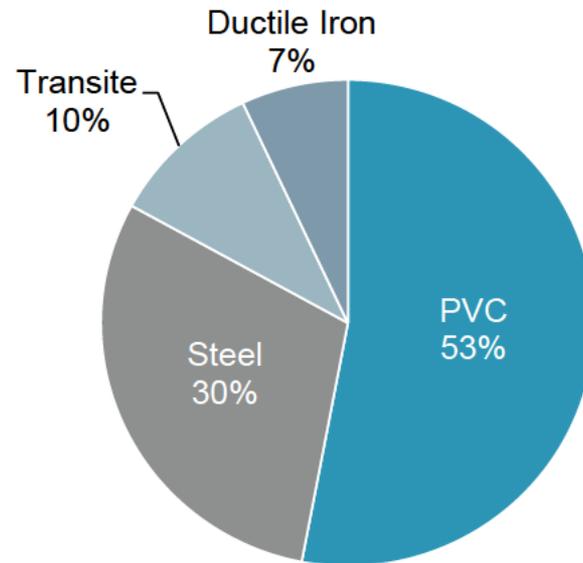


- Through SCADA, Apple Valley remotely controls operations, production, distribution, storage, monitors pressure, flow and disinfectant concentrations
- Operational metrics are monitored through Park Central Basin's 24 / 7 Communication Center

Summary Utility Infrastructure

Operating Wells (Excluding standby wells)	21
Average Age of Wells (Years)	30
Production Capacity (Gallons per minute)	28,200
Interconnections	6
Total Pipeline Miles	465
Average Age of Pipelines (Years)	27
Storage Capacity (Million gallons)	12.0
Fire Hydrants	2,600
Valves	8,000

Pipeline Material Breakdown



Apple Valley Water Supply and Quality



- Water supply is 100% groundwater
 - 21 active wells with 30 year average well life
 - Production capacity is 28,200 gallons per minute
- Owned water rights and long-term leases through 2093 largely match supply requirements
- Exceptional water quality given close proximity to the Mojave River



- Watermaster of the Mojave Ground Water Basin
 - Mojave Ground Water Basin fully adjudicated in 1996
 - Pumpers rights ramped down to sustainable yield levels
 - Excess production can be met with annual leases or Mojave Water Agency replacement water
- Six interconnections with neighboring utilities

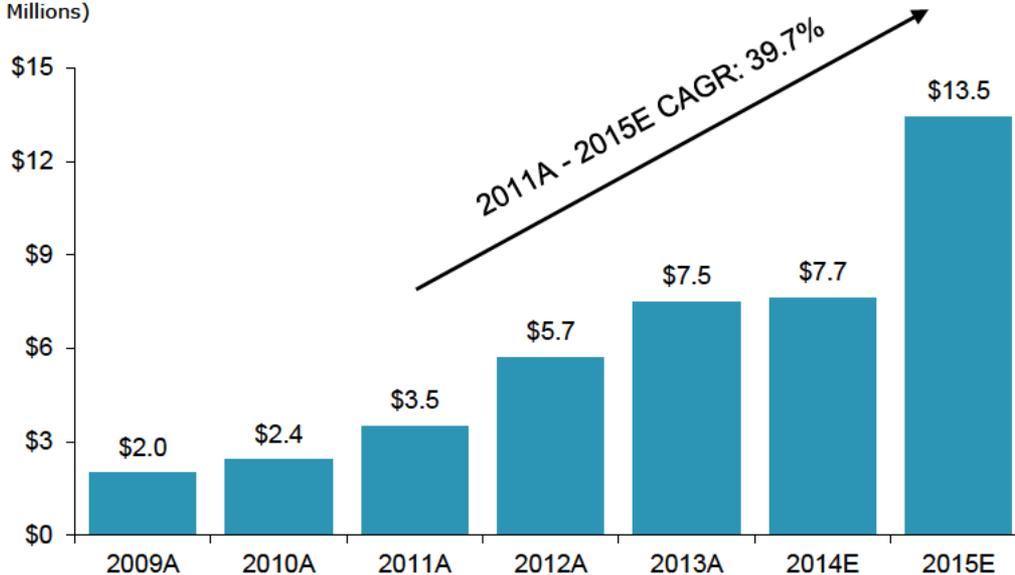
Apple Valley Capital Investment



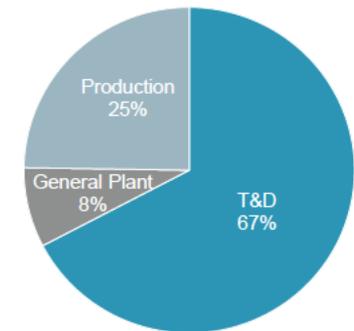
- Comprised of small-scale projects including main replacement, production and storage facilities, operation facility upgrades, SCADA and technology enhancements
- Aging infrastructure and transmission / distribution system improvements will drive capital investment plan

Company Funded Capital Investment

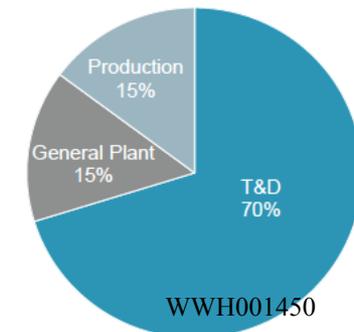
(\$ in Millions)



2011 - 2013 Total: \$16.8MM



2014E - 2015E Total: \$21.1MM

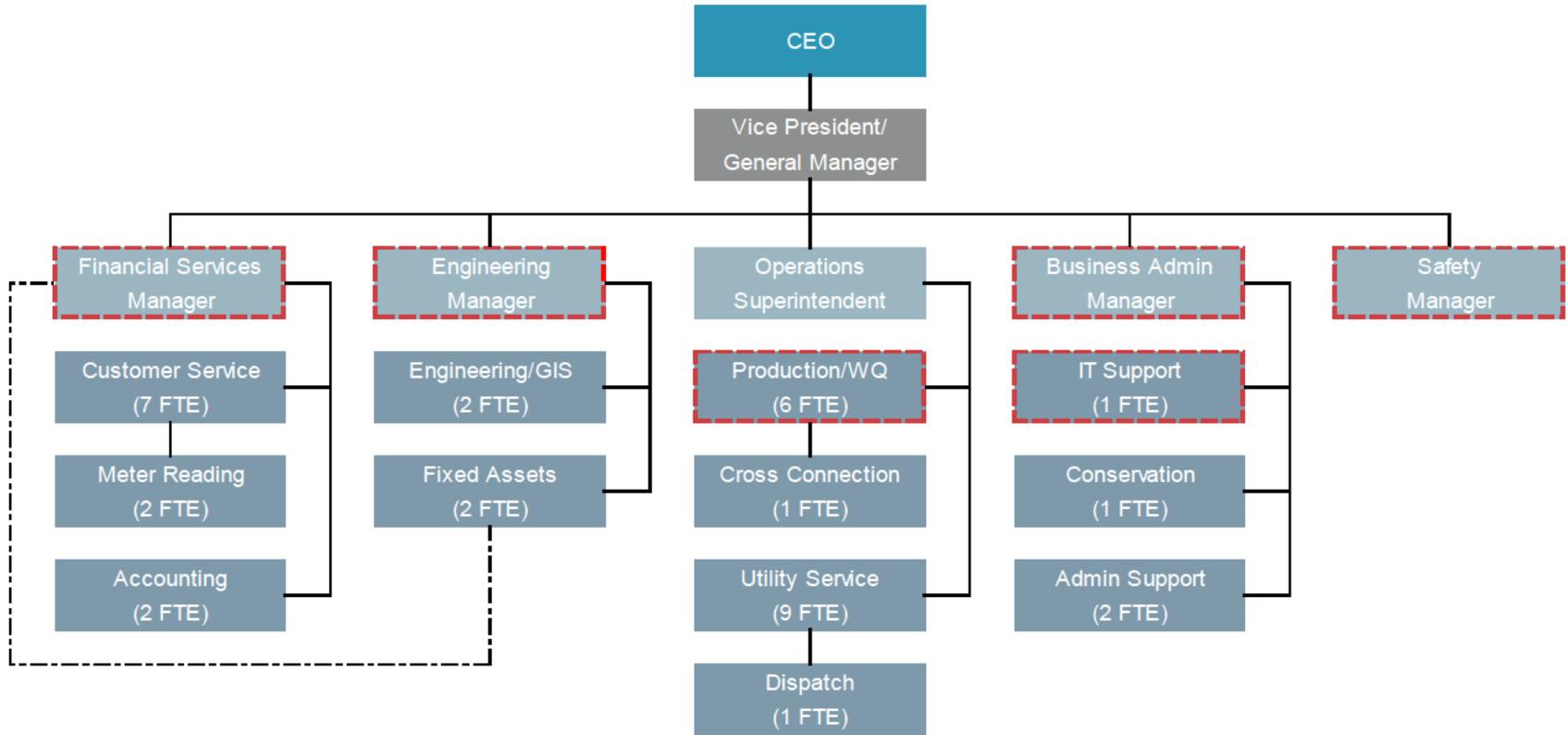


WWH001450

Apple Valley Organization Structure



- 42 employees across twelve functional areas located in Apple Valley, CA office



Denotes matrix reporting relationship to Park Corporate Executive

2011 Feasibility Study

- During the previous change in ownership the Town of Apple Valley (Town) formed a Blue Ribbon Committee (BRC) to evaluate means to acquire Apple Valley
 - Comprised of 15 town elders
 - Bartle Wells Associates produced a study providing a \$52 - \$125MM valuation
- \$125MM replacement cost less depreciation approach would result in 44% rate increase
 - Assumed only \$2.0MM in capital improvements annually
 - Excluded value for water rights and Advances
- BRC concluded not to proceed following eight months and \$500,000 in expenses¹

2014 Town of Apple Valley RFP

- On July 8, 2014, the Town Council (“Council”) authorized the preparation of an RFP to perform an appraisal of the utility
- Current effort is triggered by Town’s knowledge of a proposed sale of Park Water
- Council discussion highlighted an RFP may exert leverage and force a negotiated sale

Missoula Collaboration

- On July 14, 2014 the Town attorney and Administration visited Missoula Mayor Engen to discuss collaboration
- Town attorney has been monitoring the Missoula situation closely
- Mayor Engen likely using the Town to gain support for Mountain Water sale

Current Considerations

- Political driver: Three of the five Council members are up for re-election in November
- Subsequent investment: \$24.4MM invested during 2011 - 2014 increases valuation
- Sound operations: Average water bill has increased only 3% annually from 2007 - 2015E
- Community Involvement: Apple Valley continues to maintain high quality customer service and proactive community engagement

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)

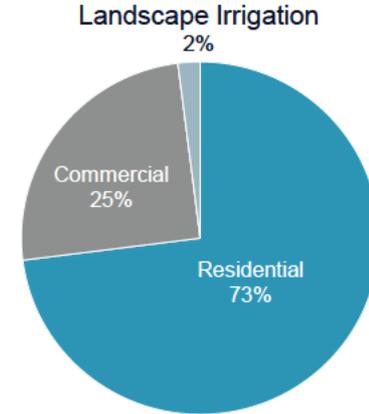
WWH001454

Mountain Water Customers



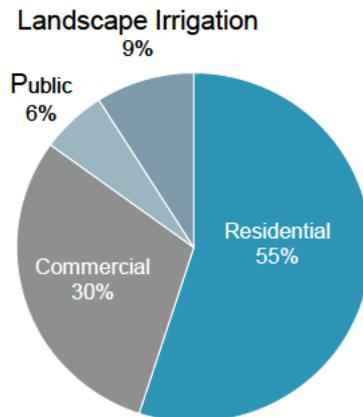
- Growing metropolitan area with predominantly residential and small commercial customers
 - Univ. of MT contributed 2% of 2013 revenue
- Strong pipeline of residential construction
- Missoula Economic Partnership focuses on bringing regional business into the Missoula area
- Average monthly residential 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

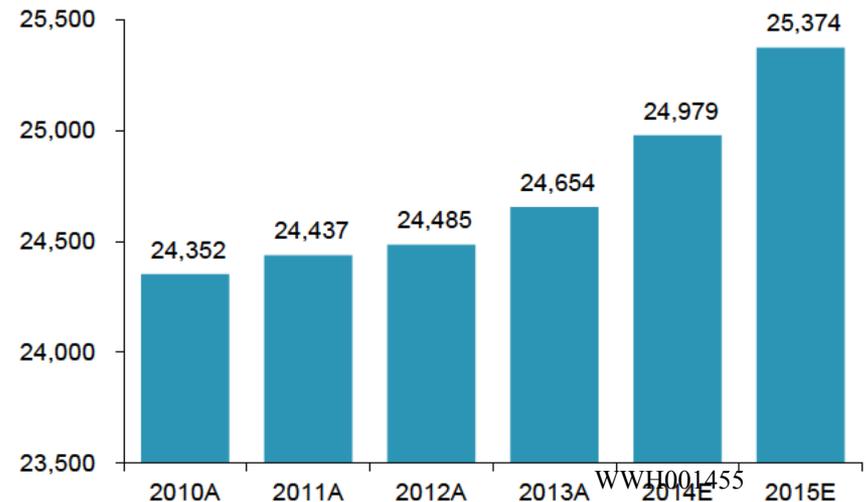


3,500 Flat Rate Connections
(14% of 2013 total connections of 24,700)

Revenue by Customer Class



Customer Connections

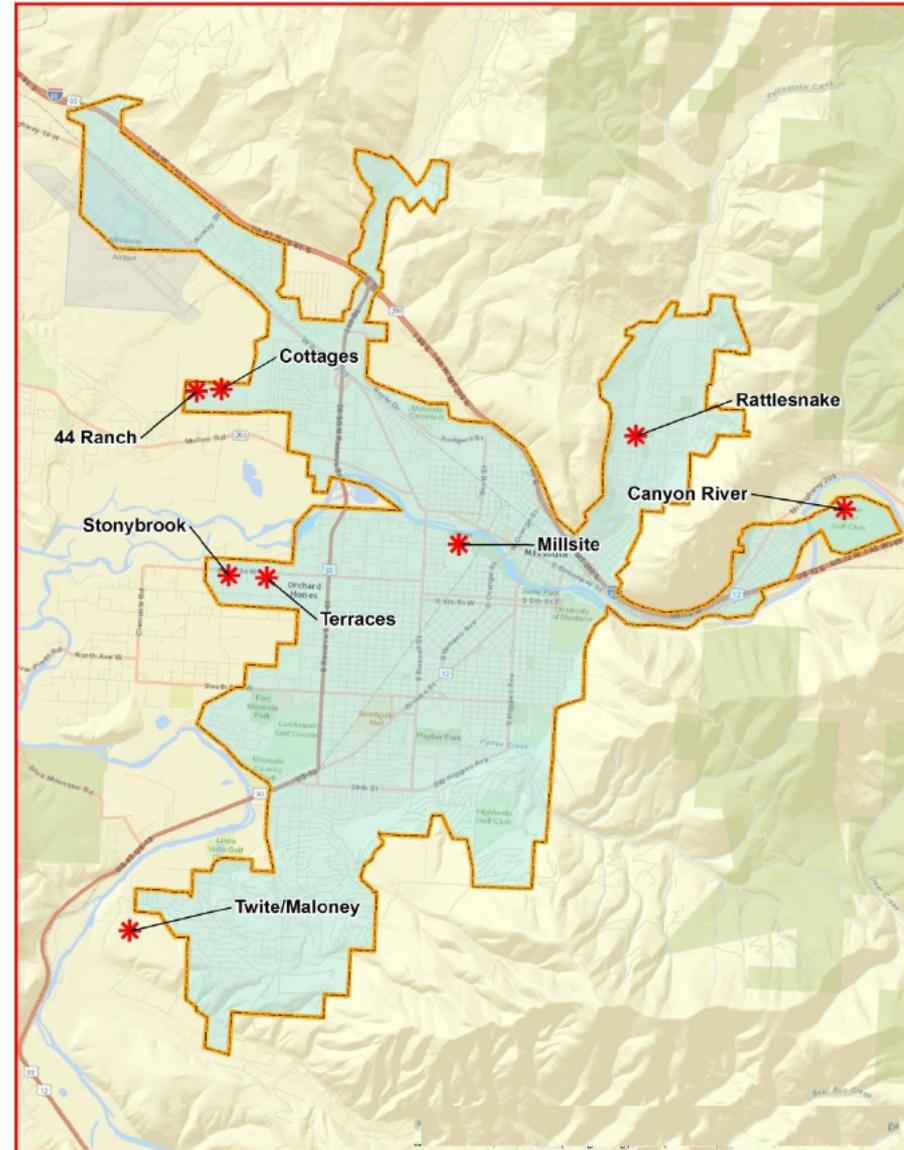


Mountain Water Customer Growth



- 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



WWH001456

Mountain Water Infrastructure

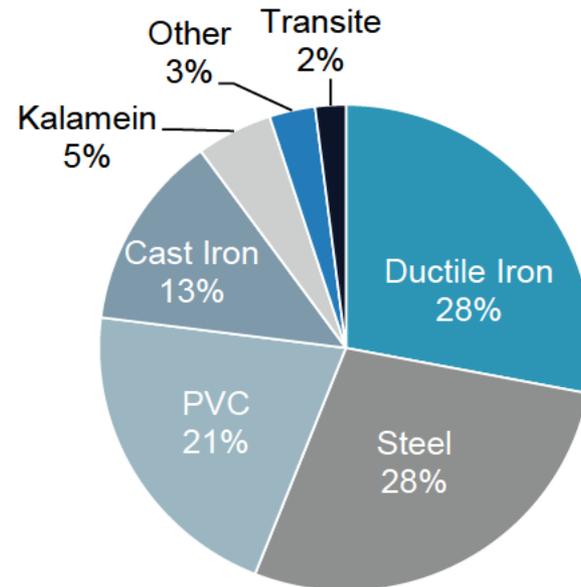


- Through SCADA, Mountain Water remotely controls operations, production, treatment, distribution and storage and monitors pressure, flow and disinfectant concentrations
- Mountain Water manages 10.1MM gallons of storage capacity and maintains eight wilderness dams for emergency supply

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 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

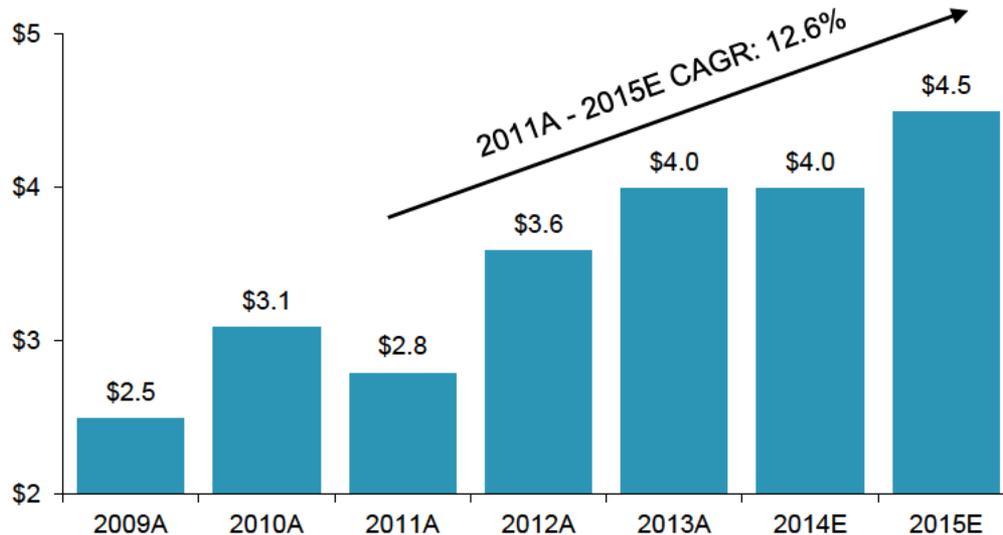
Mountain Water Capital Investment



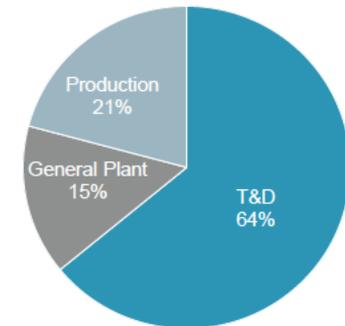
- Comprised of small-scale projects including main replacement, production and storage facilities, operation facility upgrades, SCADA and technology enhancements
- 13 miles of Kalamein main and 99 miles of thin walled steel main targeted for eventual replacement

Company Funded Capital Investment

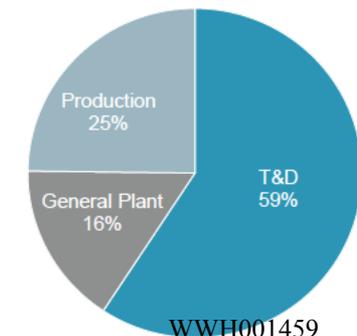
(\$ in Millions)



2011 - 2013 Total: \$10.4MM



2014E - 2015E Total: \$8.5MM

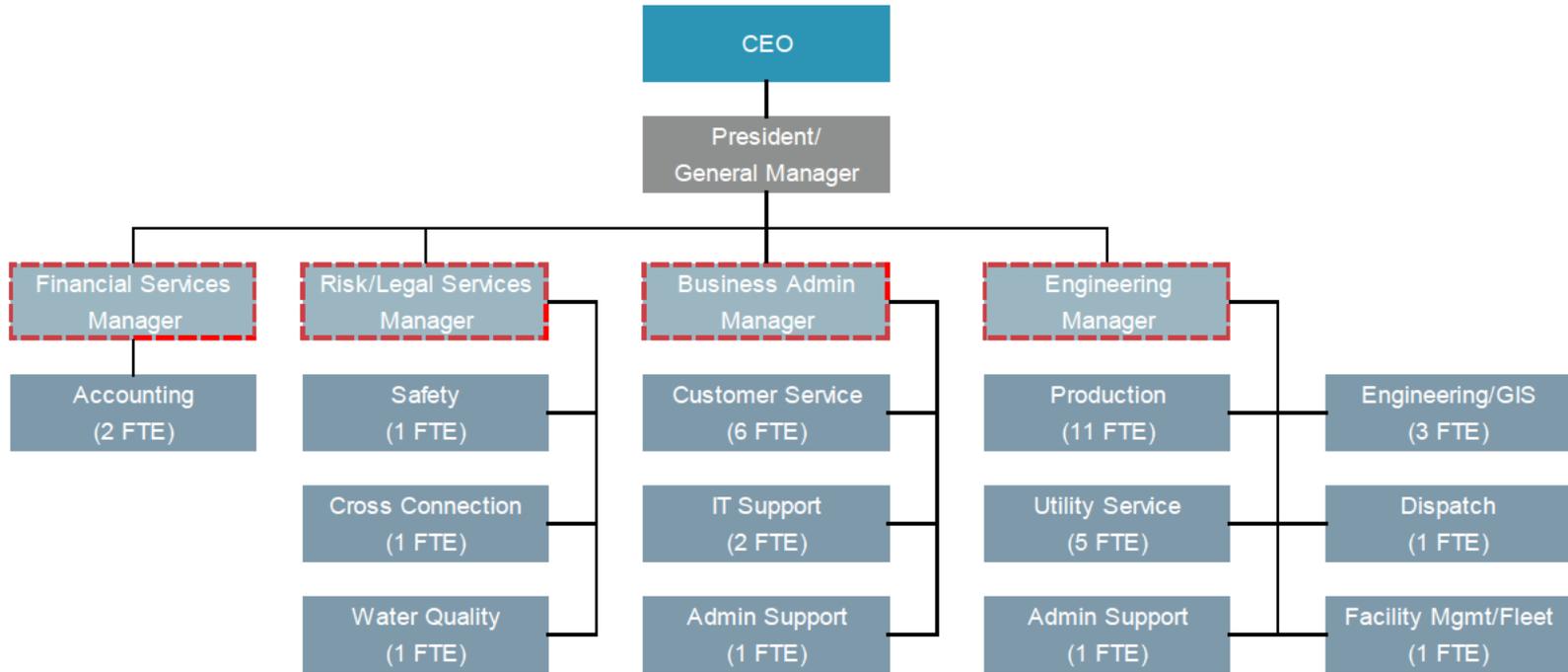


WWH001459

Mountain Water Organization Structure



- 41 employees across ten functional areas located in the Missoula, MT office



Denotes matrix reporting relationship to Park Corporate Executive

WWH001460

Mountain Water Condemnation



Montana Requirements

- City must prove a city-owned system is a more necessary public use than current use
- City must prove it is more qualified to own 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

- 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

- Two-phased process with "necessity trial" followed by valuation hearing and / or jury trial (Mountain Water and Carlyle named defendants)
 - 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
 - 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

- 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

WWH001461

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

Executive

Finance /
Accounting

Regulatory

Risk
Management

Corporate
Development

Engineering

Water Quality

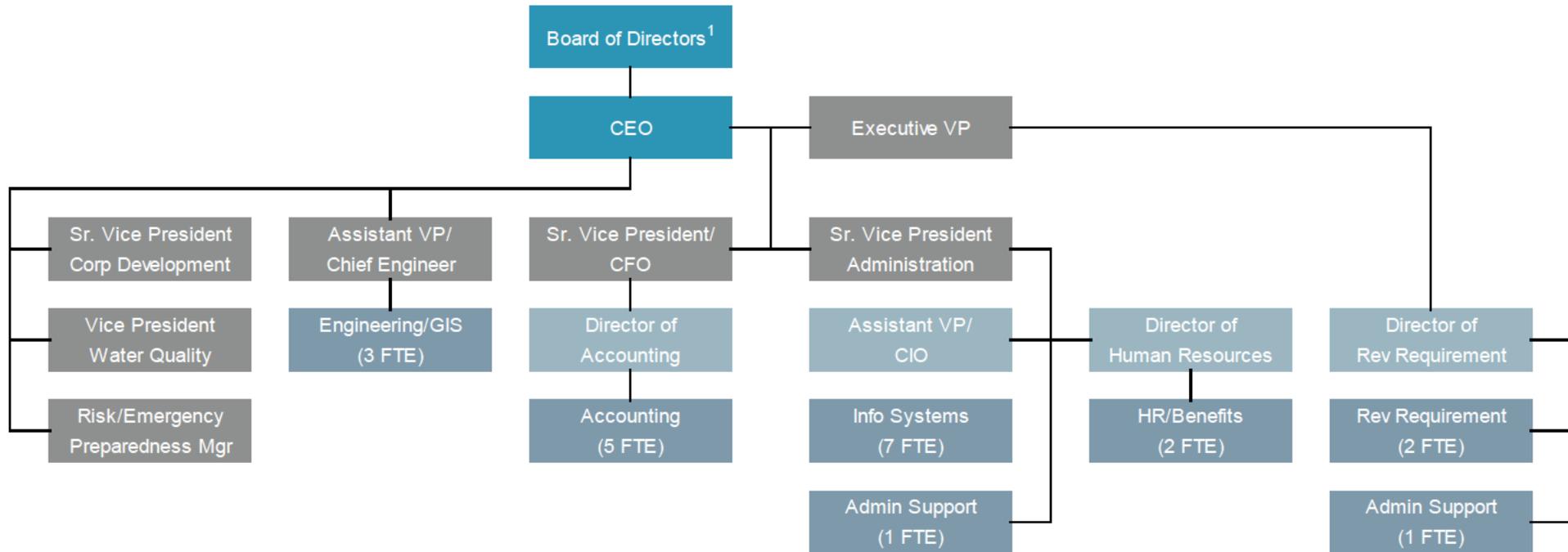
Information
Technology

Human
Resources

Corporate Group Organization Structure



- 33 employees across nine functional areas make up the Corporate Group

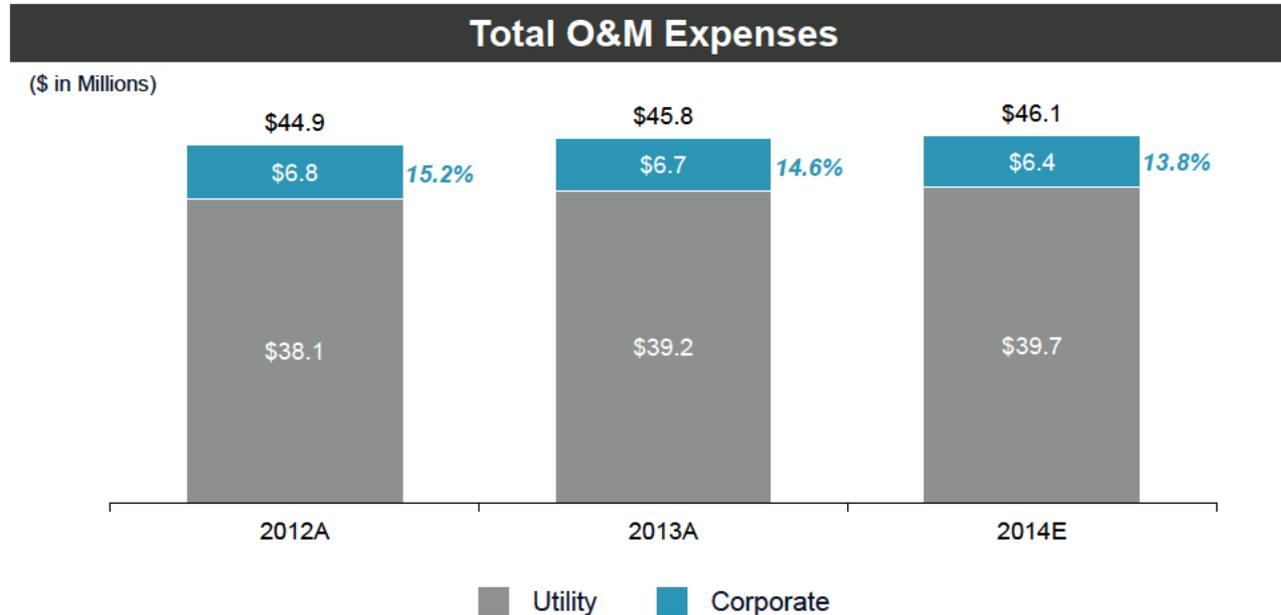


¹ The four member board includes three appointed by Carlyle and one independent

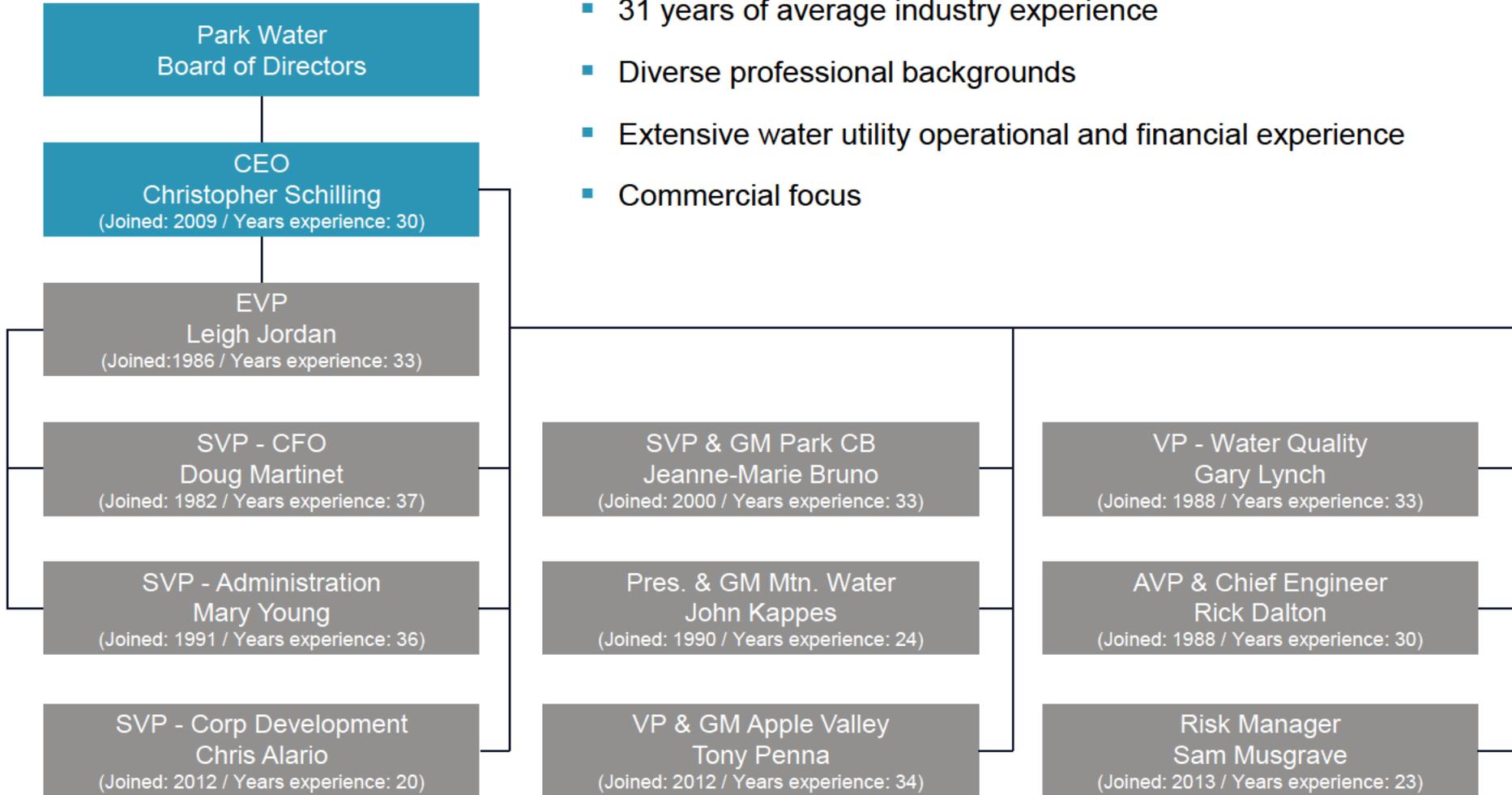
Corporate Group Expenses



Corporate Allocation Expenses			
(\$ in 000's)	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

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



- 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

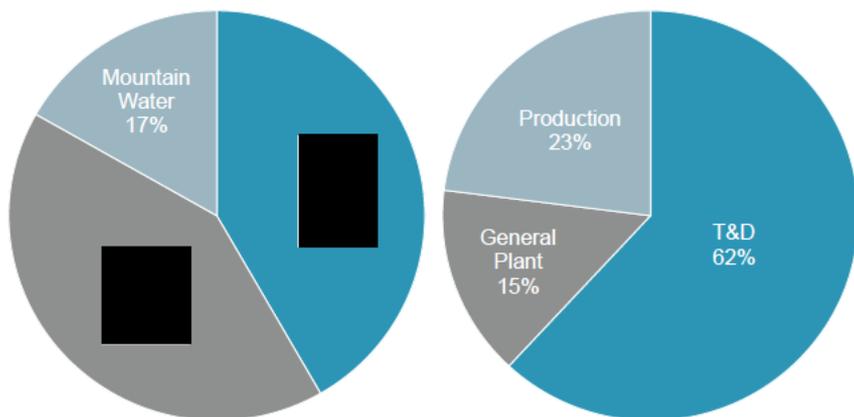


Company Funded Capital Investment

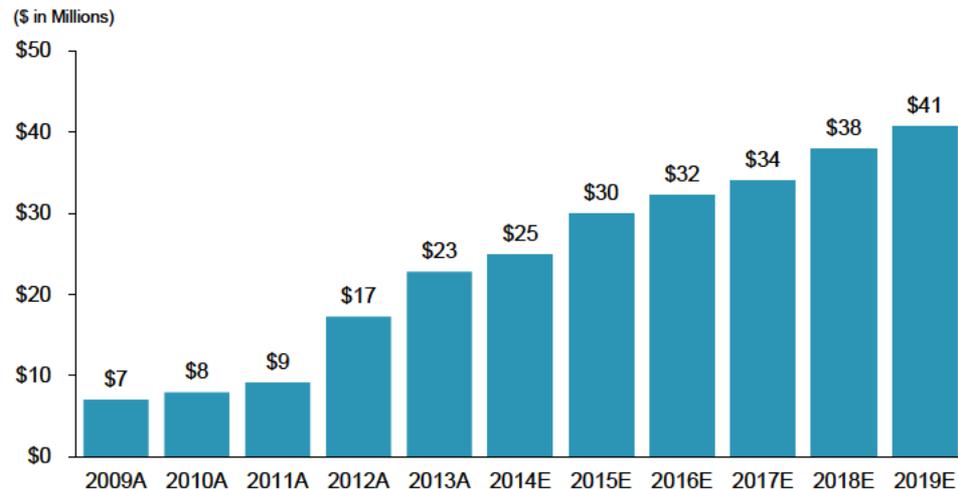
- Company plans to invest over \$200MM to replace critical system infrastructure while also expanding transmission and storage capabilities
- Top capital priorities
 - Replace / upgrade distribution / transmission system capabilities at [REDACTED]
 - [REDACTED]
 - Expand main replacement programs at [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



Capital Investment by Year



Asset Replacement Cycle



Capital Investment Plan

Miles of Main

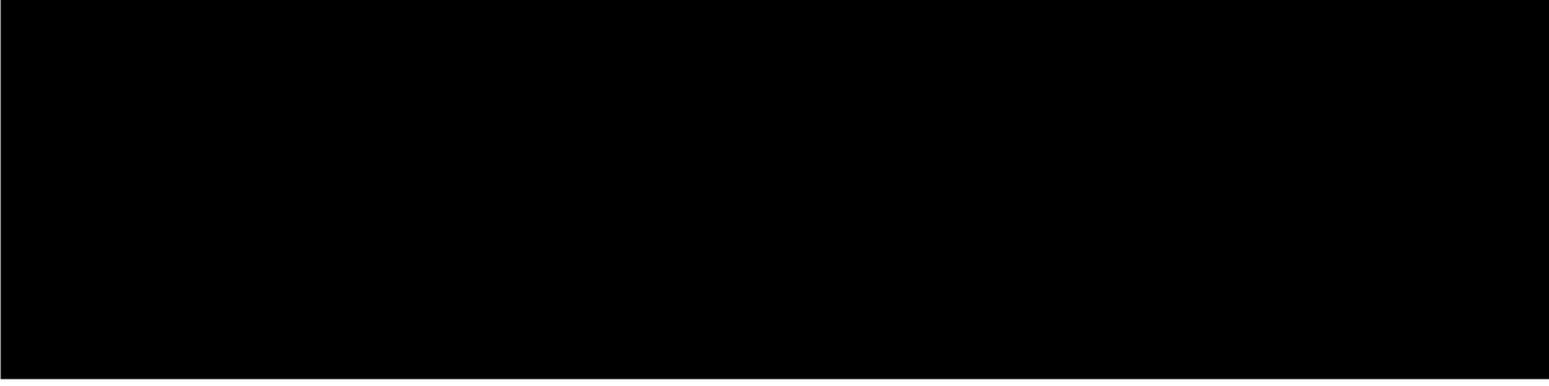
Park
Central Basin

-
-
-



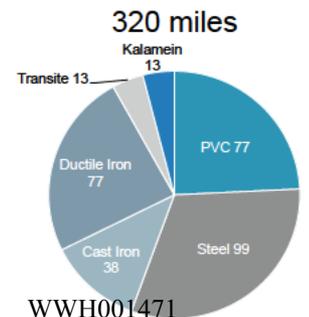
Apple Valley

-
-
-



Mountain Water

- Targeting thin walled steel (invasion pipe, 5 miles inventory) and Kalamein pipe (13 miles of inventory) replacement to reduce overall leakage rate
 - >0.5% replacement rate
- Replacing and upsizing storage and pumping facilities
- Support studies: system leakage report; energy efficiency study; Rattlesnake Dam study



Leak Reduction Initiative



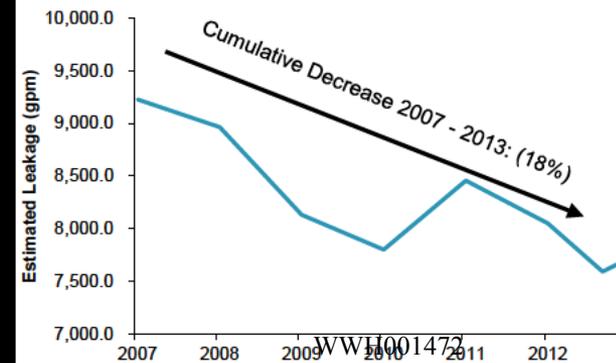
- Pipeline prioritization replacement programs have resulted in a reduction in main water leaks and water loss
- Pipeline replacement considerations also include failure consequences; upsizing needs; work by others

Park Central Basin

Apple Valley

Mountain Water

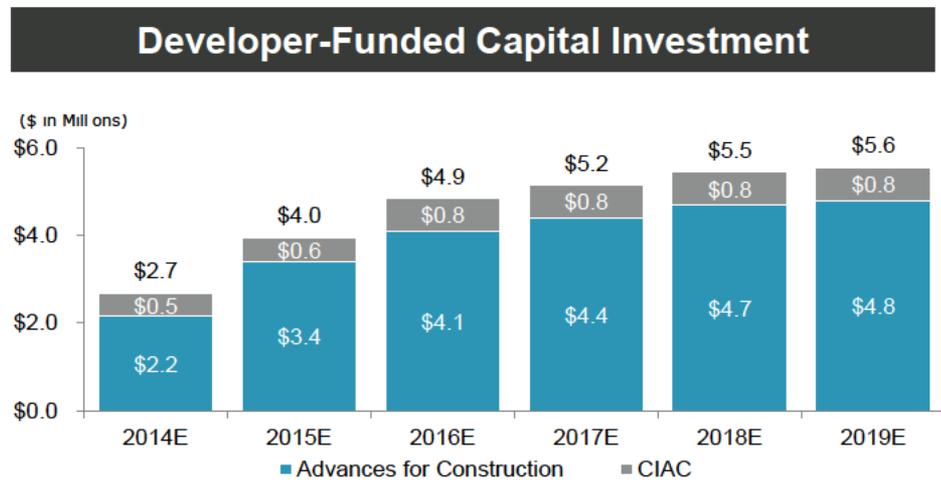
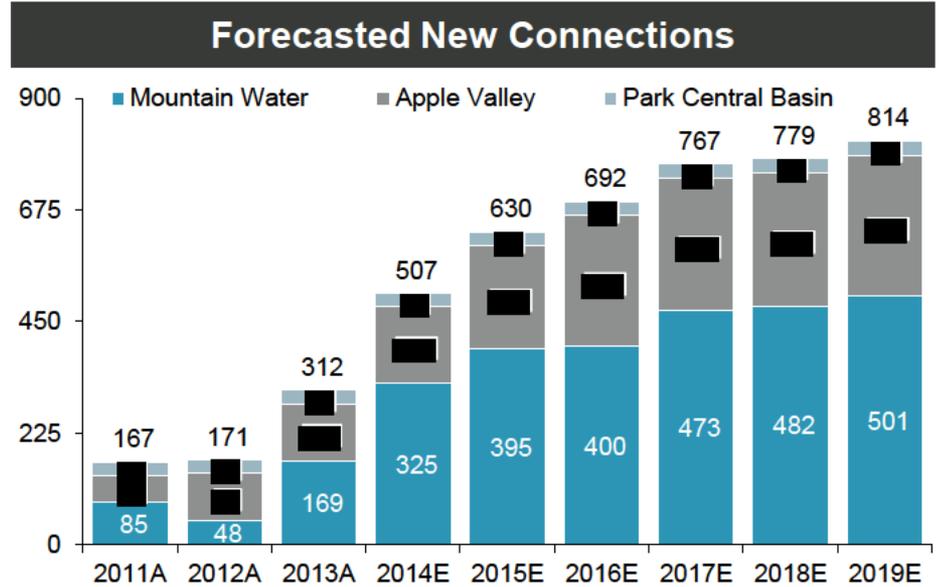
- Customers own service lines from main, providing little incentive to repair service lines if leakage occurs prior to meter
- Leak detection program has resulted in a 18.2% reduction in water loss since 2007
- Historical high leakage attributed to faulty mains and service lines with few leaks surfacing due to very porous soil conditions



Organic Customer Growth



- Customer growth slowed but remained positive during the recent economic downturn
- ██████████ and Mountain Water customer 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



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®

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- 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

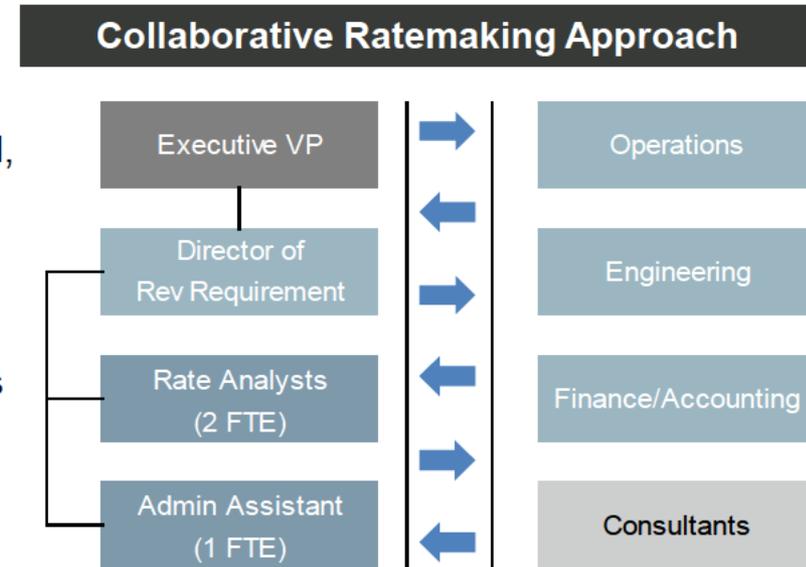
Montana

- 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)



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

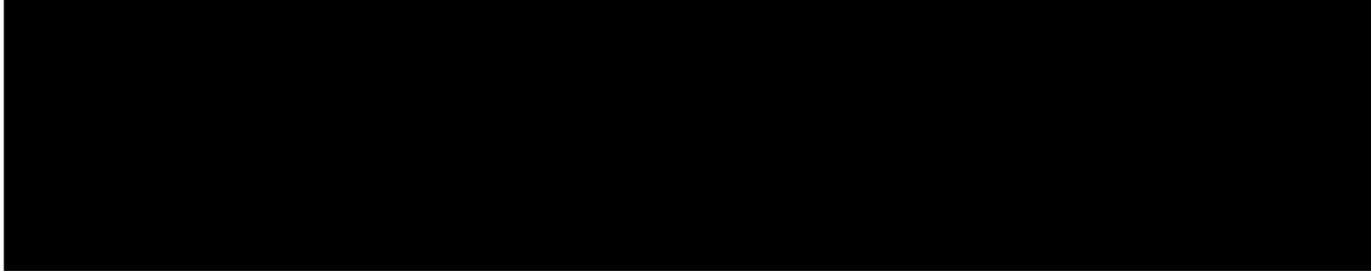
		2015E	2016E	2017E	2018E	2019E
General Rate Case	Park Central Basin		✓			✓
	Apple Valley	✓			✓	
	Mountain Water	✓	✓	✓	✓	✓
Cost of Capital	Park Central Basin			✓		
	Apple Valley			✓		

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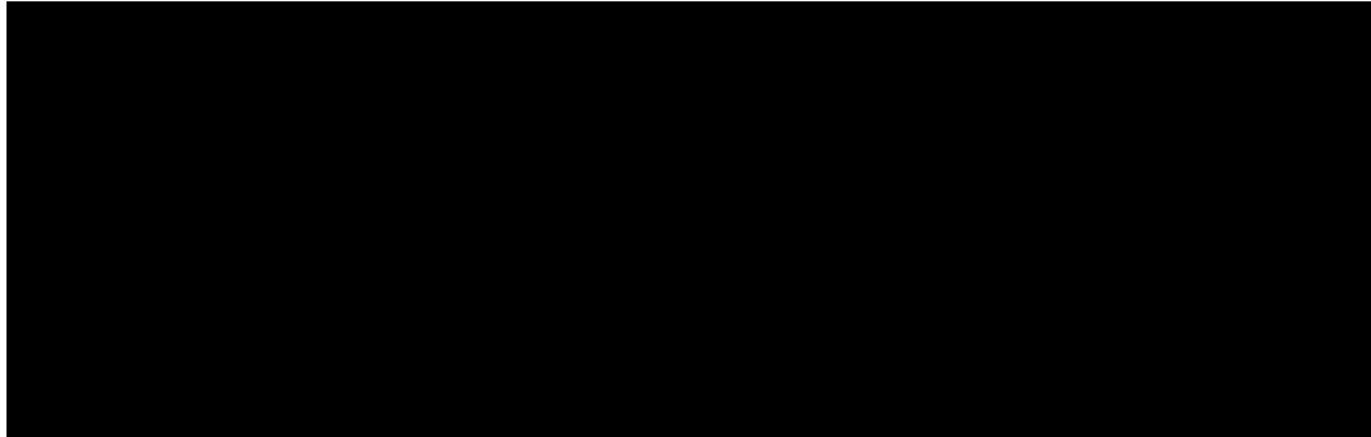
Capital Investment Status Update



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

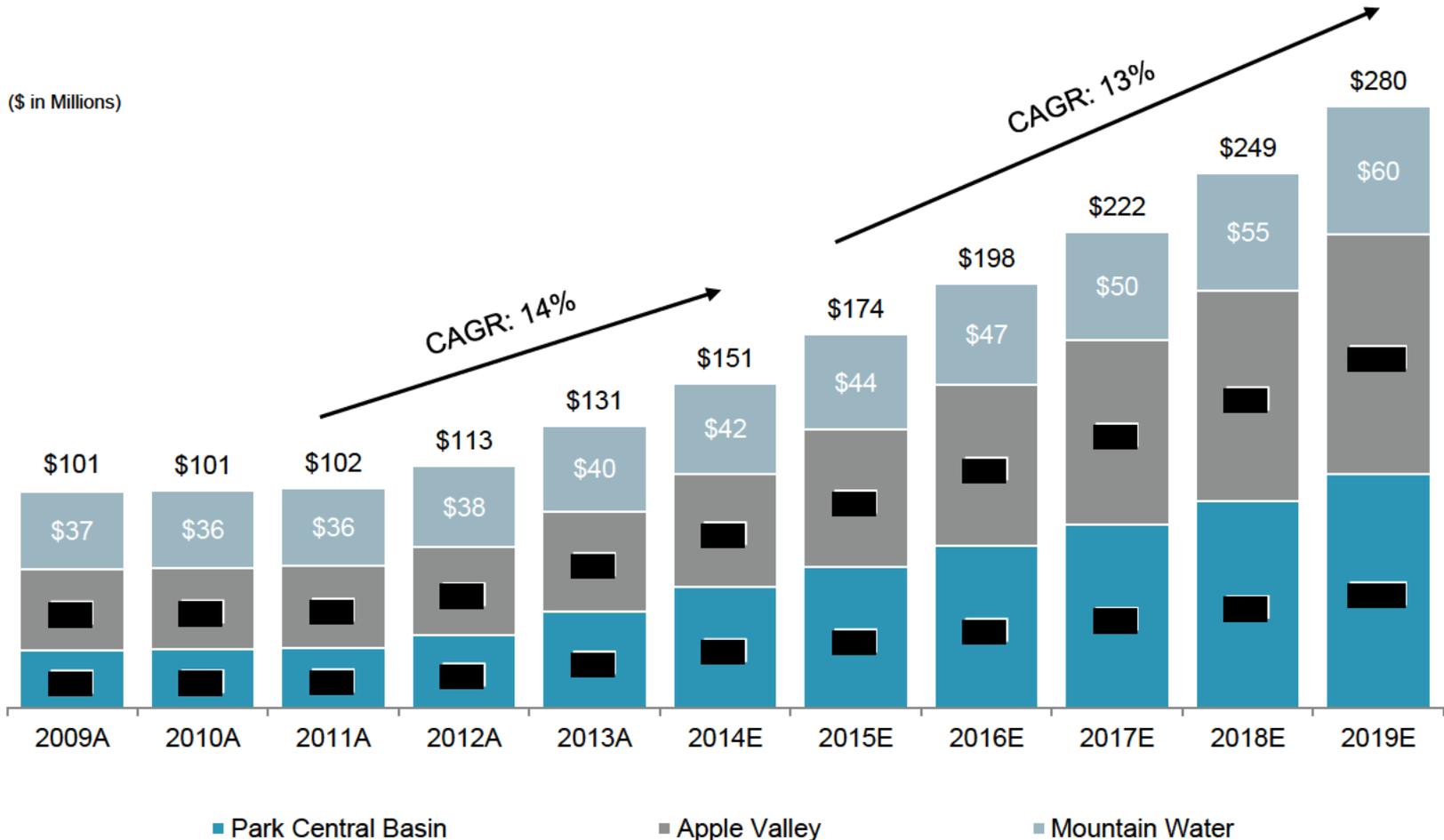
Financial Summary



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

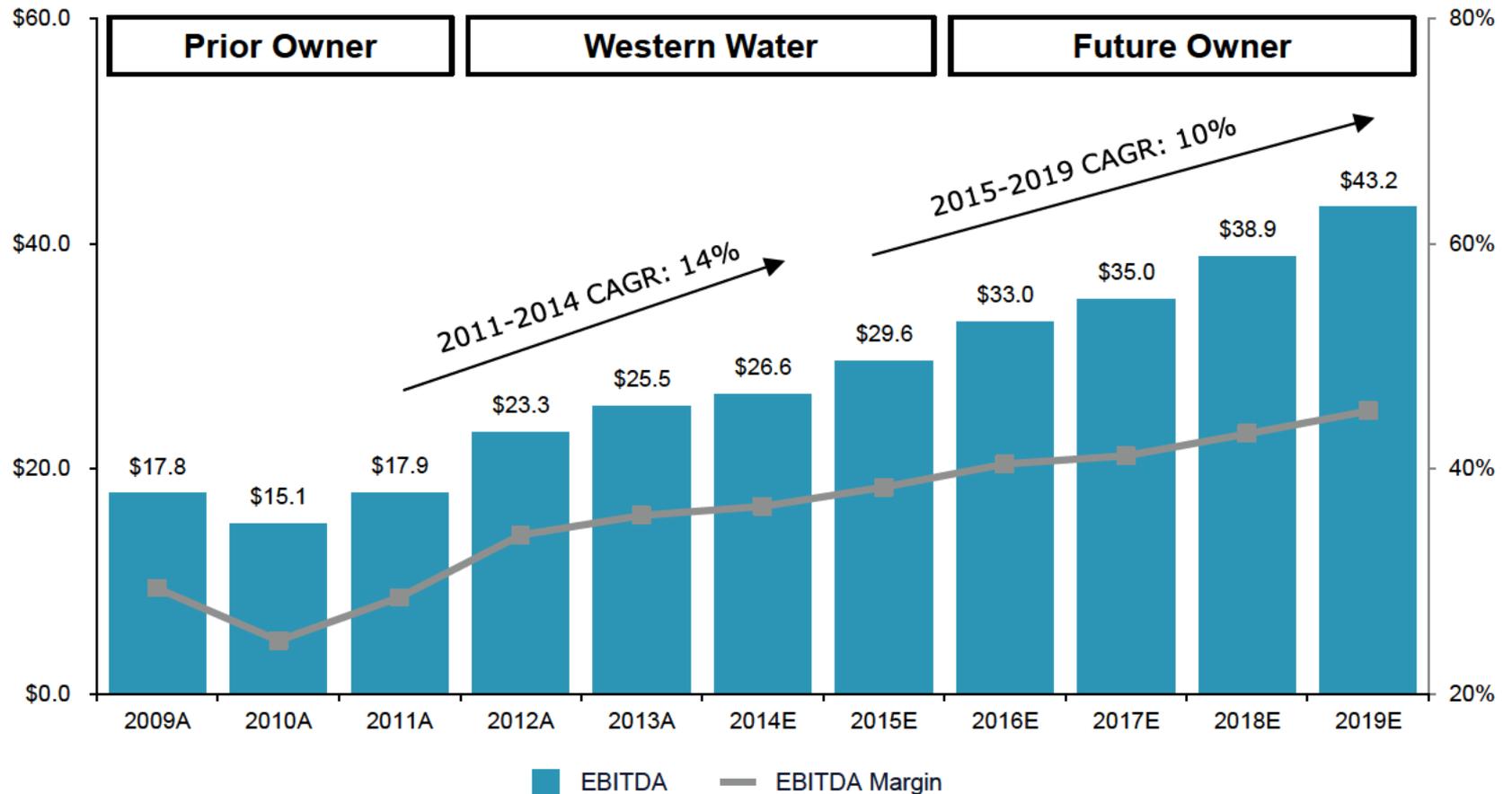


Attractive EBITDA Growth



- EBITDA margin continues to improve due to effective and timely ratemaking, increased capital investment and expense control

(\$ in Millions)

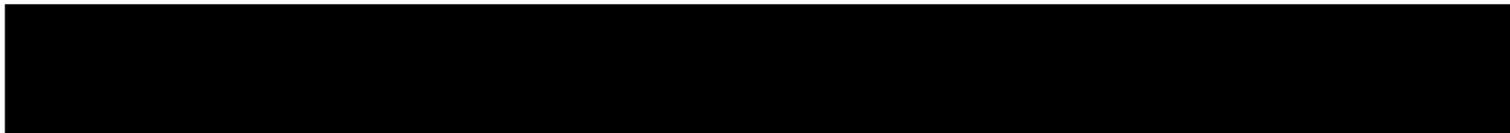


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Improved Operating Efficiency

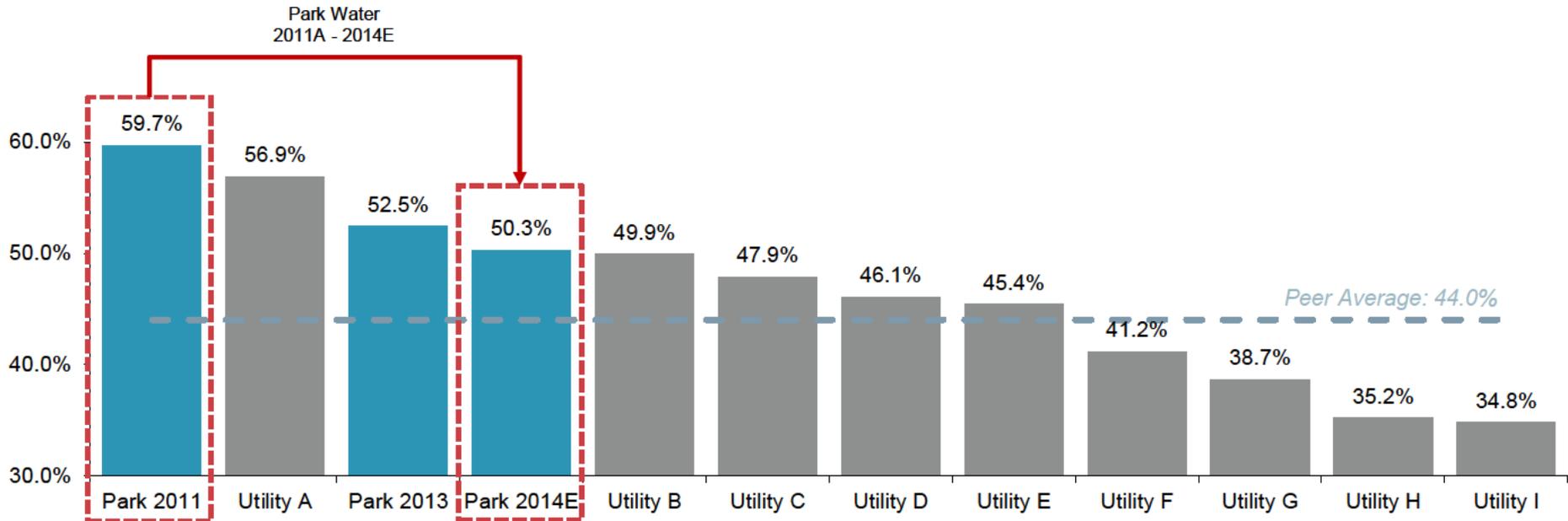


- Substantial operational improvements completed over the past three years
- Management has a deliberate strategic focus on:



- Minimize regulatory lag (Mountain Water)

O&M Efficiency Ratio¹ Comparison



¹ O&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

(\$ in Millions)

	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%

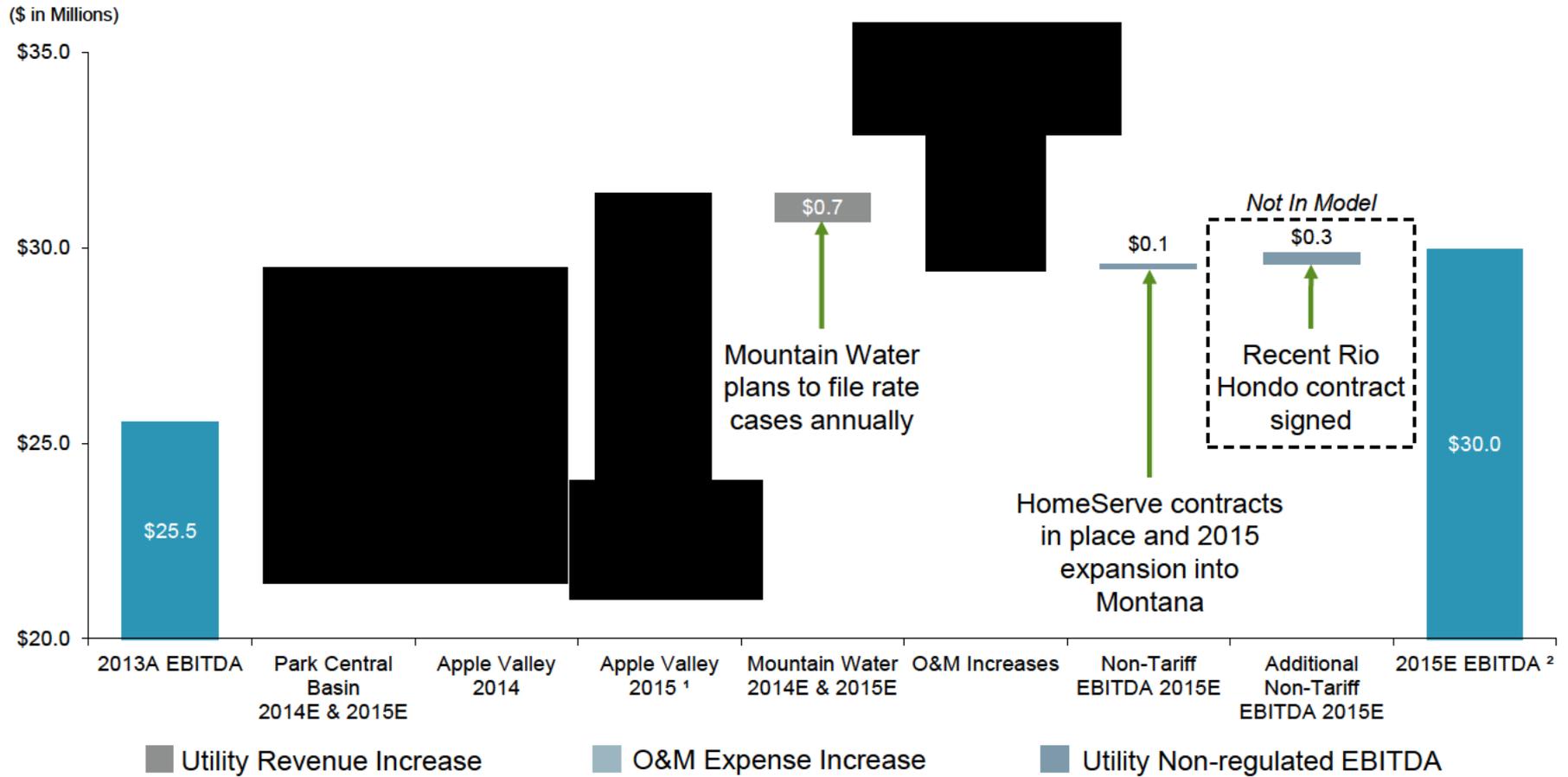
Year to Date Capital Investment

(\$ in Millions)

	Utility YTD June 2014			Consolidated		
	Park Central Basin ¹	Apple Valley	Mountain Water	YTD Spent	2014 Annual Budget Planned	% Total
Capital Investment			\$0.7	\$16.3	\$26.6	61.1%

¹Park Corporate YTD actual capital investment included in Park Central Basin

2013A - 2015E EBITDA Bridge

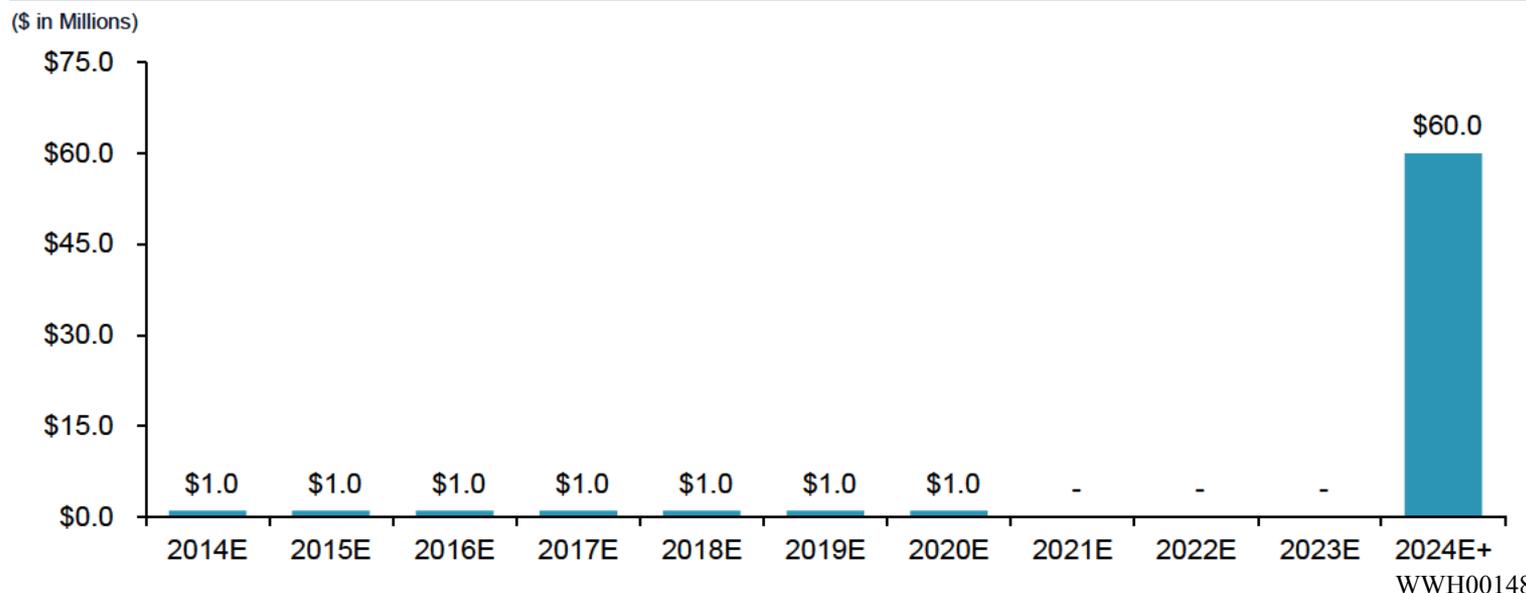


¹ Includes \$0.3MM contribution from Rio Hondo contract

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

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

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