

CALIFORNIA WATER SERVICE GROUP

Form 10-Q

May 11, 2009

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q**

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2009

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

**Commission file number 1-13883
CALIFORNIA WATER SERVICE GROUP**

(Exact name of registrant as specified in its charter)

Delaware

77-0448994

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer identification No.)

1720 North First Street, San Jose, CA.

95112

(Address of principal executive offices)

(Zip Code)

408-367-8200

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Exchange Act) Yes No

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common shares outstanding as of May 1, 2009 20,744,952

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PART I FINANCIAL INFORMATION

Item 1.

FINANCIAL STATEMENTS

The condensed consolidated financial statements presented in this filing on Form 10-Q have been prepared by management and are unaudited.

**CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATED BALANCE SHEETS**

Unaudited

(In thousands, except per share data)

	March 31, 2009	December 31, 2008
ASSETS		
Utility plant:		
Utility plant	\$ 1,605,014	\$ 1,583,079
Less accumulated depreciation and amortization	(482,235)	(470,712)
Net utility plant	1,122,779	1,112,367
Current assets:		
Cash and cash equivalents	5,278	13,869
Receivables:		
Customers	18,216	22,786
Regulatory balancing accounts	8,860	4,629
Other	10,146	7,442
Unbilled revenue	12,472	13,112
Materials and supplies at average cost	5,068	5,070
Taxes, prepaid expenses and other assets	12,265	12,890
Total current assets	72,305	79,798
Other assets:		
Regulatory assets	198,170	198,293
Goodwill	3,906	3,906
Other assets	25,148	23,743
Total other assets	227,224	225,942
	\$ 1,422,308	\$ 1,418,107
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stock, \$.01 par value	\$ 207	\$ 207
Additional paid-in capital	214,236	213,922
Retained earnings	185,128	188,820

Total common stockholders' equity	399,571	402,949
Long-term debt, less current maturities	287,202	287,498
Total capitalization	686,773	690,447
Current liabilities:		
Current maturities of long-term debt	2,891	2,818
Short-term borrowings	52,000	40,000
Accounts payable:		
Trade and other	36,153	39,187
Regulatory balancing accounts	1,835	2,585
Accrued interest	6,757	3,295
Accrued expenses and other liabilities	30,438	35,311
Total current liabilities	130,074	123,196
Unamortized investment tax credits	2,392	2,392
Deferred income taxes, net	74,283	72,344
Pension and postretirement benefits other than pensions	150,074	152,685
Regulatory and other liabilities	83,234	83,312
Advances for construction	177,684	176,163
Contributions in aid of construction	117,794	117,568
Commitments and contingencies		
	\$ 1,422,308	\$ 1,418,107

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

Table of Contents**CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

Unaudited

(In thousands, except per share data)

For the three months ended	March 31, 2009	March 31, 2008
Operating revenue	\$ 86,613	\$ 72,921
Operating expenses:		
Water production costs	28,868	25,358
Administrative and general	18,861	13,418
Other operations	12,456	12,065
Maintenance	4,635	4,114
Depreciation and amortization	10,198	9,222
Income taxes	1,232	174
Property and other taxes	4,088	3,739
Total operating expenses	80,338	68,090
Net operating income	6,275	4,831
Other income and expenses:		
Non-regulated revenue	2,881	2,905
Non-regulated expenses	(2,641)	(3,036)
Gain on sale of non-utility property	603	
Income taxes benefit (expense) on other income and expenses	(338)	49
Total other income and expenses	505	(82)
Interest expense:		
Interest expense	5,038	5,014
Less: capitalized interest	(679)	(450)
Total interest expense	4,359	4,564
Net income	\$ 2,421	\$ 185
Earnings per share		
Basic	\$ 0.12	\$ 0.01
Diluted	\$ 0.12	\$ 0.01
Weighted average shares outstanding		
Basic	20,730	20,688

Diluted	20,759	20,711
Dividends declared per share of common stock	\$ 0.2950	\$ 0.2925

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

Unaudited

(In thousands)

	March 31, 2009	March 31, 2008
For the three months ended:		
Operating activities		
Net income	\$ 2,421	\$ 185
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,792	9,222
Gain on sale of non-utility property	(603)	
Change in value of life insurance contracts	(8)	
Other changes in noncurrent assets and liabilities	(486)	(407)
Changes in operating assets and liabilities:		
Receivables	(2,372)	4,475
Accounts payable	1,543	(2,906)
Other current assets	1,280	631
Other current liabilities	(1,152)	5,061
Other changes, net	63	981
Net cash provided by operating activities	11,478	17,242
Investing activities:		
Utility plant expenditures:		
Company funded	(23,529)	(27,090)
Developer advances and contributions in aid of construction	(1,475)	(2,735)
Purchase of life insurance	(1,373)	
Proceeds on sale of non-utility property	671	
Net cash used in investing activities	(25,706)	(29,825)
Financing activities:		
Short-term borrowings	12,000	14,000
Repayment of long-term debt	(483)	(724)
Advances and contributions in aid of construction	1,269	3,085
Refunds of advances for construction	(1,035)	(1,452)
Dividends paid	(6,114)	(6,093)
Net cash provided by financing activities	5,637	8,816
Change in cash and cash equivalents	(8,591)	(3,767)
Cash and cash equivalents at beginning of period	13,869	6,734
Cash and cash equivalents at end of period	\$ 5,278	\$ 2,967

Supplemental information

Cash paid for interest	\$ 729	\$ 670
Cash paid for income taxes		

Supplemental disclosure of non-cash activities:

Accrued payables for investments in utility plant	\$ 5,641	\$ 4,050
Utility plant contribution by developers	2,747	

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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CALIFORNIA WATER SERVICE GROUP

Notes to Unaudited Condensed Consolidated Financial Statements

March 31, 2009

(Amounts in thousands, except share and per share amounts)

Note 1. Organization and Operations and Basis of Presentation

California Water Service Group (the Company) is a holding company that provides water utility and other related services in California, Washington, New Mexico and Hawaii through its wholly-owned subsidiaries. California Water Service Company (Cal Water), Washington Water Service Company (Washington Water), New Mexico Water Service Company (New Mexico Water), and Hawaii Water Service Company, Inc. (Hawaii Water) provide regulated utility services under the rules and regulations of their respective state's regulatory commissions (jointly referred to herein as the Commissions). CWS Utility Services and HWS Utility Services LLC provide non-regulated water utility and utility-related services.

Basis of Presentation

The unaudited interim financial information has been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X promulgated by the Securities and Exchange Commission (SEC) and therefore do not contain all of the information and footnotes required by GAAP and the SEC for annual financial statements. The condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2008, included in its current report on Form 8-K as filed with the SEC on April 7, 2009.

The preparation of the Company's condensed consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet dates and the reported amounts of revenues and expenses for the periods presented. Actual results could differ from these estimates.

In the opinion of management, the accompanying condensed consolidated financial statements reflect all adjustments that are necessary to provide a fair presentation of the results for the periods covered. The results for interim periods are not necessarily indicative of the results for any future period.

Due to the seasonal nature of the water business, the results for interim periods are not indicative of the results for a twelve-month period. Revenue and income are generally higher in the warm, dry summer months when water usage and sales are greater. Revenue and income are lower in the winter months when cooler temperatures and rainfall curtail water usage and sales.

The Company operates primarily in one business segment providing water and related utility services.

Note 2. Summary of Significant Accounting Policies

Revenue

Revenue includes monthly cycle customer billings for regulated water and wastewater services at rates authorized by regulatory commissions and billings to certain non-regulated customers. In addition, effective July 1, 2008 with the adoption of the Water Revenue Adjustment Mechanism (WRAM) and the Modified Cost Balancing Account (MCBA), Cal Water records the difference between what is billed to its regulated customers and that which is authorized by the California Public Utilities Commission (CPUC).

Under the WRAM, Cal Water records the adopted level of volumetric revenues as authorized by the CPUC for metered accounts (adopted volumetric revenues). In addition to volumetric-based revenues, the revenue requirements approved by the CPUC include service charges, flat rate charges, and other items that are not subject to the WRAM. The adopted volumetric revenue considers the seasonality of consumption of water based upon historical averages. The variance between adopted volumetric revenues and actual billed volumetric revenues for metered accounts is recorded as a component of revenue with an offsetting entry to a current asset or liability balancing account (tracked individually for each Cal Water district). The variance amount may be positive or negative and represents amounts that will be billed or refunded to customers in the future.

Under the MCBA Cal Water will track adopted expense levels for purchased water, purchased power and pump taxes, as established by the CPUC. Variances (which include the effects of changes in both rate and volume) between

adopted and actual purchased water, purchased power, and pump tax expenses are recorded as a component of revenue, as the amount of such

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variances will be recovered from or refunded to the Company's customers at a later date. This is reflected with an offsetting entry to a current asset or liability balancing account (tracked individually for each Cal Water district). The balances in the WRAM and MCBA assets and liabilities accounts will fluctuate on a monthly basis depending upon the variance between adopted and actual results. The recovery or refund of the WRAM is netted against the MCBA over- or under-recovery for the corresponding district and is interest bearing at the current 90 day commercial paper rate. When the net amount for any district achieves a pre-determined level at the end of any calendar year (i.e., at least 2.5 percent over- or under-recovery of the approved revenue requirement), Cal Water will file with the CPUC to refund or collect the balance in the accounts. Account balances less than those levels may be refunded or collected in Cal Water's general rate case proceedings or aggregated with future calendar year balances for comparison with the recovery level. As of March 31, 2009 and December 31, 2008, the net aggregated asset included in accounts receivable was \$8,860 and \$4,629, respectively, and the aggregate liability included in accounts payable was \$1,835 and \$2,585, respectively.

Recent Accounting Pronouncements Adopted

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations. The statement applies prospectively to business combinations for which the acquisition date is on or after years beginning after December 15, 2008. SFAS 141(R) significantly changes current practices regarding business combinations. Among the more significant changes, SFAS 141(R) expands the definition of a business and a business combination; requires the acquirer to recognize the assets acquired, liabilities assumed and noncontrolling interests (including goodwill), measured at fair value at the acquisition date; requires acquisition-related expenses and restructuring costs to be recognized separately from the business combination and requires assets acquired and liabilities assumed from contractual and non-contractual contingencies to be recognized at their acquisition date fair values with subsequent changes recognized in earnings. The Company adopted SFAS No. 141 (R) effective January 1, 2009.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51. the statement amends ARB 51 to establish accounting and reporting standards for the noncontrolling interests in a subsidiary and for the deconsolidation of a subsidiary. The statement is effective for years beginning after December 15, 2008. The Company adopted SFAS No. 160 effective January 1, 2009, and it did not have a material impact on the Company's financial position, results of operation, or cash flows.

In May 2008, the FASB staff revisited Emerging Issues Task Force (EITF) issue No. 03-6 and issued FASB Staff Position (FSP) No. EITF 03-6-1, Determining Whether Instruments Granted in Shared-Based Payment Transactions are Participating Securities. FSP EITF 03-6-1 requires unvested share-based payments that entitle employees to receive nonrefundable dividends to also be considered participating securities, as defined in EITF 03-6. The Company currently grants certain unvested share-based payments awards that include rights to dividends similar to common stockholders. The Company adopted FSP EITF 03-6-1 effective January 1, 2009 and it did not have a material impact to its computation of earnings per share.

Accounting Pronouncements Issued But Not Yet Adopted

In December 2008, the FASB issued FSP FAS 132(R)-1, Employers' Disclosures about Postretirement Benefit Plan Assets (FSP 132(R)-1). FSP 132(R)-1 amends and expands the disclosure requirements of SFAS No. 132. An entity is required to provide qualitative disclosures about how investment allocation decisions are made, the inputs and valuation techniques used to measure the fair value of plan assets, and the concentration of risk within plan assets. Additionally, quantitative disclosures are required showing the fair value of each major category of plan assets, the levels in which each asset is classified within the fair value hierarchy, and a reconciliation for the period of plan assets which are measured using significant unobservable inputs. FSP 132(R)-1 is effective prospectively for fiscal years ending after December 15, 2009. The Company is currently evaluating the impact of FSP 132(R)-1.

In April 2009, the FASB issued FSP SFAS 107-1 and APB No. 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP SFAS 107-1 and APB No. 28-1). This FSP amends SFAS No. 107 and APB Opinion No. 28. Interim Financial Reporting to require disclosures about the fair value of financial instruments for interim reporting periods that were previously only required for annual reporting periods. An entity is required to disclose the fair value of financial assets and liabilities together with the related carrying amount and where the carrying amount is classified in the Condensed Consolidated Balance Sheets. FSP SFAS 107-1 and APB No. 28-1 is effective

prospectively for interim reporting periods after June 15, 2009. The Company is currently evaluating the impact of FSP SFAS 107-1 and APB No. 28-1.

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Note 3. Stock-based Compensation

Long-Term Incentive Plan

The Company had a stockholder-approved Long-Term Incentive Plan (which was replaced on April 27, 2005, by a stockholder-approved Equity Incentive Plan) that allowed granting of non-qualified stock options. The Company had accounted for options issued under the Long-Term Incentive Plan using the intrinsic value method under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees. All outstanding options (83,250 shares at March 31, 2009) have an exercise price equal to the market price on the date they were granted. The weighted average price of the options is \$24.90. All options granted under the Long-Term Incentive Plan are fully vested. No compensation expense was recorded for the three-month periods ended March 31, 2009 and 2008 related to stock options issued under the Long-Term Incentive Plan.

Equity Incentive Plan

Under the Company's Equity Incentive Plan, which was approved by shareholders in April 2005, the Company is authorized to issue up to 1,000,000 shares of common stock. In the first quarters of 2009 and 2008, the Company granted Restricted Stock Awards (RSAs) of 21,000 and 16,630 shares, respectively, of common stock both to officers and to directors of the Company. Employee options vest ratably over 48 months, while director options vest at the end of 12 months. The shares were valued at \$38.38 and \$37.60 per share, respectively, based upon the fair market value of the Company's common stock on the date of grant.

In addition, in the first quarters of 2009 and 2008, Stock Appreciation Rights (SARs) equivalent to 71,500 and 47,070 shares, respectively, were granted to officers, which vest ratably over 48 months and expire at the end of 10 years. The grant-date fair value for SARs was determined using the Black Scholes model, which arrived at a fair value of \$10.50 and \$6.03 per share, respectively. Upon exercise of a SAR, the appreciation is payable in common shares of the Company.

The assumptions utilized in calculation of the SAR fair value were:

	2009	2008
Expected dividend yield	3.06%	3.11%
Expected volatility	36.97%	21.96%
Risk-free interest rate	1.89%	2.63%
Expected holding period in years	6.0	6.0

The Company did not apply a forfeiture rate in the expense computation relating to RSAs and SARs issued to officers as they vest monthly and, as a result, the expense is recorded for actual vesting during the period. For outside directors the Company did not apply a forfeiture rate in the expense computation relating to RSAs, as the Company expects 100% to vest at the end of twelve months.

The table below reflects SARs activity under the Equity Incentive Plan for the three months ended March 31, 2009.

	Shares	Weighted Average Exercise Price
Stock Appreciation Rights		
Outstanding at December 31, 2008	108,710	\$ 38.16
Granted	71,500	38.38
Exercised		
Cancelled		
Outstanding at March 31, 2009	180,210	\$ 38.25
Exercisable at March 31, 2009	53,100	\$ 38.39

The Company has recorded compensation costs for the RSAs and SARs in Operating Expense in the amount of \$284 and \$91 for the quarter ended March 31, 2009, and March 31, 2008, respectively.

Note 4. Earnings Per Share Calculations

The computations of basic and diluted earnings per share are noted below. RSAs are included in the weighted stock outstanding as the shares have all the same voting and dividend rights as issued and unrestricted common stock.

Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

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The SARs outstanding of 180,210 and 108,710 are anti-dilutive for the first quarter of 2009 and 2008. All options are dilutive and the dilutive effect is shown in the table below.

(In thousands, except per share data)

	Three Months Ended March 31	
	2009	2008
Net income	\$ 2,421	\$ 185
Less preferred dividends		(38)
Net income available to common stockholders	\$ 2,421	\$ 147
Weighted average common shares, basic	20,730	20,688
Dilutive common stock options (treasury method)	29	23
Shares used for dilutive computation	20,759	20,711
Net income per share basic	\$ 0.12	\$ 0.01
Net income per share diluted	\$ 0.12	\$ 0.01

Note 5. Pension Plan and Other Postretirement Benefits

The Company provides a qualified, defined-benefit, non-contributory pension plan for substantially all employees. The Company makes annual contributions to fund the amounts accrued for the qualified pension plan. The Company also maintains an unfunded, non-qualified, supplemental executive retirement plan. The costs of the plans are charged to expense or are capitalized in utility plant as appropriate.

The Company offers medical, dental, vision, and life insurance benefits for retirees and their spouses and dependents. Participants are required to pay a premium, which offsets a portion of the cost.

Cash payments by the Company related to pension plans and other postretirement benefits were \$11,588 for the three months ended March 31, 2009. The estimated cash contribution to the pension plans for 2009 is \$26,900. The estimated contribution to the other benefits plan for 2009 is \$9,500.

The following table lists components of the pension plans and other postretirement benefits. The data listed under pension plan includes the qualified pension plan and the non-qualified supplemental executive retirement plan. The data listed under other benefits is for all other postretirement benefits.

	Three Months Ended March 31			
	Pension Plan		Other Benefits	
	2009	2008	2009	2008
Service cost	\$ 2,206	\$ 1,336	\$ 504	\$ 361
Interest cost	3,018	1,628	518	433
Expected return on plan assets	(1,707)	(1,578)	(185)	(156)
Recognized net initial APBO (1)	N/A	N/A	69	69
Amortization of prior service cost	1,533	468	29	29
Recognized net actuarial loss	461	81	199	75
Net periodic benefit cost	\$ 5,511	\$ 1,935	\$ 1,134	\$ 811

- (1) APBO
 - Accumulated
 - postretirement
 - benefit
 - obligation

Note 6. Short-term Borrowings

At March 31, 2009, the Company maintained a bank line of credit providing unsecured borrowings of up to \$20 million at the prime lending rate less 1.5 percentage points. Cal Water maintained a separate bank line of credit for an additional \$55 million with the same interest rate provision as the Company. The line of credit agreements expire on April 30, 2012. The agreement with the Company requires a debt to capitalization ratio of less than 0.667:1.0 and an interest coverage ratio of at least 2.5:1.0. As of March 31, 2009, the Company and Cal Water were in compliance with the bank covenants in the loan agreements. At March 31, 2009, the outstanding borrowings on the Company line of credit were \$12,000 and the outstanding borrowings on the Cal Water line of credit were \$40,000. See also Note 8 (subsequent events).

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Note 7. Commitment and Contingencies

Commitments

The Company has significant commitments to lease certain office spaces and water systems, and for the purchase of water from water wholesalers. These commitments are described in footnote 15 of the current report on Form 8-K.

Contingencies

Chico Groundwater/Wausau Insurance Matter

In 1995, the State of California's Department of Toxic Substances Control (DTSC) named us as a potential responsible party for cleanup of toxic contamination plumes, which contain perchloroethylene, also known as tetrachloroethylene (PCE) in the Chico groundwater. In December 2002, we were named along with other defendants in two lawsuits filed by DTSC for the cleanup of the plumes. In 2007, we entered into Court approved consent decrees (Consent Decrees). The Consent Decrees conditioned our performance upon many factors, including, but not limited to, water pumped and treated by us must meet regulatory standards so we may distribute to its customers. Pursuant to the terms of the Consent Decrees, we will incur capital costs of \$1.5 million and future operating costs with a present value of approximately \$2.6 million. In our 2007 general rate case (GRC) settlement negotiations, Division of Ratepayer Advocates have tentatively agreed to track all costs associated with the Consent Decrees, including legal costs to pursue insurance coverage, for potential future recovery in rates.

In connection with these suits, our insurance carrier, Employers Insurance of Wausau (Wausau) filed a separate lawsuit against us for reimbursement of past defense costs which approximate \$1.5 million and a declaratory determination of coverage. On January 23, 2008, the Court heard various parties' motions and on September 25, 2008 issued its rulings that Wausau had a duty to defend; therefore, the Company will not have to reimburse Wausau for previously incurred defense costs. The Court did not find Wausau's actions were intended to harm the Company, so punitive damages will not be recoverable by the Company. However, the Court also found that the issue of policy coverage will be determined at trial. A trial date has been set for May 26, 2009. Based on the Court's rulings, the Company has not recorded any liability associated with reimbursement of costs to defend and expensing the related costs as incurred. The Company continues to believe that the claims are covered under the insurance policies. However, if the Company's claim is ultimately found to be excludable under the insurance policies, the Company believes that recovery of costs associated with the Consent Decrees are probable from either its equitable indemnity lawsuit against manufacturers and distributors of perchloroethylene, also known as tetrachloroethylene, (PCE) in California; or through rate increases in the future. Therefore, no accrual or contingency has been recorded for this matter.

Other Groundwater Contamination

The Company has been and is involved in litigation against third parties to recover past and future costs related to ground water contamination in our service areas. The cost of litigation is expensed as incurred and any settlement is first offset against such costs. Any settlement in excess of the cost to litigate is accounted for on a case by case basis based upon the nature of the settlement. It is anticipated that the majority of the settlement will be reflected as a benefit to the rate payers by offsetting future operating or capital costs.

The Company is involved in a lawsuit against major oil refineries regarding the contamination of the ground water as a result of the gas additive MTBE. The Company entered into a partial settlement with the defendants in April of 2008 that represent approximately 70% of the responsible parties (as determined by the Superior Court). Based on the allocation matrix, on October 22, 2008, the Company received \$34.2 million after deducting attorneys' fees and litigation expenses. The Company is aggressively pursuing legal action against the remaining responsible parties. The Company is in the process of determining with the Commission the appropriate regulatory treatment of the proceeds. It is anticipated that the proceeds will be used by the Company on infrastructure improvements. The Company is in the process of filing with the Internal Revenue Service a request for a private letter ruling regarding the taxability of the proceeds.

The Company believes the proceeds are non-taxable based upon its intent to reinvest them in qualifying assets. In 2009, when an agreement is reached with the Commission regarding the regulatory treatment, or when the taxability is determined based upon proceedings with the Internal Revenue Service, the Company will adjust the accounting of the settlement accordingly.

As previously reported, Cal Water has filed with the City of Bakersfield, in the Superior Court of California, a lawsuit that names potentially responsible parties, who manufactured and distributed products containing 1,2,3 trichloropropane (TCP) in California. TCP has been detected in the ground water. The lawsuit seeks to recover treatment costs necessary to remove TCP. The Court has now coordinated our action with other water purveyor cases (TCP Cases JCCP 4435) in San Bernardino County. No trial date has yet been set.

The Company has filed in San Mateo County Superior Court a complaint (California Water Service Company v. The Dow Chemical Company, et al. CIV 473093) against potentially responsible parties that manufactured and distributed products, which contained perchloroethylene, also know as tetrachloroethylene (PCE) in California, to recover the past, present, and future treatment costs. No trial date has yet been set.

Other Legal Matters

From time to time, the Company has been named as a co-defendant in several asbestos related lawsuits. The Company has been dismissed without prejudice in several of these cases. In other cases our contractor s and our insurance policy carriers have settled the cases with no effect on the Company s financial statements. As such the Company does not currently believe that there is any potential loss which is probable of occurring related to these matters and therefore no accrual or contingency has been recorded.

From time to time, the Company is involved in various disputes and litigation matters that arise in the ordinary course of business. We review the status of each significant matter and assess its potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount of the range of loss can be estimated, the Company accrues a liability for the estimated loss in accordance with SFAS No 5, Accounting of Contingencies. Legal proceedings are subject to uncertainties, and the outcomes are difficult to predict. Because of such uncertainties, accruals are based on the best information available at the time. While the outcome of these disputes and litigation matters cannot be predicted with any certainty, management does not believe that when taking into account existing reserves that the ultimate resolution of these matters will materially affect our financial position, results of operations, or cash flows.

Note 8. Subsequent events

On April 17, 2009, the Company s and Cal Water s loan agreements with Bank of America, N.A. were amended so that the interest rate payable on outstanding borrowings is equal to the bank s prime rate minus 0.75 percentage points or the LIBOR rate plus 1.0 percentage point. Additionally, the Company and Cal Water agreed to a fee of 0.15% based upon any unused commitment. The amendment also changed the expiration date to April 16, 2010.

On April 17, 2009, Cal Water completed the sale and issuance of \$100 million aggregate principal amount of its 5.875% First Mortgage Bonds due 2019, which are fully and unconditionally guaranteed by the Company. Pursuant to the note purchase agreements and supplements thereto under which Cal Water s outstanding unsecured senior notes had been issued, Cal Water was required to issue a new series of first mortgage bonds in exchange for each outstanding series of unsecured senior notes with a like aggregate principal amount. The offering triggered this exchange provision. Accordingly, upon the closing of the offering, Cal Water was required to issue an additional series of first mortgage bonds under the mortgage indenture with a like aggregate principal amount to the holders of each series of its outstanding unsecured senior notes in exchange for each such series of notes.

In connection with the offering, Cal Water exercised its option to redeem the remaining \$3.0 million of 8.86% Series J First Mortgage Bonds due 2023, which Cal Water assumed in connection with its acquisition of Dominguez Water Corporation in 2000. The redemption was affected pursuant to the terms of the indenture and supplemental indentures governing the Series J bonds. The Series J bonds were redeemed at a redemption price equal to 100% of the outstanding principal amount of the Series J bonds plus a make-whole premium of \$1.0 million, and accrued and unpaid interest to the date of redemption.

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Note 9. Condensed Consolidating Financial Statements

As discussed in Note 8, Cal Water issued on April 17, 2009, \$100 million aggregate principal amount of 5.875% First Mortgage Bonds due 2019, which are fully and unconditionally guaranteed by California Water Service Group (Parent Company). The following tables present the condensed consolidating statements of income of California Water Service Group (Guarantor and Parent), Cal Water (issuer and wholly-owned consolidated subsidiary of California Water Service Group) and other wholly-owned subsidiaries of the Company for the three-month periods ended March 31, 2009 and 2008, the condensed consolidating statements of cash flows for the three-months ended March 31, 2009 and 2008 and the condensed consolidating balance sheets as of March 31, 2009 and December 31, 2008. The information is presented utilizing the equity method of accounting for investments in consolidating subsidiaries.

**CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING BALANCE SHEET**

As of March 31, 2009

(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS					
Utility plant:					
Utility plant	\$	\$ 1,508,729	\$ 103,484	\$ (7,199)	\$ 1,605,014
Less accumulated depreciation and amortization		(461,784)	(21,478)	1,027	(482,235)
Net utility plant		1,046,945	82,006	(6,172)	1,122,779
Current assets:					
Cash and cash equivalents	356	2,889	2,033		5,278
Receivables and unbilled revenue		45,909	3,785		49,694
Receivables from affiliates	16,710	13,794	3,290	(33,794)	
Other current assets	250	17,081	2		17,333
Total current assets	17,316	79,673	9,110	(33,794)	72,305
Other assets:					
Regulatory assets	905	196,867	398		198,170
Investments in affiliates	400,321			(400,321)	
Long-term affiliate notes receivable	9,168			(9,168)	
Goodwill			3,906		3,906
Other assets		21,660	3,693	(205)	25,148
Total other assets	410,394	218,527	7,997	(409,694)	227,224
	\$ 427,710	\$ 1,345,145	\$ 99,113	\$ (449,660)	\$ 1,422,308

**CAPITALIZATION AND
LIABILITIES**

Capitalization:

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Common stockholders equity	\$ 399,571	\$ 369,106	\$ 37,592	\$ (406,698)	\$ 399,571
Affiliate long-term debt			9,168	(9,168)	
Long-term debt, less current maturities		283,550	3,652		287,202
Total capitalization	399,571	652,656	50,412	(415,866)	686,773
Current liabilities:					
Current maturities of long-term debt		2,118	773		2,891
Short-term borrowings	12,000	40,000			52,000
Payables to affiliates	14,984	10,637	8,173	(33,794)	
Accounts payable		33,729	4,259		37,988
Accrued expenses and other liabilities	1,155	32,600	3,440		37,195
Total current liabilities	28,139	119,084	16,645	(33,794)	130,074
Unamortized investment tax credits		2,392			2,392
Deferred income taxes, net		71,942	2,341		74,283
Pension and postretirement benefits other than pensions		150,074			150,074
Regulatory and other liabilities		75,408	7,826		83,234
Advances for construction		176,156	1,528		177,684
Contributions in aid of construction		97,433	20,361		117,794
	\$ 427,710	\$ 1,345,145	\$ 99,113	\$ (449,660)	\$ 1,422,308

Table of Contents**CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING BALANCE SHEET**

As of December 31, 2008

(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS					
Utility plant:					
Utility plant	\$	\$ 1,488,227	\$ 102,051	\$ (7,199)	\$ 1,583,079
Less accumulated depreciation and amortization		(451,350)	(20,354)	992	(470,712)
Net utility plant		1,036,877	81,697	(6,207)	1,112,367
Current assets:					
Cash and cash equivalents	427	3,025	10,417		13,869
Receivables and unbilled revenue	72	44,049	3,848		47,969
Receivables from affiliates	9,295	11,976	372	(21,643)	
Other current assets	142	17,877	(59)		17,960
Total current assets	9,936	76,927	14,578	(21,643)	79,798
Other assets:					
Regulatory assets	905	196,990	398		198,293
Investments in affiliates	404,064			(404,064)	
Long-term affiliate notes receivable	10,851			(10,851)	
Other assets		20,242	7,612	(205)	27,649
Total other assets	415,820	217,232	8,010	(415,120)	225,942
	\$ 425,756	\$ 1,331,036	\$ 104,285	\$ (442,970)	\$ 1,418,107
CAPITALIZATION AND LIABILITIES					
Capitalization:					
Common stockholders equity	\$ 402,949	\$ 372,337	\$ 38,139	\$ (410,476)	\$ 402,949
Affiliate long-term debt			10,851	(10,851)	
Long-term debt, less current maturities		283,820	3,678		287,498
Total capitalization	402,949	656,157	52,668	(421,327)	690,447
Current liabilities:					
Current maturities of long-term debt		2,121	697		2,818
Short-term borrowings	12,000	28,000			40,000

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Payables to affiliates	9,642	201	11,800	(21,643)	
Accounts payable		38,003	3,769		41,772
Accrued expenses and other liabilities	1,165	34,563	2,878		38,606
Total current liabilities	22,807	102,888	19,144	(21,643)	123,196
Unamortized investment tax credits		2,392			2,392
Deferred income taxes, net		70,003	2,341		72,344
Pension and postretirement benefits other than pensions		152,685			152,685
Regulatory and other liabilities		75,362	7,950		83,312
Advances for construction		174,625	1,538		176,163
Contributions in aid of construction		96,924	20,644		117,568
	\$ 425,756	\$ 1,331,036	\$ 104,285	\$ (442,970)	\$ 1,418,107

Table of Contents**CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING STATEMENT OF INCOME**

For the three months ended March 31, 2009

(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
Operating revenue	\$	\$ 80,276	\$ 6,337	\$	\$ 86,613
Operating expenses:					
Operations:					
Purchased water		22,904	36		22,940
Purchased power		2,904	1,639		4,543
Pump taxes		1,272	113		1,385
Administrative and general		17,239	1,622		18,861
Other		11,031	1,539	(114)	12,456
Maintenance		4,520	115		4,635
Depreciation and amortization		9,435	797	(34)	10,198
Income taxes	(25)	1,179	(117)	195	1,232
Taxes other than income taxes		3,509	579		4,088
Total operating expenses (income)	(25)	73,993	6,323	47	80,338
Net operating income	25	6,283	14	(47)	6,275
Other Income and Expenses:					
Non-regulated revenue	171	1,957	1,047	(294)	2,881
Non-regulated expense		(1,742)	(899)		(2,641)
Gain on sale on non-utility property		598	5		603
Income tax benefit (expense) on other income and expense	(70)	(331)	(118)	181	(338)
Net other income (expense)	101	482	35	(113)	505
Interest:					
Interest expense	61	4,916	241	(180)	5,038
Less: capitalized interest		(545)	(134)		(679)
Net interest expense	61	4,371	107	(180)	4,359
Equity earnings of subsidiaries	2,356			(2,356)	

Net income	\$	2,421	\$	2,394	\$	(58)	\$	(2,336)	\$	2,421
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CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING STATEMENT OF INCOME
For the three months ended March 31, 2008
(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
Operating revenue	\$	\$ 69,268	\$ 3,653	\$	\$ 72,921
Operating expenses:					
Operations:					
Purchased water		20,650	61		20,711
Purchased power		2,857	597		3,454
Pump taxes		1,104	89		1,193
Administrative and general		12,374	1,044		13,418
Other		11,009	1,170	(114)	12,065
Maintenance		4,028	86		4,114
Depreciation and amortization		8,773	485	(36)	9,222
Income taxes	(13)	228	(126)	85	174
Taxes other than income taxes		3,413	326		3,739
Total operating expenses (income)	(13)	64,436	3,732	(65)	68,090
Net operating income	13	4,832	(79)	65	4,831
Other Income and Expenses:					
Non-regulated revenue	58	1,957	1,062	(172)	2,905
Non-regulated expense		(2,225)	(811)		(3,036)
Income tax benefit (expense) on other income and expense	(21)	108	(106)	68	49
Net other income (expense)	37	(160)	145	(104)	(82)
Interest:					
Interest expense		4,943	129	(58)	5,014
Less: capitalized interest		(450)			(450)
Net interest expense		4,493	129	(58)	4,564
Equity earnings of subsidiaries	135			(135)	
Net income	\$ 185	\$ 179	\$ (63)	\$ (116)	\$ 185

Table of Contents**CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****For the three months ended March 31, 2009****(In thousands)**

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
Operating activities:					
Net income	\$ 2,421	\$ 2,394	\$ (58)	\$ (2,336)	\$ 2,421
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Equity earnings of subsidiaries	(2,356)			2,356	
Dividends received from affiliates	6,114			(6,114)	
Depreciation and amortization		9,972	854	(34)	10,792
Other changes in noncurrent assets and liabilities		(363)	(123)		(486)
Change in value of life insurance contracts		(8)			(8)
Gain on sale of non-utility property		(598)	(5)		(603)
Changes in operating assets and liabilities:					
Net advance to affiliates	(509)	8,600	(8,091)		
Other changes, net	306	(1,454)	496	14	(638)
Net cash provided by operating activities	5,976	18,543	(6,927)	(6,114)	11,478
Investing activities:					
Utility plant expenditures:					
Company funded		(22,773)	(756)		(23,529)
Developer advances and contributions in aid of construction		(1,475)			(1,475)
Proceeds from sale of non-utility assets		666	5		671
Proceeds from affiliates long-term debt	67			(67)	
Purchase of life insurance		(1,373)			(1,373)
Net cash provided by (used in) investing activities	67	(24,955)	(751)	(67)	(25,706)
Financing Activities:					
Short-term borrowings		12,000			12,000

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Repayment of long-term debt		(272)	(211)		(483)
Repayment of affiliates					
long-term debt			(67)	67	
Advances and contributions in aid for construction		1,198	71		1,269
Refunds of advances for construction		(1,025)	(10)		(1,035)
Dividends paid to non-affiliates	(6,114)				(6,114)
Dividends paid to affiliates		(5,625)	(489)	6,114	
Net cash provided by (used in) financing activities	(6,114)	6,276	(706)	6,181	5,637
Change in cash and cash equivalents	(71)	(136)	(8,384)		(8,591)
Cash and cash equivalents at beginning of period	427	3,025	10,417		13,869
Cash and cash equivalents at end of period	\$ 356	\$ 2,889	\$ 2,033	\$	\$ 5,278

Table of Contents**CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****For the three months ended March 31, 2008****(In thousands)**

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
Operating activities:					
Net income	\$ 185	\$ 179	\$ (63)	\$ (116)	\$ 185
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Equity earnings of subsidiaries	(135)			135	
Dividends received from affiliates	6,093			(6,093)	
Depreciation and amortization		8,773	485	(36)	9,222
Other changes in noncurrent assets and liabilities		(1,525)	1,118		(407)
Changes in values of life insurance contracts		749			749
Changes in operating assets and liabilities:					
Net advance to affiliates	4,736	(4,208)	(528)		
Other changes, net	(5,580)	10,920	2,136	17	7,493
Net cash provided by operating activities	5,299	14,888	3,148	(6,093)	17,242
Investing activities:					
Utility plant expenditures Company funded		(25,806)	(1,284)		(27,090)
Developer advances and contributions in aid of construction		(1,870)	(865)		(2,735)
Loans to affiliates	95			(95)	
Net cash provided by (used in) investing activities	95	(27,676)	(2,149)	(95)	(29,825)
Financing Activities:					
Short-term borrowings		14,000			14,000
Repayment of long-term debt		(537)	(187)		(724)
Proceeds from affiliate loan			95	(95)	
Advances and contributions in aid of construction		2,018	1,067		3,085
Refunds of advances for construction		(1,348)	(104)		(1,452)

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Dividends paid to non-affiliates	(6,093)				(6,093)
Dividends paid to affiliates		(5,785)	(308)	6,093	
Net cash provided by (used in) financing activities	(6,093)	8,348	373	6,188	8,816
Change in cash and cash equivalents	(699)	(4,440)	1,372		(3,767)
Cash and cash equivalents at beginning of period	2,718	2,631	1,385		6,734
Cash and cash equivalents at end of period	\$ 2,019	\$ (1,809)	\$ 2,757	\$	\$ 2,967

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Item 2

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

(Dollar amounts in thousands, except where otherwise noted and per share amounts)

FORWARD LOOKING STATEMENTS

This quarterly report, including all documents incorporated by reference, contains forward-looking statements within the meaning established by the Private Securities Litigation Reform Act of 1995 (Act). Forward-looking statements in this quarterly report are based on currently available information, expectations, estimates, assumptions and projections, and our management's beliefs, assumptions, judgments and expectations about us, the water utility industry and general economic conditions. These statements are not statements of historical fact. When used in our documents, statements that are not historical in nature, including words like expects, intends, plans, believes, may, estimates, assumes, anticipates, projects, predicts, forecasts, should, seeks, or variations of these words or expressions are intended to identify forward-looking statements. The forward-looking statements are not guarantees of future performance. They are based on numerous assumptions that we believe are reasonable, but they are open to a wide range of uncertainties and business risks. Consequently, actual results may vary materially from what is contained in a forward-looking statement.

Factors which may cause actual results to be different than those expected or anticipated include, but are not limited to:

governmental and regulatory commissions' decisions, including decisions on proper disposition of property;

changes in regulatory commissions' policies and procedures;

the timeliness of regulatory commissions' actions concerning rate relief;

changes in the capital markets and access to sufficient capital on satisfactory terms;

new legislation;

changes in accounting valuations and estimates;

changes in accounting treatment for regulated companies, including adoption of International Financial Reporting Standards, if required;

electric power interruptions;

increases in suppliers' prices and the availability of supplies including water and power;

fluctuations in interest rates;

changes in environmental compliance and water quality requirements;

acquisitions and the ability to successfully integrate acquired companies;

the ability to successfully implement business plans;

civil disturbances or terrorist threats or acts, or apprehension about the possible future occurrences of acts of this type;

the involvement of the United States in war or other hostilities;

our ability to attract and retain qualified employees;

labor relations matters as we negotiate with the unions;

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implementation of new information technology systems;

restrictive covenants in or changes to the credit ratings on current or future debt that could increase financing costs or affect the ability to borrow, make payments on debt, or pay dividends;

general economic conditions, including changes in customer growth patterns and our ability to collect billed revenue from customers;

changes in customer water use patterns and the effects of conservation;

the impact of weather on water sales and operating results;

the ability to satisfy requirements related to the Sarbanes-Oxley Act and other regulations on internal controls; and

the risks set forth in **Risk Factors** included elsewhere in this annual report.

In light of these risks, uncertainties and assumptions, investors are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of this quarterly report or as of the date of any document incorporated by reference in this report, as applicable. When considering forward-looking statements, investors should keep in mind the cautionary statements in this quarterly report and the documents incorporated by reference. We are not under any obligation, and we expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

CRITICAL ACCOUNTING POLICIES

We maintain our accounting records in accordance with accounting principles generally accepted in the United States of America (GAAP) and as directed by the regulatory commissions to which we are subject. The process of preparing financial statements in accordance with GAAP requires the use of estimates and assumptions on the part of management. The estimates and assumptions used by management are based on historical experience and our understanding of current facts and circumstances. Management believes that the following accounting policies are critical because they involve a higher degree of complexity and judgment, and can have a material impact on our results of operations and financial condition. These policies and their key characteristics are discussed in detail in the 2008 Form 10-K. They include:

revenue recognition;

expense balancing and memorandum accounts;

modified cost balancing accounts;

regulatory utility accounting;

income taxes;

pension benefits;

workers' compensation, general liability and other claims; and

contingencies

For the period ended March 31, 2009, there were no changes in the methodology for computing critical accounting estimates, no additional accounting estimates met the standards for critical accounting policies, and there were no material changes to the important assumptions underlying the critical accounting estimates.

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FIRST QUARTER 2008 OPERATIONS

Amounts in thousands except share data

Overview

First quarter net income was \$2.4 million equivalent to \$0.12 per common share diluted compared to net income of \$0.2 million or \$0.01 common per share on a diluted basis in the first quarter of 2008. The increase in net income is primarily attributable to the increase in revenue due to rate increases from the 2007 General Rate Case, effective July 1, 2008. While we had a decline in customer usage of water due to the unfavorable weather, the impact was offset by the net increase in revenue from the WRAM and MCBA.

Operating Revenue

Operating revenue increased \$13.7 million or 19% to \$86.6 million in the first quarter of 2009. As disclosed in the following table, the increase was due to increases in rates and usage by new customers primarily from our acquisitions in Hawaii last year. The decrease in usage by existing customers was offset by revenue recognized from the WRAM. The factors that impacted the operating revenue for the first quarter of 2009 compared to 2008 are presented in the following table:

Rate increases	\$ 11,586
Net revenue increase due to WRAM and MCBA	4,983
Decrease in usage by existing customers and other	(5,306)
Usage by new customers	2,429
 Net operating revenue increase	 \$ 13,692

The components of the rate increases are listed in the following table:

General Rate Case (GRC) Increases	\$ 8,985
Purchased Water Offset Increases	2,049
Balancing Account Adjustments	168
Step Rate Increases	384
 Total Increase in Rates	 \$ 11,586

Total Operating Expenses

Total operating expenses were \$80.3 million for the first quarter of 2009, versus \$68.1 million for the same period in 2008, an 18% increase.

Water production expense consists of purchased water, purchased power, and pump taxes. It represents the largest component of total operating expenses, accounting for approximately 36% of total operating expenses in the first quarter of 2009. Water production expenses increased 14% compared to the same period last year due to increased cost of all components of water production, although usage was down.

Sources of water as a percent of total water production are listed in the following table:

	Three Months Ended March	
	31	
	2009	2008
Well production	42%	44%
Purchased	54%	52%
Surface	4%	4%
 Total	 100%	 100%

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Washington Water, New Mexico Water and Hawaii Water obtain all of their water supply from wells. The components of water production costs are shown in the table below:

	Three Months Ended March 31		
	2009	2008	Change
Purchased water	\$ 22,940	\$ 20,711	\$ 2,229
Purchased power	4,543	3,454	1,089
Pump taxes	1,385	1,193	192
Total	\$ 28,868	\$ 25,358	\$ 3,510

Purchased water costs increased primarily due to price increases from water wholesalers. Total water production measured in acre feet decreased by 6% during the first quarter of 2009 as compared with the first quarter of 2008 due to higher precipitation, as compared to the same period in 2008.

Administrative and general expense and other operations expense increased 23% to \$31.3 million. The primary increase was due to increased pension and postretirement benefit costs, other benefit costs, and outside legal services. Effective January 1, 2009, wage increases became effective and there was an increase in the number of employees. At March 31, 2009, there were 925 employees and at March 31, 2008, there were 907 employees.

Maintenance expenses increased by 13% to \$4.6 million in the first quarter of 2009 compared to \$4.1 million in the first quarter of 2008, due to increase in main repairs. Depreciation and amortization expense increased \$1.0 million, or 11%, because of 2008 capital additions.

Federal and state income taxes charged to operating expenses and other income and expenses increased \$1.0 million, from a provision of \$0.1 million in the first quarter of 2008 to \$1.2 million in the first quarter of 2009, due to an increase in pretax income. We expect the effective tax rate to be between 38% and 40% for fiscal year 2009.

Other Income and Expense

Non-regulated revenue, net of related expenses, and gain on sale of non-utility property reflected income of \$0.5 million for the first quarter of 2009, compared to a loss of \$0.1 million in the same period last year, which is an increase of \$0.6 million. The change from the prior year is due to the gain on sale of non-utility property.

Interest Expense

Total interest expense, net of interest capitalized, decreased \$0.2 million to \$4.4 million for the first quarter of 2009 compared to the same period last year. This decrease was attributable to the increased capitalized interest resulting from capital expenditure activity.

REGULATORY MATTERS**Rates and Regulations**

The state regulatory commissions have plenary powers setting rates and operating standards. As such, state commission decisions significantly impact our revenues, earnings, and cash flows. The amounts discussed herein are generally annual amounts, unless specifically stated, and the financial impact to recorded revenue is expected to occur over a 12-month period from the effective date of the decision. In California, water utilities are required to make several different types of filings. Most filings result in rate changes that remain in place until the next General Rate Case (GRC). As explained below, surcharges and surcredits to recover balancing and memorandum accounts as well as the catch-up are temporary rate changes, which have specific time frames for recovery.

GRCs, step rate increase filings, and offset filings change rates to amounts that will remain in effect until the next GRC. The CPUC follows a rate case plan, which requires Cal Water to file a GRC for each of its 24 regulated operating districts every three years. In a GRC proceeding, the CPUC not only considers the utility's rate setting requests, but may also consider other issues that affect the utility's rates and operations. Effective in 2004, Cal Water's GRC schedule was shifted from a calendar year to a fiscal year with test years commencing on July 1st of each year. The CPUC is generally required to issue its GRC decision prior to the

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first day of the test year or authorize interim rates. As such, Cal Water's GRC decisions, prior to 2005, were generally issued in the fourth quarter, but are now expected to be issued in the second quarter of each year until 2011, when the updated rate case plan takes effect. A decision on the eight GRCs filed in July of 2006 was delayed beyond July 1, 2007. As required by state law, the CPUC authorized interim rates incorporating the last twelve-months change in CPI. A final decision on the 2006 GRC was made on December 20, 2007 with final rates billed effective on January 1, 2008. A provision in the final decision allows recovery of the revenue lost due to the delay over a twelve-month period beginning in the first quarter of 2008.

Between GRC filings utilities may file escalation rate increases, which allow the utility to recover cost increases, primarily from inflation and incremental investment, during the second and third years of the rate case cycle. However, escalation rate increases are subject to a weather-normalized earnings test. Under the earnings test, the CPUC may reduce the escalation rate increase to prevent the utility from earning in excess of the authorized rate of return for that district.

In addition, utilities are entitled to file offset filings. Offset filings may be filed to adjust revenues for construction projects authorized in GRCs when the plant is placed in service or for rate changes charged to the Company for purchased water, purchased power, and pump taxes (referred to as "offsettable expenses"). Such rate changes approved in offset filings remain in effect until a GRC is approved.

Surcharges and surcredits, which are usually effective for a twelve-month period, are authorized by the CPUC to recover the memorandum and balancing accounts under- and over- collections usually due to changes in offsettable expenses. However, significant under-collection may be authorized over multiple years. Typically, an expense difference occurs during the time period from when an offsettable expense rate changes and we are allowed to adjust its water rates. Expense changes for this regulatory lag period, which may exceed two months, are booked into memorandum and balancing accounts for later recovery. These accounts are subject to reasonableness reviews. Future recovery of balancing account balances will be addressed in general rate cases or by advice letter filings if the account balance is greater than 2% of revenues. As of December 31, 2008 and March 31, 2009, the amount in the balancing accounts was \$1.5 million and \$1.2 million, respectively.

We do not record an asset (or liability) for the recovery (or refund) of expense balancing or memorandum accounts in our consolidated financial statements as revenue (refunds), nor as a receivable (or payable), until the CPUC and other regulators have authorized recovery and the customer is billed. Therefore, a timing difference may occur between when costs are recorded as an expense and the associated revenues are received (or refunds are made) and booked.

Remaining Unrecorded Balances from Previously Authorized Balancing Accounts Recoveries/Refunds

The total of unrecorded, under-collected memorandum and balancing accounts was approximately \$1.2 million as of March 31, 2009. Included in this amount, Cal Water has amounts from districts that are pending further action when balances become large enough to warrant action of either recovery or refund.

Rate Case Plan

In December 2005, the CPUC issued the California Water Action Plan. The plan focuses on four key principles, among other things, including safe, high quality water; highly reliable water supplies; efficient use of water; and reasonable rates and viable utilities. In accordance with the Water Action Plan's objective to streamline regulatory decision-making the CPUC issued R.06-12-016 in December 2006, to address streamlining of its water rate case plan. The CPUC issued D.07-05-062 on May 24, 2007 adopting a new rate case plan. As a result, Cal Water will be filing a company-wide general rate case every three years beginning in July 2009. Rates would be effective approximately 18 months from the filing date or January 1, 2011 in the first cycle. As an interim measure, the CPUC allowed Cal Water to incorporate general operations costs including company benefits in rates for all districts in July 2008 after a decision in its 2007 general rate case. In addition, for the sixteen districts that have a delayed effective date, the CPUC will authorize interim rates from the authorized effective date under the old rate case plan. These interim rates will be subject to adjustment based on a final determination in the 2009 general rate case filing. In addition to general rate case processing, the RCP set a schedule for separate cost of capital applications. Under the RCP, Cal Water must file its cost of capital application every three years. The first application under this procedure was made on May 1, 2008. Cal Water's 2008 cost of capital application was consolidated with applications of two other multi-district Class A water utilities into a combined proceeding.

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2009 Regulatory Activity to Date

In January and February 2009, Cal Water filed advice letters to offset increased purchased water and pump tax rates in seven of its regulated districts totaling \$9.9 million in annual revenue. Under CPUC advice letter processing rules, Cal Water charges the rates in expense offset advice letters to its customers upon filing. These rates were approved in late February 2009. However, expense offsets are dollar-for-dollar increases in revenue to match increased expenses and interact with the WRAM and MCBA mechanisms so that net operating revenue is not affected by an offset increase. In January 2009 the City of Hawthorne approved Cal Water's requested rate increase for its leased water system. The increase will take effect in phases, with a \$0.8 million annual increase in February 2009, a \$1.0 million annual increase in July 2009, and a \$1.2 million annual increase in January 2010.

In January 2009 Cal Water filed an application to the CPUC for approvals and consents related to its secured debt offering, which was completed on April 17, 2009. The application included, among other things, requests for (i) a waiver of a CPUC policy, which would allow debt offerings by Cal Water of up to \$100 million in principal amount be conducted through a single underwriter and (ii) clarification that complying with the terms of the indenture for the outstanding unsecured notes by granting the holders a first mortgage security interest upon the issuance of additional first mortgage debt does not use any of the Cal Water's previously used financing authorization. This application was approved by the Commission in March 2009. On March 30, 2009, the CPUC issued decision 09-03-038 granting Cal Water (i) a competitive bidding rule exemption for the issuance of \$100 million of first mortgage bonds to the extent that no one purchaser from Cal Water is permitted to acquire more than \$20 million in debt in a calendar year, (ii) authority to exchange \$260 million of its senior notes for first mortgage bonds without obtaining additional financing authority, and (iii) a competitive bidding rule exemption for an exchange of \$260 million of senior notes for first mortgage bonds.

Throughout the calendar year, Cal Water plans to file advice letters to offset expected increases in purchased water and pump tax charges in some districts. Cal Water cannot predict the exact timing or dollar amount of the changes. However, expense offsets are dollar-for-dollar increases in revenue to match increased expenses and interact with the WRAM and MCBA mechanisms so that net operating revenue is not affected by an offset increase.

In May 2009, as allowed in the Commission's 2007 Rate Case Plan, Cal Water intends to file advice letters for interim rate increases for eight districts effective in July 2009. Under the Commission's prior rate case plan, these districts would have had rates effective in July 2009. The interim rate changes will be adjusted once the Commission has issued a determination in Cal Water's 2009 GRC, expected in the fourth quarter of 2010.

In May 2009, Cal Water intends to file for step rate increases effective in July for sixteen districts. The CPUC's current practice on approving step rate increases is based partly on inflation through March 2009. Inputs to the weather-adjusted earnings test include recorded information through March 2009. Therefore, Cal Water does not know the amount of its request at this time.

In July 2009, Cal Water is required to file a GRC covering all 24 regulated districts and general expenses. Cal Water expects the CPUC to issue a decision in the proceeding in the fourth quarter of 2010 with rates effective in January 2011. Cal Water cannot predict the magnitude of any potential rate changes at this time.

LIQUIDITY

Cash flows from Operations

Cash flows from operations were \$11.5 million for the first quarter of 2009. Cash flows from operations is primarily generated by changes in our operating assets and liabilities. Cash generated by operations varies during the year which is dependent upon customer billings and timing of estimated tax payments.

During the first quarter of 2009, we made contributions to our pension and retiree health care plan of \$11.6 million compared to \$176 paid during the first quarter of 2008. As approved in the 2007 General Rate Case, we will be increasing the funding level of our pension and retiree health care plan compared with prior years.

The water business is seasonal. Revenue is lower in the cool, wet winter months when less water is used compared to the warm, dry summer months when water use is highest. This seasonality results in the possible need for short-term borrowings under the bank lines of credit in the event cash is not available during the winter period. The increase in cash flows during the summer allows short-term borrowings to be paid down. Customer water usage can be lower than normal in years when more than normal

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precipitation falls in our service areas or temperatures are lower than normal, especially in the summer months. The reduction in water usage reduces cash flows from operations and increases the need for short-term bank borrowings. In addition, short-term borrowings are used to finance capital expenditures until long-term financing is arranged.

Investing Activities

During the first quarter of 2009, we had company-funded capital expenditures of \$23.5 million. For 2009, our capital budget is approximately \$100 to \$120 million.

Financing Activities

During the first quarter of 2009, there were no debt or equity offerings; however, we began to utilize our bank lines of credit as anticipated. In April 2009, Cal Water issued \$100 million of First Mortgage Bonds at the rate of 5.875 due in 2019, which are fully and unconditionally guaranteed by the Company. Proceeds were used to pay down Cal Water's short-term borrowings and will be added to Cal Water's general funds to be used for capital expenditures and other corporate items. Dividend payments were higher than the prior year due to an increased dividend rate paid in the current year.

Short-Term and Long-Term Debt

Short-term liquidity is provided by bank lines of credit funds extended to us and certain of our subsidiaries and by internally generated funds. Long-term financing is accomplished through the use of both debt and equity. As of March 31, 2009, there were short-term borrowings of \$52 million outstanding on the line of credit. There were short-term bank borrowings of \$40 million at December 31, 2008.

There were no significant additions to long-term debt in the first quarter of 2009, and we made principal payments on our first mortgage bonds and other long-term debt payments of \$483 during the first quarter of 2009. As noted above, subsequent to March 31, 2009, we issued \$100 million of First Mortgage Bonds. In connection with this issuance, Cal Water's outstanding senior notes in the aggregate principal amount of \$259 million were exchanged for first mortgage bonds with the same interest rate and maturities the previously outstanding senior notes for which they were exchanged.

Long-term financing, which includes senior notes, other debt securities, and common stock, has typically been used to replace short-term borrowings and fund capital expenditures. Internally generated funds, after making dividend payments, provide positive cash flow, but have not been at a level to meet the needs of our capital expenditure requirements. Management expects this trend to continue given our capital expenditures plan for the next 5 years. Some capital expenditures are funded by payments received from developers for contributions in aid of construction or advances for construction. Funds received for contributions in aid of construction are non-refundable, whereas funds classified as advances in construction are refundable. Management believes long-term financing is available to meet our cash flow needs through issuances in both debt and equity instruments.

Credit Ratings

Cal Water's first mortgage bonds are rated by Standard & Poor's (S&P). Since 2004, the credit rating agency has maintained their rating of A+ and characterized us as stable. On April 8, 2009, Standard & Poor's issued a rating of AA- on the 5.875% \$100 million First Mortgage Bonds issued in April. If rating were downgraded in the future, it may result in a higher interest rate on future debt.

Dividends, Book Value and Shareholders

The first quarter common stock dividend of \$0.2950 per share was paid on February 20, 2009, compared to a quarterly dividend in the first quarter of 2008 of \$0.2925. This was Cal Water's 257th consecutive quarterly dividend.

Annualized, the 2009 dividend rate is \$1.18 per common share, compared to \$1.17 in 2008. For the full year 2008, the payout ratio was 62% of net income. On a long-term basis, our goal is to achieve a dividend payout ratio of 60% of net income accomplished through future earnings growth.

At its April 29, 2009 meeting, the Board declared the second quarter dividend of \$0.2950 per share payable on May 15, 2009, to stockholders of record on May 4, 2009. This will be our 258th consecutive quarterly dividend.

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2009 Financing Plan

Cal Water is currently reviewing its financing needs for 2009 and 2010. We intend to fund our capital needs in future periods through a relatively balanced approach between long-term debt and equity.

Book Value and Stockholders of Record

Book value per common share was \$19.25 at March 31, 2009 compared to \$19.44 at December 31, 2008.

There are approximately 2,675 stockholders of record for our common stock, as of our record date, March 31, 2009.

Utility Plant Expenditures

During the first quarter of 2009, capital expenditures totaled \$25 million; \$23.5 million was from company-funded projects and \$1.5 million was from third-party-funded projects. The planned 2009 company-funded capital expenditure budget is approximately \$100 to \$120 million. The actual amount may vary from the budget number due to timing of actual payments related to current year projects and prior year projects. We do not control third-party-funded capital expenditures and therefore are unable to estimate the amount of such projects for 2009. At March 31, 2009, construction work in progress was \$91.9 million compared to \$80.6 million at December 31, 2008. Work in progress includes projects that are under construction but not yet complete and placed in service.

WATER SUPPLY

Our source of supply varies among our operating districts. Certain districts obtain all of their supply from wells; some districts purchase all of their supply from wholesale suppliers; and other districts obtain supply from a combination of wells and wholesale suppliers. A small portion of supply comes from surface sources and is processed through Company-owned water treatment plants. To the best of management's knowledge, we are meeting water quality, environmental, and other regulatory standards for all company-owned systems.

California's normal weather pattern yields little precipitation between mid-spring and mid-fall. The Washington Water service areas receive precipitation in all seasons, with the heaviest amounts during the winter. New Mexico Water's rainfall is heaviest in the summer monsoon season. Hawaii Water receives precipitation throughout the year, with the largest amounts in the winter months. Water usage in all service areas is highest during the warm and dry summers and declines in the cool winter months. Rain and snow during the winter months replenish underground water aquifers and fill reservoirs, providing the water supply for subsequent delivery to customers. To date, snowpack water content and rainfall accumulation during the 2008-2009 water year is 91% of normal (as of April 2, 2009 per the California Department of Water Resources). Precipitation in the prior year was below average. Management believes that supply pumped from underground aquifers and purchased from wholesale suppliers will be adequate to meet customer demand during 2009 and beyond. However, water rationing may be required in 2009, if declared by the state or local jurisdictions. Long-term water supply plans are developed for each of our districts to help assure an adequate water supply under various operating and supply conditions. Some districts have unique challenges in meeting water quality standards, but management believes that supplies will meet current standards using current treatment processes.

CONTRACTUAL OBLIGATIONS

During the three-months ended March 31, 2009, there were no material changes in contractual obligations outside the normal course of business.

Item 3.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We do not hold, trade in or issue derivative financial instruments and therefore are not exposed to risks these instruments present. Our market risk to interest rate exposure is limited because the cost of long-term financing and short-term bank borrowings,

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including interest costs, is covered in consumer water rates as approved by the commissions. We do not have foreign operations; therefore, we do not have a foreign currency exchange risk. Our business is sensitive to commodity prices and is most affected by changes in purchased water and purchased power costs.

Historically, the CPUC's balancing account or offsetable expense procedures allowed for increases in purchased water and purchased power costs to be passed on to consumers. Traditionally, a significant percentage of our net income and cash flows comes from California regulated operations; therefore the CPUC's actions have a significant impact on our business. See Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Expense Balancing and Memorandum Accounts and Regulatory Matters .

Item 4.

CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(c) under the Exchange Act) that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Accordingly, our disclosure controls and procedures have been designed to provide reasonable assurance of achieving their objectives.

Our management, with the participation of our CEO and our CFO, evaluated the effectiveness of our disclosure controls and procedures as of April 13, 2009. Based on that evaluation, we concluded that our disclosure controls and procedures were effective at the reasonable assurance level

(b) Changes to Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1.

LEGAL PROCEEDINGS

Chico Groundwater/Wausau Insurance Matter

In 1995, the State of California's Department of Toxic Substances Control (DTSC) named us as a potential responsible party for cleanup of toxic contamination plumes, which contain perchloroethylene, also known as tetrachloroethylene (PCE) in the Chico groundwater. In December 2002, we were named along with other defendants in two lawsuits filed by DTSC for the cleanup of the plumes. In 2007, we entered into Court approved consent decrees (Consent Decrees). The Consent Decrees conditioned our performance upon many factors, including, but not limited to, water pumped and treated by us must meet regulatory standards so we may distribute to its customers. Pursuant to the terms of the Consent Decrees, we will incur capital costs of \$1.5 million and future operating costs with a present value of approximately \$2.6 million. In our 2007 general rate case (GRC) settlement negotiations, Division of Ratepayer Advocates have tentatively agreed to track all costs associated with the Consent Decrees, including legal costs to pursue insurance coverage, for potential future recovery in rates.

In connection with these suits, our insurance carrier, Employers Insurance of Wausau (Wausau) filed a separate lawsuit against us for reimbursement of past defense costs which approximate \$1.5 million and a declaratory determination of coverage. On January 23, 2008, the Court heard various parties' motions and on September 25, 2008 issued its rulings that Wausau had a duty to defend; therefore, the Company will not have to reimburse Wausau for previously incurred defense costs. The Court did not find Wausau's actions were intended to harm the Company, so punitive damages will not be recoverable by the Company. However, the Court also found that the issue of policy coverage will be determined at trial. A trial date has been set for May 26, 2009. Based on the Court's rulings, the Company has not recorded any liability associated with reimbursement of costs to defend and expensing the related costs as incurred. We continue to believe that the claims are covered under the insurance policies. However, if our claim is ultimately found to be excludable under the insurance policies, the Company believes that recovery of costs associated with the Consent Decrees are probable from either its equitable indemnity lawsuit against manufacturers and distributors of perchloroethylene, also known as tetrachloroethylene, (PCE) in California; or through rate increases in the future. Therefore, no accrual or contingency has been recorded for this matter.

Other Groundwater Contamination

The Company has been and is involved in litigation against third parties to recover past and future costs related to ground water contamination in our service areas. The cost of litigation is expensed as incurred and any settlement is first offset against such costs. Any settlement in excess of the cost to litigate is accounted for on a case by case basis based upon the nature of the settlement. It is anticipated that the majority of the settlement will be reflected as a benefit to the rate payers by offsetting future operating or capital costs.

The Company is involved in a lawsuit against major oil refineries regarding the contamination of the ground water as a result of the gas additive MTBE. The Company entered into a partial settlement with the defendants in April of 2008 that represent approximately 70% of the responsible parties (as determined by the Superior Court). Based on the allocation matrix, on October 22, 2008, the Company received \$34.2 million after deducting attorneys' fees and litigation expenses. The Company is aggressively pursuing legal action against the remaining responsible parties. The Company is in the process of determining with the Commission the appropriate regulatory treatment of the proceeds. It is anticipated that the proceeds will be used by the Company on infrastructure improvements. The Company is in the process of filing with the Internal Revenue Service a request for a private letter ruling regarding the taxability of the proceeds.

The Company believes the proceeds are non-taxable based upon its intent to reinvest them in qualifying assets. In 2009, when an agreement is reached with the Commission regarding the regulatory treatment, or when the taxability is determined based upon proceedings with the Internal Revenue Service, the Company will adjust the accounting of the settlement accordingly.

As previously reported, Cal Water has filed with the City of Bakersfield, in the Superior Court of California, a lawsuit that names potentially responsible parties, who manufactured and distributed products containing 1,2,3 trichloropropane (TCP) in California. TCP has been detected in the ground water. The lawsuit seeks to recover

treatment costs necessary to remove TCP. The Court has

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now coordinated our action with other water purveyor cases (TCP Cases JCCP 4435) in San Bernardino County. No trial date has yet been set.

The Company has filed in San Mateo County Superior Court a complaint (California Water Service Company v. The Dow Chemical Company, et al. CIV 473093) against potentially responsible parties that manufactured and distributed products, which contained perchloroethylene, also know as tetrachloroethylene (PCE) in California, to recover the past, present, and future treatment costs. No trial date has yet been set.

Other Legal Matters

From time to time, the Company has been named as a co-defendant in several asbestos related lawsuits. The Company has been dismissed without prejudice in several of these cases. In other cases our contractor s and our insurance policy carriers have settled the cases with no effect on our financial statements. As such we do not currently believe that there is any potential loss which is probable of occurring related to these matters and therefore no accrual or contingency has been recorded.

From time to time, the Company is involved in various disputes and litigation matters that arise in the ordinary course of business. We review the status of each significant matter and assess its potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount of the range of loss can be estimated, we accrue a liability for the estimated loss in accordance with SFAS No 5, Accounting of Contingencies. Legal proceedings are subject to uncertainties, and the outcomes are difficult to predict. Because of such uncertainties, accruals are based on the best information available at the time. While the outcome of these disputes and litigation matters cannot be predicted with any certainty, management does not believe that when taking into account existing reserves that the ultimate resolution of these matters will materially affect our financial position, results of operations, or cash flows.

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Item 6.
EXHIBITS

Exhibit	Description
10.1	Amendment No. 2 to Loan Agreement dated as of April 17, 2009 between Bank of America, N.A. and California Water Service Company (Exhibit 10.1 to current report on Form 8-K of the registrant dated April 21, 2009).
10.2	Amendment No. 1 to Loan Agreement dated as of April 17, 2009 among Bank of America, N.A. and California Water Service Group, CWS Utility Services, Washington Water Service Company, New Mexico Water Service Company, and Hawaii Water Service Company, Inc. (Exhibit 10.2 to current report on Form 8-K of the registrant dated April 21, 2009).
31.1	Chief Executive Officer certification of financial statements pursuant to Section 302 of the Sarbanes- Oxley Act of 2002
31.2	Chief Financial Officer certification of financial statements pursuant to Section 302 of the Sarbanes- Oxley Act of 2002
32	Chief Executive Officer and Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes- Oxley Act of 2002

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SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CALIFORNIA WATER SERVICE GROUP

Registrant

By: /s/ Martin A. Kropelnicki
Martin A. Kropelnicki
Vice President, Chief Financial Officer and
Treasurer

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