AMERICAN STATES WATER CO
Form 10-Q
November 04, 2013

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2013
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 001-14431
American States Water Company
(Exact Name of Registrant as Specified in Its Charter)

California	95-4676679
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)
630 E. Foothill Blvd, San Dimas, CA	91773-1212
(Address of Principal Executive Offices)	(Zip Code)

(909) 394-3600
(Registrant's Telephone Number, Including Area Code)
Not Applicable
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)
Commission file number 001-12008
Golden State Water Company
(Exact Name of Registrant as Specified in Its Charter)

California	95-1243678
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)
630 E. Foothill Blvd, San Dimas, CA	91773-1212
(Address of Principal Executive Offices)	(Zip Code)

(909) 394-3600
(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 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 Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

American States Water Company	Yes x No ¨
Golden State Water Company	Yes x No ¨

Indicate by check mark whether 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 (§ 232.405 of this chapter) during the preceding 12 months (or such shorter period that the Registrant was required to submit and post such files).

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American States Water Company	Yes x No ¨
Golden State Water Company	Yes x 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 definition of “large accelerated filer”, “accelerated filer” and smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

American States Water Company

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

Golden State Water Company

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

American States Water Company	Yes ¨ Nox
Golden State Water Company	Yes ¨ Nox

As of November 1, 2013, the number of Common Shares outstanding, of American States Water Company was 38,717,549 shares. As of November 1, 2013, all of the 146 outstanding Common Shares of Golden State Water Company were owned by American States Water Company.

Golden State Water Company meets the conditions set forth in General Instruction (H)(1)(a) and (b) of Form 10-Q and is therefore filing this Form, in part, with the reduced disclosure format for Golden State Water Company.

AMERICAN STATES WATER COMPANY
and
GOLDEN STATE WATER COMPANY
FORM 10-Q

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PART I
Item 1. Financial Statements

General

The basic financial statements included herein have been prepared by Registrant, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission.

Certain information and footnote disclosures normally included in financial statements, prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments consisting of normal recurring items and estimates necessary for a fair statement of results for the interim period have been made.

It is suggested that these financial statements be read in conjunction with the financial statements and notes thereto in the latest Annual Report on Form 10-K of American States Water Company and its wholly owned subsidiary, Golden State Water Company.

Filing Format

American States Water Company (hereinafter "AWR") is the parent company of Golden State Water Company (hereinafter "GSWC") and American States Utility Services, Inc. (hereinafter "ASUS") and its subsidiaries.

This quarterly report on Form 10-Q is a combined report being filed by two separate Registrants: AWR and GSWC. For more information, please see Note 1 of the Notes to Consolidated Financial Statements and the heading entitled General in Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations. References in this report to "Registrant" are to AWR and GSWC collectively, unless otherwise specified. GSWC makes no representations as to the information contained in this report relating to AWR and its subsidiaries, other than GSWC.

Forward-Looking Information

This Form 10-Q and the documents incorporated herein contain forward-looking statements intended to qualify for the "safe harbor" from liability established by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on current estimates, expectations and projections about future events and assumptions regarding these events and include statements regarding management's goals, beliefs, plans or current expectations, taking into account the information currently available to management. Forward-looking statements are not statements of historical facts. For example, when we use words such as "anticipate," "believe," "plan," "estimate," "expect," "intend," "may other words that convey uncertainty of future events or outcomes, we are making forward-looking statements. We are not able to predict all the factors that may affect future results. We caution you that any forward-looking statements made by us are not guarantees of future performance and those actual results may differ materially from those in our forward-looking statements. Some of the factors that could cause future results to differ materially from those expressed or implied by our forward-looking statements, or from historical results, include, but are not limited to:

- The outcome of regulatory, legislative or other proceedings, investigations or audits, including decisions in our general rate cases and the results of independent audits of our construction contracting procurement practices or other independent audits of our costs
- Changes in the policies and procedures of the California Public Utilities Commission ("CPUC")
- Timeliness of CPUC action on rates
- Our ability to efficiently manage capital expenditures and operating and maintenance expenses within CPUC authorized levels and timely recovery of our costs through rates

- The impact of increasing opposition to GSWC rate increases on our ability to recover our costs through rates and on the size of our customer base
- Our ability to forecast the costs of maintaining GSWC's aging water and electric infrastructure
- Our ability to recover increases in permitting costs and in costs associated with negotiating and complying with the terms of our franchise agreements with cities and counties and other demands made upon us by the cities and counties in which GSWC operates

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- Changes in accounting valuations and estimates, including those resulting from changes in our assessment of anticipated recovery of regulatory assets, liabilities and revenues subject to refund or regulatory disallowances
- Changes in environmental laws and water and wastewater quality requirements and increases in costs associated with complying with these laws and requirements
- Availability of water supplies, which may be adversely affected by changes in weather patterns, contamination and court decisions or other governmental actions restricting use of water from the Colorado River, transportation of water to GSWC’s service areas through the California State Water Project or pumping of groundwater
- Our ability to obtain adequate, reliable and cost-effective supplies of chemicals, electricity, fuel, water and other raw materials that are needed for our water and wastewater operations
- Our ability to recover the costs associated with the contamination of GSWC’s groundwater supplies from parties responsible for the contamination or through the ratemaking process and the time and expense incurred by us in obtaining recovery of such costs
- Adequacy of our power supplies for GSWC’s Bear Valley Electric Service division and the extent to which we can manage and respond to the volatility of electric and natural gas prices
- Our ability to comply with the CPUC’s renewable energy procurement requirements
- Changes in GSWC customer demand due to unanticipated population growth or decline, changes in climate conditions, general economic and financial market conditions, cost increases and conservation
- Changes in accounting treatment for regulated utilities
- Changes in estimates used in ASUS’s revenue recognition under the percentage of completion method of accounting for our construction activities at our contracted services business
- Termination, in whole or in part, of our contracts to provide water and/or wastewater services at military bases for the convenience of the U.S. government or for default
- Delays in filing for or obtaining redetermination of prices or equitable adjustments to our prices on our contracts to provide water and/or wastewater services at military bases
- Failure of the U.S. government to make timely payment to ASUS for water and/or wastewater services at military bases as a result of political disputes over the funding of the U.S. government
- Disallowance of costs on our contracts to provide water and/or wastewater services at military bases as a result of audits, cost review or investigations by contracting agencies
- Inaccurate assumptions used in preparing bids in our contracted services business
- Failure of the collection or sewage systems that we operate on military bases resulting in untreated wastewater or contaminants spilling into nearby properties, streams or rivers
- Failure to comply with the terms of our military privatization contracts
- Failure of any of our subcontractors to perform services for us in accordance with the terms of our military privatization contracts
- Implementation, maintenance and upgrading of our information technology systems
- General economic conditions which may impact our ability to recover infrastructure investments and operating costs from customers
- Explosions, fires, accidents, mechanical breakdowns, the disruption of information technology and telecommunication systems, human error and similar events that may occur while operating and maintaining water and electric systems in California or operating and maintaining water and wastewater systems on military bases under varying geographic conditions

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- The impact of storms, earthquakes, floods, mudslides, drought, wildfires, disease and similar natural disasters, or acts of terrorism or vandalism, that affect customer demand or that damage or disrupt facilities, operations or information technology systems owned by us, our customers or third parties on whom we rely
- Potential costs, lost revenues, or other consequences resulting from misappropriation of assets or sensitive information, corruption of data, or operational disruption in connection with a cyber attack or other cyber incident
- Restrictive covenants in our debt instruments or changes to our credit ratings on current or future debt that may increase our financing costs or affect our ability to borrow or make payments on our debt
- Our ability to access capital markets and other sources of credit in a timely manner on acceptable terms

Please consider our forward-looking statements in light of these risks (which are more fully disclosed in our 2012 Annual Report on Form 10-K) as you read this Form 10-Q. We qualify all of our forward-looking statements by these cautionary statements.

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AMERICAN STATES WATER COMPANY
CONSOLIDATED BALANCE SHEETS
ASSETS
(Unaudited)

(in thousands)	September 30, 2013	December 31, 2012
Property, Plant and Equipment		
Regulated utility plant, at cost	$1,425,214	$1,351,086
Non utility property, at cost	9,189	9,021
Total	1,434,403	1,360,107
Less - Accumulated depreciation	(465,944)	(442,316)
Net property, plant and equipment	968,459	917,791
Other Property and Investments		
Goodwill	1,116	1,116
Other property and investments	15,343	13,755
Total other property and investments	16,459	14,871
Current Assets		
Cash and cash equivalents	26,162	23,486
Accounts receivable — customers (less allowance for doubtful accounts of $768 in 2013 and $797 in 2012)	30,303	19,491
Unbilled revenue	21,083	16,147
Receivable from the U.S. government (less allowance for doubtful accounts of $0 in 2013 and $8 in 2012)	19,869	12,905
Other accounts receivable (less allowance for doubtful accounts of $437 in 2013 and $423 in 2012)	7,576	7,062
Income taxes receivable	2,847	16,547
Materials and supplies, at average cost	5,186	5,348
Regulatory assets — current	34,635	32,336
Prepayments and other current assets	3,679	4,391
Costs and estimated earnings in excess of billings on uncompleted contracts	41,068	37,703
Deferred income taxes — current	10,157	8,617
Total current assets	202,565	184,033
Regulatory and Other Assets		
Regulatory assets	138,863	143,679
Costs and estimated earnings in excess of billings on uncompleted contracts	6,458	436
Receivable from the U.S. government (less allowance for doubtful accounts of $0 in 2013 and 2012)	2,864	4,535
Deferred income taxes	13	11
Other	15,372	15,587
Total regulatory and other assets	163,570	164,248
Total Assets	$1,351,053	$1,280,943

The accompanying notes are an integral part of these consolidated financial statements

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AMERICAN STATES WATER COMPANY
CONSOLIDATED BALANCE SHEETS
CAPITALIZATION AND LIABILITIES
(Unaudited)

(in thousands)	September 30, 2013	December 31, 2012
Capitalization		
Common shares, no par value	$252,351	$249,322
Earnings reinvested in the business	234,536	205,257
Total common shareholders' equity	486,887	454,579
Long-term debt	332,088	332,463
Total capitalization	818,975	787,042
Current Liabilities		
Long-term debt — current	3,398	3,328
Accounts payable	62,898	40,569
Income taxes payable	795	511
Accrued other taxes	8,255	8,167
Accrued employee expenses	10,611	9,919
Accrued interest	6,251	3,909
Unrealized loss on purchased power contracts	588	3,060
Billings in excess of costs and estimated earnings on uncompleted contracts	7,815	12,572
Other	15,062	11,662
Total current liabilities	115,673	93,697
Other Credits		
Advances for construction	68,933	70,781
Contributions in aid of construction - net	113,836	106,450
Deferred income taxes	154,309	142,597
Unamortized investment tax credits	1,813	1,881
Accrued pension and other postretirement benefits	70,945	71,618
Other	6,569	6,877
Total other credits	416,405	400,204
Commitments and Contingencies (Note 8)	—	—
Total Capitalization and Liabilities	$1,351,053	$1,280,943

The accompanying notes are an integral part of these consolidated financial statements

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AMERICAN STATES WATER COMPANY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTHS
ENDED SEPTEMBER 30, 2013 AND 2012
(Unaudited)

	Three Months Ended September 30,	
(in thousands, except per share amounts)	2013	2012
Operating Revenues		
Water	$93,932	$90,976
Electric	8,849	8,549
Contracted services	28,133	34,368
Total operating revenues	130,914	133,893
Operating Expenses		
Water purchased	19,246	18,874
Power purchased for pumping	3,414	3,067
Groundwater production assessment	4,656	3,923
Power purchased for resale	3,386	2,854
Supply cost balancing accounts	(1,003)	1,960
Other operation	7,185	7,394
Administrative and general	20,083	17,734
Depreciation and amortization	9,753	10,230
Maintenance	4,666	4,232
Property and other taxes	4,108	3,878
ASUS construction	19,256	23,332
Net gain on sale of property	—	(65)
Total operating expenses	94,750	97,413
Operating Income	36,164	36,480
Other Income and Expenses		
Interest expense	(5,852)	(6,018)
Interest income	185	419
Other, net	247	219
Total other income and expenses	(5,420)	(5,380)
Income from operations before income tax expense	30,744	31,100
Income tax expense	9,905	12,436
Net Income	$20,839	$18,664
Weighted Average Number of Common Shares Outstanding	38,696	38,117
Basic Earnings Per Common Share	$0.54	$0.49
Weighted Average Number of Diluted Shares	38,923	38,205
Fully Diluted Earnings Per Common Share	$0.53	$0.48

Dividends Paid Per Common Share	$0.2025	$0.1775

The accompanying notes are an integral part of these consolidated financial statements

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AMERICAN STATES WATER COMPANY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE NINE MONTHS
ENDED SEPTEMBER 30, 2013 AND 2012
(Unaudited)

	Nine Months Ended September 30,	
(in thousands, except per share amounts)	2013	2012
Operating Revenues		
Water	$247,234	$238,334
Electric	27,980	27,735
Contracted services	86,947	89,298
Total operating revenues	362,161	355,367
Operating Expenses		
Water purchased	46,648	42,257
Power purchased for pumping	7,385	6,642
Groundwater production assessment	11,666	11,228
Power purchased for resale	9,894	8,725
Supply cost balancing accounts	(9)	9,560
Other operation	19,158	21,671
Administrative and general	56,103	52,626
Depreciation and amortization	29,337	31,127
Maintenance	13,513	11,415
Property and other taxes	12,004	11,699
ASUS construction	59,053	58,513
Net gain on sale of property	(12)	(68)
Total operating expenses	264,740	265,395
Operating Income	97,421	89,972
Other Income and Expenses		
Interest expense	(17,398)	(17,808)
Interest income	512	1,129
Other, net	673	435
Total other income and expenses	(16,213)	(16,244)
Income from operations before income tax expense	81,208	73,728
Income tax expense	30,302	29,871
Net Income	$50,906	$43,857
Weighted Average Number of Common Shares Outstanding	38,613	37,849
Basic Earnings Per Common Share	$1.31	$1.15
Weighted Average Number of Diluted Shares	38,835	38,077
Fully Diluted Earnings Per Common Share	$1.31	$1.15

Dividends Paid Per Common Share	$0.5575	$0.4575

The accompanying notes are an integral part of these consolidated financial statements

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AMERICAN STATES WATER COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOW
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012
(Unaudited)

	Nine Months Ended September 30,	
(in thousands)	2013	2012
Cash Flows From Operating Activities:		
Net income	$50,906	$43,857
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	30,019	32,760
Provision for doubtful accounts	776	1,313
Deferred income taxes and investment tax credits	10,616	4,735
Stock-based compensation expense	1,711	1,477
Other — net	(31)	(359)
Changes in assets and liabilities:		
Accounts receivable — customers	(11,498)	(9,731)
Unbilled revenue	(4,936)	(5,571)
Other accounts receivable	(504)	3,967
Receivable from the U.S. government	(5,293)	5,530
Materials and supplies	162	(3,508)
Prepayments and other current assets	712	(1,421)
Regulatory assets — supply cost balancing accounts	(9)	9,560
Costs and estimated earnings in excess of billings on uncompleted contracts	(9,387)	(2,046)
Other assets (including other regulatory assets)	(2,890)	(19,331)
Accounts payable	9,370	12,981
Income taxes receivable/payable	13,984	21,294
Billings in excess of costs and estimated earnings on uncompleted contracts	(4,757)	(10,899)
Accrued pension and other postretirement benefits	2,114	3,079
Other liabilities	6,214	3,892
Net cash provided	87,279	91,579
Cash Flows From Investing Activities:		
Construction expenditures	(69,059)	(48,169)
Other investments	(1,423)	—
Proceed from sale of property	12	69
Net cash used	(70,470)	(48,100)
Cash Flows From Financing Activities:		
Proceeds from issuance of common shares and stock option exercises	1,948	12,434
Receipt of advances for and contributions in aid of construction	10,051	5,101
Refunds on advances for construction	(3,328)	(3,216)
Repayments of long-term debt	(365)	(294)
Proceeds from issuance of long-term debt	60	4,034
Net change in notes payable to banks	—	(2,000)
Dividends paid	(21,520)	(17,307)
Other — net	(979)	(480)
Net cash used	(14,133)	(1,728)
Net increase in cash and cash equivalents	2,676	41,751

Cash and cash equivalents, beginning of period	23,486	1,315
Cash and cash equivalents, end of period	$26,162	$43,066

The accompanying notes are an integral part of these consolidated financial statements

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GOLDEN STATE WATER COMPANY
BALANCE SHEETS
ASSETS
(Unaudited)

(in thousands)	September 30, 2013	December 31, 2012
Utility Plant		
Utility plant, at cost	$1,425,214	$1,351,086
Less - Accumulated depreciation	(460,789)	(437,949)
Net utility plant	964,425	913,137
Other Property and Investments	13,187	11,590
Current Assets		
Cash and cash equivalents	25,726	22,578
Accounts receivable-customers (less allowance for doubtful accounts of $768 in 2013 and $797 in 2012)	30,303	19,491
Unbilled revenue	21,083	16,147
Inter-company receivable	5,228	2,508
Other accounts receivable (less allowance for doubtful accounts of $364 in 2013 and $380 in 2012)	4,993	6,377
Income taxes receivable from Parent	3,550	16,442
Note receivable from Parent	3,836	—
Materials and supplies, at average cost	2,056	2,244
Regulatory assets — current	34,635	32,336
Prepayments and other current assets	3,234	4,162
Deferred income taxes — current	9,259	7,577
Total current assets	143,903	129,862
Regulatory and Other Assets		
Regulatory assets	138,863	143,679
Other accounts receivable	1,345	1,445
Other	12,791	14,339
Total regulatory and other assets	152,999	159,463
Total Assets	$1,274,514	$1,214,052

The accompanying notes are an integral part of these financial statements

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GOLDEN STATE WATER COMPANY
BALANCE SHEETS
CAPITALIZATION AND LIABILITIES
(Unaudited)

(in thousands)	September 30, 2013	December 31, 2012
Capitalization		
Common shares, no par value	$232,392	$231,480
Earnings reinvested in the business	204,411	184,777
Total common shareholder's equity	436,803	416,257
Long-term debt	332,088	332,463
Total capitalization	768,891	748,720
Current Liabilities		
Long-term debt — current	3,398	3,328
Accounts payable	47,266	27,292
Accrued other taxes	7,791	7,720
Accrued employee expenses	9,466	8,786
Accrued interest	6,251	3,909
Unrealized loss on purchased power contracts	588	3,060
Other	14,960	11,606
Total current liabilities	89,720	65,701
Other Credits		
Advances for construction	68,933	70,781
Contributions in aid of construction — net	113,836	106,450
Deferred income taxes	153,874	142,082
Unamortized investment tax credits	1,813	1,881
Accrued pension and other postretirement benefits	70,945	71,618
Other	6,502	6,819
Total other credits	415,903	399,631
Commitments and Contingencies (Note 8)	—	—
Total Capitalization and Liabilities	$1,274,514	$1,214,052

The accompanying notes are an integral part of these financial statements

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GOLDEN STATE WATER COMPANY
STATEMENTS OF INCOME
FOR THE THREE MONTHS
ENDED SEPTEMBER 30, 2013 AND 2012
(Unaudited)

	Three Months Ended September 30,	
(in thousands)	2013	2012
Operating Revenues		
Water	$93,932	$90,976
Electric	8,849	8,549
Total operating revenues	102,781	99,525
Operating Expenses		
Water purchased	19,246	18,874
Power purchased for pumping	3,414	3,067
Groundwater production assessment	4,656	3,923
Power purchased for resale	3,386	2,854
Supply cost balancing accounts	(1,003)	1,960
Other operation	6,506	6,859
Administrative and general	17,007	14,993
Depreciation and amortization	9,474	9,941
Maintenance	4,239	3,801
Property and other taxes	3,572	3,357
Net gain on sale of property	—	(65)
Total operating expenses	70,497	69,564
Operating Income	32,284	29,961
Other Income and Expenses		
Interest expense	(5,815)	(5,959)
Interest income	148	384
Other, net	247	219
Total other income and expenses	(5,420)	(5,356)
Income from operations before income tax expense	26,864	24,605
Income tax expense	10,251	10,030
Net Income	$16,613	$14,575

The accompanying notes are an integral part of these financial statements

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GOLDEN STATE WATER COMPANY
STATEMENTS OF INCOME
FOR THE NINE MONTHS
ENDED SEPTEMBER 30, 2013 AND 2012
(Unaudited)

	Nine Months Ended September 30,	
(in thousands)	2013	2012
Operating Revenues		
Water	$247,234	$238,334
Electric	27,980	27,735
Total operating revenues	275,214	266,069
Operating Expenses		
Water purchased	46,648	42,257
Power purchased for pumping	7,385	6,642
Groundwater production assessment	11,666	11,228
Power purchased for resale	9,894	8,725
Supply cost balancing accounts	(9)	9,560
Other operation	17,145	19,710
Administrative and general	46,407	44,359
Depreciation and amortization	28,480	30,283
Maintenance	12,097	10,098
Property and other taxes	10,663	10,454
Net gain on sale of property	—	(65)
Total operating expenses	190,376	193,251
Operating Income	84,838	72,818
Other Income and Expenses		
Interest expense	(17,289)	(17,648)
Interest income	466	1,063
Other, net	674	434
Total other income and expenses	(16,149)	(16,151)
Income from operations before income tax expense	68,689	56,667
Income tax expense	27,557	23,352
Net Income	$41,132	$33,315

The accompanying notes are an integral part of these financial statements

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GOLDEN STATE WATER COMPANY
STATEMENTS OF CASH FLOW
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012
(Unaudited)

(in thousands)	Nine Months Ended September 30, 2013	2012
Cash Flows From Operating Activities:		
Net income	$41,132	$33,315
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	29,162	31,916
Provision for doubtful accounts	687	1,271
Deferred income taxes and investment tax credits	10,556	4,725
Stock-based compensation expense	1,384	1,241
Other — net	103	(389)
Changes in assets and liabilities:		
Accounts receivable — customers	(11,498)	(9,731)
Unbilled revenue	(4,936)	(5,571)
Other accounts receivable	1,483	1,222
Materials and supplies	188	(531)
Prepayments and other current assets	928	(1,348)
Regulatory assets — supply cost balancing accounts	(9)	9,560
Other assets (including other regulatory assets)	(1,588)	(19,245)
Accounts payable	7,015	3,945
Inter-company receivable/payable	(2,720)	(545)
Income taxes receivable/payable from/to Parent	12,892	20,782
Accrued pension and other postretirement benefits	2,114	3,079
Other liabilities	6,130	3,985
Net cash provided	93,023	77,681
Cash Flows From Investing Activities:		
Construction expenditures	(68,823)	(47,230)
Note receivable from AWR parent	(9,200)	—
Receipt of payment of note receivable from AWR parent	5,364	—
Other investments and other investing activities	(1,423)	65
Net cash used	(74,082)	(47,165)
Cash Flows From Financing Activities:		
Receipt of advances for and contributions in aid of construction	10,051	5,101
Refunds on advances for construction	(3,328)	(3,216)
Proceeds from the issuance of long-term debt	60	4,034
Repayments of long-term debt	(365)	(294)
Dividends paid	(21,400)	(10,200)
Other — net	(811)	(389)
Net cash used	(15,793)	(4,964)
Net increase in cash and cash equivalents	3,148	25,552
Cash and cash equivalents, beginning of period	22,578	—

Cash and cash equivalents, end of period	$25,726	$25,552

The accompanying notes are an integral part of these financial statements

AMERICAN STATES WATER COMPANY AND SUBSIDIARIES
AND
GOLDEN STATE WATER COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 — Summary of Significant Accounting Policies:

Nature of Operations: American States Water Company (“AWR”) is the parent company of Golden State Water Company (“GSWC”) and American States Utility Services, Inc. (“ASUS”) (and its subsidiaries, Fort Bliss Water Services Company (“FBWS”), Terrapin Utility Services, Inc. (“TUS”), Old Dominion Utility Services, Inc. (“ODUS”), Palmetto State Utility Services, Inc. (“PSUS”) and Old North Utility Services, Inc. (“ONUS”)). The subsidiaries of ASUS may be collectively referred to herein as the “Military Utility Privatization Subsidiaries.”

GSWC is a public utility engaged principally in the purchase, production, distribution and sale of water in California serving approximately 256,000 customers. GSWC also distributes electricity in several San Bernardino County mountain communities in California serving approximately 23,000 customers through its Bear Valley Electric Service (“BVES”) division. The California Public Utilities Commission (“CPUC”) regulates GSWC’s water and electric businesses, including properties, rates, services, facilities and other matters, and transactions by GSWC with its affiliates. AWR’s assets and operating income are primarily those of GSWC.

ASUS performs water and wastewater services, including the operation, maintenance, renewal and replacement of water and/or wastewater systems on a contract basis. Through its wholly owned subsidiaries, ASUS operates and maintains the water and/or wastewater systems at various military bases pursuant to 50-year firm, fixed-price contracts, which are subject to periodic price redeterminations and modifications for changes in circumstances, and changes in laws and regulations. There is no direct regulatory oversight by the CPUC over AWR or the operation, rates or services provided by ASUS or any of its wholly owned subsidiaries.

Basis of Presentation: The consolidated financial statements and notes thereto are being presented in a combined report being filed by two separate Registrants: AWR and GSWC. References in this report to “Registrant” are to AWR and GSWC, collectively, unless otherwise specified. Certain prior period amounts have been reclassified to conform to the 2013 financial statement presentation.

The consolidated financial statements of AWR include the accounts of AWR and its subsidiaries, all of which are wholly owned. These financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. Inter-company transactions and balances have been eliminated in the AWR consolidated financial statements.

On May 20, 2013, AWR's Board of Directors approved a two-for-one stock split of the Company's common shares. In September 2013, shareholders of record received one additional share for each AWR common share they owned. This two-for-one stock split has been retroactively applied to these financial statements, resulting in an increase in the number of shares outstanding for all periods presented.

The consolidated financial statements included herein have been prepared by Registrant, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). The December 31, 2012 condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In the opinion of management, all adjustments, consisting of normal, recurring items and estimates necessary for a fair statement of the results for the interim periods, have been made. It is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Form 10-K for the year ended December 31, 2012 filed with the SEC.

GSWC's Related Party Transactions: In May 2013, AWR issued an interest bearing promissory note (the "Note") to GSWC for $20.0 million which expires on May 23, 2018. Under the terms of the Note, AWR may borrow from GSWC amounts up to $20.0 million for working capital purposes. AWR agrees to pay any unpaid principal amounts outstanding under the Note, plus accrued interest. As of September 30, 2013, AWR has $3.8 million outstanding to GSWC under this Note, which GSWC has reflected as a current note receivable on its September 30, 2013 balance sheet. This Note is expected to be repaid by AWR within one year.

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GSWC and ASUS provide and receive various services to and from their parent, AWR, and among themselves. In addition, AWR has a $100.0 million syndicated credit facility. AWR borrows under this facility and provides funds to its subsidiaries, including GSWC, in support of their operations. The interest rate charged to GSWC and ASUS is sufficient to cover AWR's interest cost under the credit facility. GSWC also allocates certain corporate office administrative and general costs to its affiliate, ASUS, using allocation factors approved by the CPUC. Amounts owed to GSWC by its parent, AWR, or for allocated expenses are included in inter-company receivables as of September 30, 2013 and December 31, 2012.

Notes Payable to Banks: On May 23, 2013, AWR entered into a fourth amendment to its revolving credit agreement to, among other things, extend the expiration date of the syndicated credit facility to May 23, 2018, reduce the amount of interest and fees paid by the Company, and update certain representations and covenants in the credit agreement. The aggregate amount that may be borrowed under this facility is unchanged at $100.0 million. The Company may, under the terms of the fourth amendment, elect to increase the aggregate commitment by up to an additional $50.0 million. As of September 30, 2013, there were no outstanding borrowings under this credit facility.
Sales and Use Taxes: GSWC bills certain sales and use taxes levied by state or local governments to its customers. Included in these sales and use taxes are franchise fees, which GSWC pays to various municipalities (based on ordinances adopted by these municipalities) in order to use public right of way for utility purposes. GSWC bills these franchise fees to its customers based on a CPUC-authorized rate. These franchise fees, which are required to be paid regardless of GSWC's ability to collect from the customer, are accounted for on a gross basis. GSWC's franchise fees billed to customers and recorded as operating revenue were approximately $1.0 million and $966,000 for the three months ended September 30, 2013 and 2012, respectively, and $2.8 million and $2.6 million for the nine months ended September 30, 2013 and 2012, respectively. When GSWC acts as an agent, and the tax is not required to be remitted if it is not collected from the customer, the taxes are accounted for on a net basis.

Depending on the state in which the operations are conducted, ASUS and its subsidiaries are also subject to certain state non-income tax assessments generally computed on a "gross receipts" or "gross revenues" basis. These non-income tax assessments are required to be paid regardless of whether the subsidiary is reimbursed by the U.S. government for these assessments under its 50-year contracts with the U.S. government. The non-income tax assessments are accounted for on a gross basis and totaled $305,000 and $222,000 during the three months ended September 30, 2013 and 2012, respectively, and $636,000 and $563,000 for the nine months ended September 30, 2013 and 2012, respectively.

Accounting standards that have been issued by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on Registrant's consolidated financial statements upon adoption.

Note 2 — Regulatory Matters:

In accordance with accounting principles for rate-regulated enterprises, Registrant records regulatory assets, which represent probable future recovery of costs from customers through the ratemaking process, and regulatory liabilities, which represent probable future refunds that are to be credited to customers through the ratemaking process. At September 30, 2013, Registrant had approximately $72.3 million of regulatory assets, net of regulatory liabilities not accruing carrying costs. Of this amount, $49.8 million relates to the underfunding of pension and other post-retirement obligations, $15.9 million relates to deferred income taxes representing accelerated tax benefits flowed through to customers, which will be included in rates concurrently with recognition of the associated future tax expense, and $588,000 relates to a memorandum account authorized by the CPUC to track unrealized gains and losses on GSWC's purchase power contract over the life of the contract. The remainder relates to other items that do not provide for or incur carrying costs.

Regulatory assets represent costs incurred by GSWC for which it has received or expects to receive rate recovery in the future. In determining the probability of costs being recognized in other periods, GSWC considers regulatory rules and decisions, past practices, and other facts or circumstances that would indicate if recovery is probable. If the CPUC determined that a portion of GSWC's assets were not recoverable in customer rates, GSWC would be required to determine if it had suffered an asset impairment that would require a write-down in the assets' valuation. Regulatory assets, less regulatory liabilities, included in the consolidated balance sheets are as follows:

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(dollars in thousands)	September 30, 2013	December 31, 2012
GSWC		
Water Revenue Adjustment Mechanism, net of Modified Cost Balancing Account	$29,223	$42,574
Base Revenue Requirement Adjustment Mechanism	8,600	6,833
Costs deferred for future recovery on Aerojet case	15,106	16,030
Pensions and other post-retirement obligations (Note 7)	54,834	56,894
Flow-through taxes, net (Note 6)	15,901	16,415
General rate case memorandum accounts	17,381	4,495
Other regulatory assets	37,475	40,332
Various refunds to customers	(5,022)	(7,558)
Total	$173,498	$176,015

Regulatory matters are discussed in detail in the consolidated financial statements and the notes thereto included in the Form 10-K for the year ended December 31, 2012 filed with the SEC. The discussion below focuses on significant matters and developments since December 31, 2012.

Alternative-Revenue Programs:

GSWC records the difference between what it bills its water customers and that which is authorized by the CPUC using the Water Revenue Adjustment Mechanism ("WRAM") and Modified Cost Balancing Account ("MCBA") accounts approved by the CPUC. GSWC has implemented surcharges to recover all of its WRAM, net of the MCBA balances through December 31, 2012. The recovery or refund of the WRAM is netted against the MCBA over- or under-collection for the corresponding rate-making area and is interest bearing at the current 90-day commercial paper rate. For the three months ended September 30, 2013 and 2012, surcharges of $9.1 million and $6.7 million, respectively, were billed to customers to recover previously incurred under-collections in the WRAM, net of MCBA accounts, and $19.8 million and $14.3 million were billed to customers during the nine months ended September 30, 2013 and 2012, respectively. For the three and nine months ended September 30, 2013, the WRAM and MCBA accounts also reflect the effects of the authorized 2013 adopted revenue and supply cost amounts approved in the CPUC's final decision issued in May 2013 on GSWC's water general rate case. In March 2013, the CPUC approved recovery of GSWC's 2012 WRAM under-collection of $23.8 million, to be collected over 12 to 18 months. As of September 30, 2013, GSWC has a net aggregated regulatory asset of $29.2 million which is comprised of a $36.6 million under-collection in the WRAM accounts and $7.4 million over-collection in the MCBA accounts.

Based on CPUC guidelines, recovery periods relating to the majority of GSWC's WRAM/MCBA balances range between 18 and 24 months. In April 2012, the CPUC issued a final decision which, among other things, set the recovery periods for under-collection balances that are up to 15% of adopted annual revenues at 18 months or less. In addition to adopting a new amortization schedule, the final decision sets a cap on total net WRAM/MCBA surcharges in any given calendar year of 10% of the last authorized revenue requirement. The cap is effective following the first test year of each applicant's pending or next general rate case. For GSWC, the cap will be applied to its 2013 WRAM balances to be filed in early 2014. The cap requirement set forth in the final decision does not impact GSWC's 2012 and prior year WRAM/MCBA balances.

For BVES, the CPUC approved the Base Revenue Requirement Adjustment Mechanism ("BRRAM"), which adjusts certain revenues to adopted levels. In May 2013, the CPUC approved surcharges for recovery of BVES' 2012 BRRAM balance. The CPUC approved a 36-month surcharge, with the amounts collected through December 2014 to be applied to the 2012 BRRAM under-collection balance of $2.3 million. Surcharges collected during the remainder of the 36-month period will be for recovery of the $1.8 million difference between the allocated general office costs authorized by the CPUC in November 2010, and what was then in BVES' rates for allocated general office costs. As authorized by the CPUC, this difference was combined in the BRRAM for recovery through the surcharge; however, these costs are not considered an alternative revenue program. As of September 30, 2013, GSWC had a regulatory asset of $8.6 million under-collection in the BRRAM.

General Rate Case Memorandum Accounts:

The balance in the general rate case memorandum accounts represents the revenue differences between interim rates and final rates authorized by the CPUC due to delays in receiving decisions on various general rate case applications. As of September 30, 2013, there is an aggregate $17.4 million in the general rate case memorandum accounts, $13.3 million of which is for retroactive rate increases effective January 1, 2013 as a result of the final decision issued by the CPUC in May 2013 on GSWC’s water general rate case. Surcharges ranging from 12 to 24 months, with the majority being 12 months, have been implemented to recover the retroactive adopted revenues related to the May 2013 CPUC decision.

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Other Regulatory Assets:

Among other things, the final CPUC decision issued in May 2013 approved the recovery of various memorandum accounts which tracked certain previously incurred costs. As a result, during the first quarter of 2013, GSWC recorded $3.2 million in other regulatory assets, the majority of which was reflected as a decrease in certain operating expenses related to the approval of these memorandum accounts in the final decision. During the second quarter of 2013, surcharges were implemented to begin recovering these costs from customers.

Other Regulatory Matters:

CPUC Rehearing Matter

In July 2011, the CPUC issued an order granting the rehearing of certain issues from the Region II, Region III and general office rate case approved in November 2010. Among the issues in the rehearing was the La Serena plant improvement project included in rate base totaling approximately $3.5 million. As a result of the CPUC's decision in November 2010, GSWC had recorded a pretax charge of $2.2 million during 2010, which included the disallowance of a portion of the La Serena capital costs and the related revenues earned on those capital costs to be refunded to customers. In March 2013, GSWC and the Office of Ratepayer Advocates ("ORA") reached a settlement agreement, subject to CPUC approval, to resolve all the issues in the rehearing. In March 2013, GSWC filed for CPUC approval of the settlement agreement. In anticipation of this settlement, GSWC recorded an additional pretax charge of $416,000 in 2012, representing disallowed plant improvement project costs and related revenues earned on those costs that it expects will be refunded to customers based upon the terms of the settlement being discussed. The settlement agreement, if approved, would resolve all issues arising from the rehearing.

Procurement Audits

In December 2011, the CPUC issued a final decision on its investigation of certain work orders and charges paid to a specific contractor used previously for numerous construction projects. As part of the CPUC decision, GSWC agreed to be subject to three separate independent audits of its procurement practices over a period of ten years from the date the settlement was approved by the CPUC. The audits will cover GSWC's procurement practices related to contracts with other contractors from 1994 forward and could result in disallowances of costs. The cost of the audits will be borne by shareholders and may not be recovered by GSWC in rates to customers. The first audit is expected to commence in early 2014. At this time, management cannot predict the outcome of these audits or determine an estimated loss or range of loss, if any, resulting from these audits.

BVES General Rate Case

In February 2012, BVES filed its general rate case ("GRC") for new rates in years 2013 through 2016. In August 2012, ORA issued its report on the GRC. Included in ORA's recommendations was a $2.0 million retroactive ratemaking proposal to increase BVES' accumulated depreciation balance to reflect adopted depreciation expense for the years 2009 through 2012 rather than actual depreciation expense as recorded in accordance with Generally Accepted Accounting Principles. ORA also recommended that one-half of deferred rate case costs be borne by shareholders, rather than entirely by customers, as had been authorized by the CPUC in prior rate cases. As of September 30, 2013, GSWC had a $1.9 million regulatory asset representing deferred rate case costs for the current BVES general rate case, which the CPUC has historically allowed utilities to recover. If ORA prevails, GSWC may be required to record a charge to adjust accumulated depreciation and to write off half of its deferred rate case costs. GSWC believes ORA's recommendations are without merit and intends to vigorously defend its positions. At this time, GSWC does not believe a potential loss is probable, but is unable to predict the final outcome of these matters in the pending rate case.

Hearings on BVES’ GRC, including the matters discussed above, were held in September 2012. In November 2012, GSWC filed a motion to introduce new information regarding the results of a study on mandatory testing of BVES’s transmission and distribution poles to help support BVES' request for approval of additional capital expenditures. The administrative law judge assigned to this GRC re-opened the record to receive additional testimony based on this study, and to conduct additional evidentiary hearings. Alternative dispute resolution meetings for the GRC are scheduled to be held in December 2013. A proposed decision on this general rate case is expected in early 2014.

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Renewables Portfolio Standard

In December 2011, a renewables portfolio standard ("RPS") law went into effect which changed, among other things, annual procurement targets to multi-year procurement targets. Under the RPS, BVES must procure sufficient RPS-eligible resources to meet: (i) any RPS procurement requirement deficit for any year prior to 2011, and (ii) RPS procurement requirements for the 2011 through 2013 compliance period by no later than December 31, 2013. BVES' latest RPS reports under the standards were submitted to the CPUC in August 2013, and did not reflect any RPS procurement deficiencies nor any potential or actual penalties. Accordingly, no provision for loss has been recorded in the financial statements as of September 30, 2013.

In December 2012, GSWC entered into a ten-year agreement with a third party to purchase renewable energy credits ("RECs"). Under the terms of the agreement, GSWC agreed to purchase approximately 582,000 RECs over a ten-year period which would be used towards meeting the CPUC's RPS procurement requirements. In July 2013, the CPUC approved the agreement. During the third quarter of 2013, BVES purchased approximately 116,000 RECs under this agreement, which will be included as part of the electric supply cost balancing account during the fourth quarter of 2013 when they are applied towards the RPS requirements.

In July 2012, the CPUC also approved the purchase of RECs from the Los Angeles County Sanitation District. BVES applied these RECs towards its pre-2011 RPS requirements and 2011 through 2013 requirements. The cost of these RECs have been included as part of the electric supply cost balancing account as of September 30, 2013.

In March 2013, BVES filed an application with the CPUC to recover $835,000 (including interest) in additional costs incurred from April 1, 2011 through December 31, 2012 in connection with its efforts to procure renewable energy resources. In May 2013, the CPUC approved these costs and accordingly, BVES recorded a regulatory asset and a corresponding decrease to legal and outside services costs during the second quarter of 2013. This amount will be recovered through a 12-month surcharge. In March 2012, BVES also received approval for recovery of $1.2 million of costs in its efforts to procure renewable energy resources incurred during the period September 1, 2007 through March 31, 2011.

Note 3 — Earnings per Share/Capital Stock:

In accordance with the accounting guidance for participating securities and earnings per share ("EPS"), Registrant uses the "two-class" method of computing EPS. The "two-class" method is an earnings allocation formula that determines EPS for each class of common stock and participating security. AWR has participating securities related to its stock-based awards that earn dividend equivalents on an equal basis with AWR's Common Shares (the "Common Shares"). In applying the "two-class" method, undistributed earnings are allocated to both common shares and participating securities.

The following is a reconciliation of Registrant's net income and weighted average Common Shares outstanding, reflecting the two-for-one stock split effective September 3, 2013, used for calculating basic net income per share:

Basic:	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
(in thousands, except per share amounts)	2013	2012	2013	2012
Net income	$20,839	18,664	50,906	43,857
Less: (a) Distributed earnings to common shareholders	7,836	6,766	21,527	17,316
Distributed earnings to participating securities	48	52	123	119
Undistributed earnings	12,955	11,846	29,256	26,422

(b)	Undistributed earnings allocated to common shareholders	12,877	11,755	29,089	26,242
	Undistributed earnings allocated to participating securities	78	91	167	180
Total income available to common shareholders, basic (a)+(b)		$20,713	$18,521	$50,616	$43,558
Weighted average Common Shares outstanding, basic		38,696	38,117	38,613	37,849
Basic earnings per Common Share		$0.54	$0.49	$1.31	$1.15

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Diluted EPS is based upon the weighted average number of Common Shares, including both outstanding shares and shares potentially issuable in connection with stock options granted under Registrant's 2000 and 2008 Employee Plans, and the 2003 Directors Plan, and net income. At September 30, 2013 and 2012, there were 273,740 and 452,416 options outstanding, respectively, under these Plans. At September 30, 2013 and 2012, there were also 236,891 and 296,341 restricted stock units outstanding, respectively.

The following is a reconciliation of Registrant's net income and weighted average Common Shares outstanding for calculating diluted net income per share:

Diluted:	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
(in thousands, except per share amounts)	2013	2012	2013	2012
Common shareholders earnings, basic	$20,713	$18,521	$50,616	$43,558
Undistributed earnings for dilutive stock options	78	—	167	180
Total common shareholders earnings, diluted	$20,791	$18,521	$50,783	$43,738
Weighted average common shares outstanding, basic	38,696	38,117	38,613	37,849
Stock-based compensation (1)	227	88	222	228
Weighted average common shares outstanding, diluted	38,923	38,205	38,835	38,077
Diluted earnings per Common Share	$0.53	$0.48	$1.31	$1.15

(1) In applying the treasury stock method of reflecting the dilutive effect of outstanding stock-based compensation in the calculation of diluted EPS, 273,740 and 365,864 stock options at September 30, 2013 and 2012, respectively, were deemed to be outstanding in accordance with accounting guidance on earnings per share. All of the 236,891 and 296,341 restricted stock units at September 30, 2013 and 2012, respectively, were included in the calculation of diluted EPS for the nine months ended September 30, 2013 and 2012.

No stock options outstanding at September 30, 2013 had an exercise price greater than the average market price of AWR's Common Shares for the three and nine months ended September 30, 2013. There were 1,184 and 86,552 stock options outstanding at September 30, 2012 but not included in the computation of diluted EPS for the three and nine month ended September 30, 2012, respectively, because the related option exercise price was greater than the average market price of AWR's Common Shares. There were no stock options outstanding at September 30, 2013 or 2012 that were anti-dilutive.

During the nine months ended September 30, 2013 and 2012, Registrant issued 236,528 and 847,180 Common Shares, for approximately $1,948,000 and $12,434,000, respectively, under Registrant's Common Share Purchase and Dividend Reinvestment Plan ("DRP"), the 401(k) Plan, the 2000 and 2008 Employee Plans, and the 2003 Directors Plan. In addition, Registrant purchased 553,067 and 1,143,304 Common Shares on the open market during the nine months ended September 30, 2013 and 2012, respectively, under Registrant's 401(k) Plan and the DRP. The Common Shares purchased by Registrant were used to satisfy the requirements of these plans.

During the three months ended September 30, 2013 and 2012, AWR paid quarterly dividends of approximately $7.8 million, or $0.2025 per share, and $6.7 million, or $0.1775 per share, respectively. During the nine months ended September 30, 2013 and 2012, AWR paid quarterly dividends to shareholders of approximately $21.5 million, or $0.5575 per share, and $17.3 million, or $0.4575 per share, respectively.

On October 29, 2013, AWR's Board of Directors approved a fourth quarter dividend of $0.2025 per share on the common shares of the Company. Dividends on the common shares will be paid on December 2, 2013 to shareholders of record at the close of business on November 15, 2013.

Note 4 — Derivative Instruments:

GSWC purchases certain power at a fixed cost depending on the amount of power and the period during which the power is purchased under a purchased power contract. The contract is subject to the accounting guidance for derivatives and requires mark-to-market derivative accounting. The CPUC has authorized GSWC to establish a regulatory asset and liability memorandum account to offset the entries required by the accounting guidance. Accordingly, all unrealized gains and losses generated from the purchased power contract are deferred on a monthly basis into a non-interest bearing regulatory memorandum account that tracks the changes in fair value of the derivative throughout the term of the contract, having no impact on GSWC's

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earnings. Upon expiration of the purchased power contract, the balance in this regulatory memorandum account will be zero. As of September 30, 2013, there was a $588,000 cumulative unrealized loss which has been included in the memorandum account.

GSWC executed a new purchased power master agreement which is subject to CPUC approval. If approved, GSWC will be able to purchase 12 megawatts (“MWs”) of base load energy at a fixed price to be negotiated upon CPUC approval of the agreement. In June 2013, GSWC filed for approval of the agreement with the CPUC. GSWC has requested CPUC approval of a regulatory asset and liability memorandum account for the new contract to offset the entries required by the accounting guidance on derivatives.

The accounting guidance for fair value measurements applies to all financial assets and financial liabilities that are being measured and reported on a fair value basis. Under the accounting guidance, GSWC makes fair value measurements that are classified and disclosed in one of the following three categories:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability, or

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

Registrant’s valuation model utilizes various inputs that include quoted market prices for energy over the duration of the contract. The market prices used to determine the fair value for this derivative instrument were estimated based on independent sources such as broker quotes and publications that are not observable in or corroborated by the market. Registrant receives one broker quote to determine the fair value of its derivative instrument. When such inputs have a significant impact on the measurement of fair value, the instrument is categorized in Level 3. Accordingly, the valuation of the derivative on Registrant’s purchased power contract has been classified as Level 3 for all periods presented.

The following table presents changes in the fair value of the derivative for the three and nine months ended September 30, 2013 and 2012:

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
(dollars in thousands)	2013	2012	2013	2012
Balance, at beginning of the period	$(1,147)	$(5,176)	$(3,060)	$(7,611)
Unrealized gain on purchased power contracts	559	2,457	2,472	4,892
Balance, at end of the period	$(588)	$(2,719)	$(588)	$(2,719)

Note 5 — Fair Value of Financial Instruments:

For cash and cash equivalents, accounts receivable, accounts payable and short-term debt, the carrying amount is assumed to approximate fair value due to the short-term nature of the amounts. Investments held in a Rabbi Trust for the supplemental executive retirement plan are measured at fair value and totaled $6.5 million as of September 30, 2013. All equity investments in the Rabbi Trust are Level 1 investments in mutual funds. The investments held in the Rabbi trust are included in Other Property and Investments on Registrant's balance sheets.

The table below estimates the fair value of long-term debt held by GSWC. Rates available to GSWC at September 30, 2013 and December 31, 2012 for debt with similar terms and remaining maturities were used to estimate fair value for long-term debt. The interest rates used for the September 30, 2013 valuation increased as compared to December 31, 2012, decreasing the fair value of long-term debt as of September 30, 2013. Changes in the assumptions will produce differing results.

	September 30, 2013		December 31, 2012	
(dollars in thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities:				
Long-term debt—GSWC	$335,486	$407,009	$335,791	$456,792

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As previously discussed in Note 4, the accounting guidance for fair value measurements establishes a framework for measuring fair value and requires fair value measurements to be classified and disclosed in one of three levels. The following tables set forth by level, within the fair value hierarchy, GSWC's long-term debt measured at fair value as of September 30, 2013:

(dollars in thousands)	Level 1	Level 2	Level 3	Total
Long-term debt—GSWC	—	$407,009	—	$407,009

Note 6 — Income Taxes:

As a regulated utility, GSWC treats certain temporary differences as flow-through adjustments in computing its income tax provision consistent with the income tax approach approved by the CPUC for ratemaking purposes. Flow-through adjustments increase or decrease tax expense in one period, with an offsetting decrease or increase occurring in another period. Giving effect to these temporary differences as flow-through adjustments typically results in a greater variance between the effective tax rate ("ETR") and the statutory federal income tax rate in any given period than would otherwise exist if GSWC were not required to account for its income taxes as a regulated enterprise. The GSWC ETR was 38.2% and 40.8% for the three months ended September 30, 2013 and 2012, respectively, and 40.1% and 41.2% for the nine months ended September 30, 2013 and 2012, respectively. The GSWC ETRs deviated from the statutory rate primarily due to state taxes and differences between book and taxable income that are treated as flow-through adjustments in accordance with regulatory requirements (primarily related to plant, rate-case and compensation items), as well as permanent items.

In addition, during the three months ended September 20, 2013, AWR (parent) recorded a cumulative tax benefit of $1.5 million related to an employee benefit plan, of which $1.4 million is out-of-period for deductions taken on recently filed tax returns and amounts expected to be taken on amended income tax returns. It is management's intention to amend tax returns for open years to reflect these deductions which cover a period of 5 years. As a result, AWR's consolidated ETR was 32.2% for the three months ended September 30, 2013 as compared to 40.0% in the same period of 2012, and 37.3% for the nine months ended September 30, 2013 as compared to 40.5% for the same period in 2012.

Changes in Tax Law:

In September 2013, the U.S. Treasury Department issued final regulations related to the tax treatment of tangible property, including guidance on expensing certain repair and maintenance expenditures. The regulations are effective for tax years beginning on or after January 1, 2014. The Registrant's current tax treatment of tangible property continues to be permitted; however, the Registrant is evaluating its water-pipeline tax repair-cost method, as well as other tax-method changes pursuant to these regulations, and, if the Registrant were to adopt such guidance, the impact to tax expense and the effective tax rate is not expected to be significant.

In January 2013, the American Taxpayer Relief Act of 2012 extended 50% bonus depreciation for qualifying property through 2013. Although this change in law reduces AWR's current taxes payable, it does not reduce its total income tax expense or ETR.

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Note 7 — Employee Benefit Plans:

The components of net periodic benefit costs, before allocation to the overhead pool, for Registrant's pension plan, postretirement plan, and Supplemental Executive Retirement Plan ("SERP") for the three and nine months ended September 30, 2013 and 2012 are as follows:

	For The Three Months Ended September 30,					
	Pension Benefits		Other Postretirement Benefits		SERP	
(dollars in thousands)	2013	2012	2013	2012	2013	2012
Components of Net Periodic Benefits Cost:						
Service cost	$1,742	$1,670	$106	$112	$201	$183
Interest cost	1,727	1,663	113	136	129	122
Expected return on plan assets	(1,894)	(1,634)	(95)	(90)	—	—
Amortization of transition	—	—	105	105	—	—
Amortization of prior service cost (benefit)	30	31	(50)	(50)	40	40
Amortization of actuarial loss	720	759	—	—	85	77
Net periodic pension cost under accounting standards	2,325	2,489	179	213	455	422
Regulatory adjustment — deferred	(521)	(596)	—	—	—	—
Total expense recognized, before allocation to overhead pool	$1,804	$1,893	$179	$213	$455	$422

	For The Nine Months Ended September 30,					
	Pension Benefits		Other Postretirement Benefits		SERP	
(dollars in thousands)	2013	2012	2013	2012	2013	2012
Components of Net Periodic Benefits Cost:						
Service cost	$5,226	$5,007	$318	$336	$603	$549
Interest cost	5,181	4,992	339	408	387	366
Expected return on plan assets	(5,682)	(4,905)	(285)	(270)	—	—
Amortization of transition	—	—	315	315	—	—
Amortization of prior service cost (benefit)	90	90	(150)	(150)	120	120
Amortization of actuarial loss	2,160	2,277	—	—	255	231
Net periodic pension cost under accounting standards	6,975	7,461	537	639	1,365	1,266
Regulatory adjustment — deferred	(1,440)	(1,794)	—	—	—	—
Total expense recognized, before allocation to overhead pool	$5,535	$5,667	$537	$639	$1,365	$1,266

Registrant expects to contribute approximately $150,000 to the postretirement medical plan in the fourth quarter of 2013. During the three and nine months ended September 30, 2013, Registrant contributed $4.5 million and $6.6 million to the pension plan, respectively.

Regulatory Adjustment:

In May 2013, the CPUC issued a final decision that once again authorized GSWC to establish a two-way balancing account for its water regions and the general office to track differences between the forecasted annual pension expenses adopted in rates and the actual annual expense recorded by GSWC in accordance with the accounting guidance for pension costs. As of September 30, 2013, GSWC has included a $5.1 million under-collection in the two-way pension balancing account recorded as a regulatory asset (Note 2). A surcharge is currently in place to begin recovering this under-collection.

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Affordable Care Act:

In 2010, the Patient Protection and Affordable Care Act ("Affordable Care Act") was passed and was to become effective in 2014. In July 2013, compliance with the employer mandate and certain reporting requirements under the Affordable Care Act were delayed until January 1, 2015. Registrant's health care plan meets the current requirements of the Affordable Care Act. Registrant continues to assess the impact of the Affordable Care Act on its health care benefit costs, but does not expect it to have a material impact in the near future on the Company's consolidated financial position, results of operations or cash flows.

Note 8 — Contingencies:

GSWC Destruction of Well:

On September 12, 2013, GSWC contractors discovered methane gas and water flowing from one of GSWC's out-of-service wells which was in the process of being destroyed. The Los Angeles County Fire Department was contacted for their assistance and GSWC worked diligently with them to resolve this unusual well situation. As a precaution, residents and businesses near the well site were evacuated. Experts from the oil and gas industry were also brought in to cap the well and stop the flow of water and methane gas. On September 25, 2013, residents were allowed to return to their homes. The costs incurred to cap the well and stop the flow of water and methane gas have been recorded as cost of removal. Disruption of business claims and costs incurred to relocate residents have not been significant, and have been expensed as incurred during the third quarter of 2013. Although GSWC believes the measures taken to stop the flow of water and gas have been effective and the capping of the well is substantially complete, at this time, management is unable to predict whether any other claims will be filed against GSWC as a result of this unusual well situation.

Barstow Perchlorate Contamination:

On March 8, 2013, GSWC was served with four toxic tort lawsuits arising out of the November 19, 2010 detection of perchlorate in one of GSWC's active production wells in the Barstow service area. The plaintiffs asserted that they were affected by the perchlorate and sought punitive and compensatory damages. In August 2013, GSWC filed a motion for summary judgment on the basis that GSWC has complied with the rules and regulations of the CPUC regarding its compliance with the safe drinking water standards. On October 23, 2013, the judge granted GSWC's motion for summary judgment and dismissed the lawsuits. The plaintiffs may appeal this ruling within 60 days from when the summary judgment is entered into official court records which is expected to occur in November 2013.

Condemnation of Properties:

The laws of the State of California provide for the acquisition of public utility property by governmental agencies through their power of eminent domain, also known as condemnation, where doing so is necessary and in the public interest. In addition, these laws provide: (i) that the owner of utility property may contest whether the condemnation is actually necessary and in the public interest, and (ii) that the owner is entitled to receive the fair market value of its property if the property is ultimately taken.

The City of Claremont ("Claremont") located in GSWC's Region III, has expressed various concerns to GSWC about rates charged by GSWC and the effectiveness of the CPUC's rate-setting procedures. In November 2012 and again in September 2013, Claremont made an offer to acquire GSWC's water system servicing Claremont. GSWC rejected both offers and informed the City that the system is not for sale. Claremont continues to express a desire to potentially take the system by eminent domain. GSWC serves approximately 11,000 customers in Claremont.

In April 2011, an organization called Ojai FLOW ("Friends of Locally Owned Water") started a local campaign for the Casitas Municipal Water District (“CMWD”) to purchase GSWC’s Ojai water system. In March 2013, the CMWD passed resolutions authorizing the establishment of a Community Facilities District. In August 2013, Ojai residents approved the levying of a special tax via the Mello-Roos Community Facilities District Act of 1982 (“Mello-Roos Act”) which would provide funding for the potential acquisition of GSWC’s Ojai system by eminent domain. GSWC has filed a petition in the Superior Court, Ventura County which, among other things, challenges the CMWD’s ability to utilize the Mello-Roos Act to fund legal and expert costs to be incurred in a potential acquisition. At this time, GSWC is unable to predict the outcome of that petition. GSWC serves approximately 3,000 customers in Ojai.

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Santa Maria Groundwater Basin Adjudication:

In 1997, the Santa Maria Valley Water Conservation District ("plaintiff") filed a lawsuit against multiple defendants, including GSWC, the City of Santa Maria, and several other public water purveyors. The plaintiff's lawsuit sought an adjudication of the Santa Maria Groundwater Basin (the "Basin"). A stipulated settlement of the lawsuit has been reached and was approved by the courts in February 2008. Among other things, the settlement, which was also approved by the CPUC in May 2013, preserves GSWC's historical pumping rights and secures supplemental water rights for use in case of drought or other reductions in the natural yield of the Basin. GSWC, under the stipulation, has a right to 10,000 acre-feet of groundwater replenishment provided by the Twitchell Project, a storage and flood control reservoir project operated by the plaintiff.

The court judgment also awarded GSWC prescriptive rights to groundwater against the non-stipulating parties and granted GSWC the right to use the Basin for temporary storage and to recapture 45 percent of the return flows that are generated from its importation of State Water Project water. Pursuant to this judgment, the court retained jurisdiction over all of the parties to make supplemental orders or to amend the judgment as necessary. In March 2008, the non-stipulating parties filed notices of appeal. In November 2012, the Appellate Court upheld the Santa Maria judgment, with a remand to the trial court to clarify the narrow issue that non-stipulating parties retained their overlying rights. There is no dispute on this clarification and the required filings will be made with the court in 2013. In December 2012, the Appellate Court further modified the decision clarifying the basis for the overdraft finding that precipitated the prescriptive right finding. In December 2012, the non-stipulating parties filed a request with the California Supreme Court for a review of the Appellate Court findings. In February 2013, the California Supreme Court denied the parties' request for review of the Appellate Court findings. In May 2013, the non-stipulating parties filed a request with the U.S. Supreme Court for a review of the Appellate Court findings, which the U.S. Supreme Court subsequently denied.

Environmental Clean-Up and Remediation:

Chadron Plant: GSWC has been involved in environmental remediation and clean-up at a plant site ("Chadron Plant") that contained an underground storage tank which was used to store gasoline for its vehicles. This tank was removed from the ground in July 1990 along with the dispenser and ancillary piping. Since then, GSWC has been involved in various remediation activities at this site. Recent monitoring results show gasoline has been reduced to a sheen on top of the groundwater surface. Testing has recently been conducted to determine if alternative remediation will be effective in reducing the contamination further. As of September 30, 2013, the total spent to clean-up and remediate GSWC's plant facility was approximately $3.5 million, of which $1.5 million has been paid by the State of California Underground Storage Tank Fund. Amounts paid by GSWC have been included in rate base and approved by the CPUC for recovery.

As of September 30, 2013, GSWC has a regulatory asset and an accrued liability for the estimated additional cost of $1.0 million to complete the clean-up at the site. The ultimate cost may vary as there are many unknowns in remediation of underground gasoline spills and this is an estimate based on currently available information. Management also believes it is probable that the estimated additional costs will be approved in rate base by the CPUC.

Other Litigation:

Registrant is also subject to other ordinary routine litigation incidental to its business. Management believes that rate recovery, proper insurance coverage and reserves are in place to insure against property, general liability and workers' compensation claims incurred in the ordinary course of business. Registrant is unable to predict an estimate of the loss, if any, resulting from any pending suits or administrative proceedings.

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Note 9 — Business Segments:

AWR has three reportable segments, water, electric and contracted services, whereas GSWC has two segments, water and electric. AWR has no material assets other than cash and its investments in its subsidiaries on a stand-alone basis. All activities of GSWC are geographically located within California.

Activities of ASUS and its subsidiaries are conducted in California, Georgia, Maryland, New Mexico, North Carolina, South Carolina, Texas and Virginia. Each of ASUS's wholly-owned subsidiaries is regulated by the state in which the subsidiary primarily conducts water and/or wastewater operations. Fees charged for operations and maintenance, and renewal and replacement services are based upon the terms of the contracts with the U.S. government which have been filed with the regulatory commissions in the states in which ASUS's subsidiaries are incorporated.

The tables below set forth information relating to GSWC's operating segments, ASUS and its subsidiaries, and other matters. Total assets by segment are not presented below, as certain of Registrant's assets are not tracked by segment. The utility plant amounts are net of respective accumulated provisions for depreciation. Capital additions reflect capital expenditures paid in cash and exclude property installed by developers and conveyed to GSWC.

	As Of And For The Three Months Ended September 30, 2013				
	GSWC		ASUS	AWR	Consolidated
(dollars in thousands)	Water	Electric	Contracts	Parent	AWR
Operating revenues	$93,932	8,849	28,133	$—	$130,914
Operating income (loss)	31,022	1,262	3,882	(2)	36,164
Interest expense, net	5,297	370	71	(71)	5,667
Utility plant	923,521	40,904	4,034	—	968,459
Depreciation and amortization expense (1)	8,900	574	279	—	9,753
Income tax expense (benefit)	9,812	439	1,343	(1,689)	9,905
Capital additions	27,256	546	68	—	27,870

	As Of And For The Three Months Ended September 30, 2012				
	GSWC		ASUS	AWR	Consolidated
(dollars in thousands)	Water	Electric	Contracts	Parent	AWR
Operating revenues	$90,976	$8,549	$34,368	$—	$133,893
Operating income (loss)	28,355	1,606	6,545	(26)	36,480
Interest expense, net	5,178	397	24	—	5,599
Utility plant	867,310	40,057	4,660	—	912,027
Depreciation and amortization expense (1)	9,405	536	289	—	10,230
Income tax expense (benefit)	9,795	235	2,493	(87)	12,436
Capital additions	17,347	1,155	220	—	18,722

(1) Depreciation expense computed on GSWC's transportation equipment of $214,000 and $484,000 for the three months ended September 30, 2013 and 2012, respectively, is recorded in administrative and general expenses.

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	As Of And For The Nine Months Ended September 30, 2013				
	GSWC		ASUS	AWR	Consolidated
(dollars in thousands)	Water	Electric	Contracts	Parent	AWR
Operating revenues	$247,234	27,980	86,947	$—	$362,161
Operating income (loss)	79,557	5,281	12,592	(9)	97,421
Interest expense, net	15,699	1,124	224	(161)	16,886
Utility plant	923,521	40,904	4,034	—	968,459
Depreciation and amortization expense (1)	26,739	1,741	857	—	29,337
Income tax expense (benefit)	25,574	1,983	4,637	(1,892)	30,302
Capital additions	67,397	1,426	236	—	69,059

	As Of And For The Nine Months Ended September 30, 2012				
	GSWC		ASUS	AWR	Consolidated
(dollars in thousands)	Water	Electric	Contracts	Parent	AWR
Operating revenues	$238,334	27,735	$89,298	$—	$355,367
Operating income (loss)	65,872	6,946	17,275	(121)	89,972
Interest expense, net	15,399	1,186	118	(24)	16,679
Utility plant	867,310	40,057	4,660	—	912,027
Depreciation and amortization expense (1)	28,527	1,756	844	—	31,127
Income tax expense (benefit)	21,358	1,994	6,635	(116)	29,871
Capital additions	44,831	2,399	939	—	48,169

(1) Depreciation expense computed on GSWC's transportation equipment of $682,000 and $1,633,000 for the nine months ended September 30, 2013 and 2012, respectively, is recorded in administrative and general expenses.

The following table reconciles total utility plant (a key figure for rate-making) to total consolidated assets (in thousands):

	September 30,	
	2013	2012
Total utility plant	$968,459	$912,027
Other assets	382,594	377,611
Total consolidated assets	$1,351,053	$1,289,638

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Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

General

The following discussion and analysis provides information on AWR’s consolidated operations and assets and where necessary, includes specific references to AWR’s individual segments and/or other subsidiaries: GSWC and ASUS and its subsidiaries. Included in the following analysis is a discussion of water and electric gross margins. Water and electric gross margins are computed by taking total revenues, less total supply costs. Registrant uses these gross margins and related percentages as important measures in evaluating its operating results. Registrant believes these measures are useful internal benchmarks in evaluating the performance of GSWC.

The discussions and tables included in the following analysis also present Registrant’s operations in terms of earnings per share by business segment. Registrant believes that the disclosure of earnings per share by business segment provides investors with clarity surrounding the performance of its differing services. Registrant reviews these measurements regularly and compares them to historical periods and to its operating budget.

However, these measures, which are not presented in accordance with Generally Accepted Accounting Principles (“GAAP”), may not be comparable to similarly titled measures used by other entities and should not be considered as an alternative to operating income or earnings per share, which are determined in accordance with GAAP. A reconciliation of water and electric gross margins to the most directly comparable GAAP measures is included in the table under the sections titled “Operating Expenses: Supply Costs.” Reconciliations to AWR’s diluted earnings per share are included in the discussions under the section titled “Summary of Third Quarter Results by Segment” and "Summary of Year-to-Date Results by Segment."

Overview

GSWC’s revenues, operating income and cash flows are earned through delivering potable water to homes and businesses in California and the delivery of electricity in the Big Bear area of San Bernardino County. Rates charged to GSWC customers are determined by the CPUC. These rates are intended to allow recovery of operating costs and a reasonable rate of return on capital. Registrant plans to continue to seek additional rate increases in future years from the CPUC to recover increasing operating and supply costs. Capital expenditures in future years at GSWC are expected to remain at much higher levels than depreciation expense. When necessary, Registrant obtains funds from external sources in the capital markets and through bank borrowings.

ASUS’s revenues, operating income and cash flows are earned by providing water and/or wastewater services, including the operation, maintenance, renewal and replacement of the water and/or wastewater systems, at various military installations pursuant to 50-year firm, fixed-price contracts. The contract price for each of these contracts is subject to prospective price redeterminations. Additional revenues generated by contract operations are primarily dependent on new construction activities under contract modifications or agreements with other third party prime contractors. As a result, ASUS is subject to risks that are different than those of GSWC.

In June 2013, GSWC entered into an agreement to purchase all of the operating assets of Rural Water Company (“Rural”). The transaction is subject to CPUC approval. Rural serves approximately 1,000 customers in the county of San Luis Obispo, California, which is near GSWC's Santa Maria customer service area.
On May 9, 2013, the CPUC issued a final decision on GSWC’s water general rate case approving new rates for 2013 through 2015 at GSWC’s three water regions which include recovery of costs incurred at the general office. The new rates are retroactive to January 1, 2013 and are expected to generate approximately $10 million in additional annual revenues in 2013 as compared to 2012 adopted revenues. The 2013 adopted water gross margin is projected to increase by approximately $14 million, or 6.6%, as compared to the 2012 adopted water gross margin. The new rates

have been reflected in the results of operations for the three and nine months ended September 30, 2013. Among other things, the final decision also reduced the overall composite depreciation rates and approved the recovery of various memorandum accounts which tracked certain costs that were previously expensed as incurred. As a result, during the first quarter of 2013, GSWC recorded a decrease of approximately $3.0 million in certain operating expenses related to the approval of these memorandum accounts in the final decision. During the second quarter of 2013, surcharges were implemented to recover the costs in these memorandum accounts. These surcharges increased water revenues and increased operating expenses by corresponding amounts, resulting in no impact to pretax operating income.

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Summary of Third Quarter Results by Segment

The table below sets forth the third quarter diluted earnings per share by business segment:

	Diluted Earnings per Share Three Months Ended		
	9/30/2013	9/30/2012	CHANGE
Water	$0.42	$0.36	$0.06
Electric	0.01	0.02	(0.01)
Contracted services	0.06	0.10	(0.04)
AWR (parent)	0.04	—	0.04
Consolidated diluted earnings per share, as reported	$0.53	$0.48	$0.05

For the three months ended September 30, 2013, diluted earnings per share from the water segment increased by $0.06 to $0.42 per share, as compared to $0.36 per share for the same period of 2012. Impacting the comparability of the two periods were the following items:

- An increase in the water gross margin of approximately $2.6 million, or $0.04 per share, due primarily to new rates and a new adopted gross margin effective January 1, 2013 approved by the CPUC on May 9, 2013. In addition, there was an increase of $1.5 million in revenues with a corresponding increase in operating expenses, representing new surcharges billed to customers during the three months ended September 30, 2013 to recover previously incurred costs. These surcharges had no impact to net earnings.

- Excluding supply costs and the impact of the $1.5 million surcharges discussed above, operating expenses remained relatively unchanged as compared to the same period last year. Increases in planned maintenance work were largely offset by lower depreciation expense as a result of a decrease in composite rates approved in the water rate case.

- A decrease in the water effective income tax rate for the three months ended September 30, 2013 as compared to the same period in 2012, increasing earnings by $0.02 per share. The change in the tax rate is primarily due to changes between book and taxable income from plant-related items that are treated as flow-through adjustments in accordance with regulatory requirements.

For the three months ended September 30, 2013, diluted earnings from the electric segment were $0.01 per share as compared to $0.02 per share for the same period in 2012 due primarily to an increase in the effective income tax rate as a result of flow-through tax adjustments, which decreased earnings by $0.01 per share as compared to the three months ended September 30, 2012.

For the three months ended September 30, 2013, diluted earnings from contracted services decreased by $0.04 per share as compared to the same period in 2012 due to: (i) an increase in administrative expenses mostly from labor and other employee related benefits, in part, to pursue new military base utility privatization opportunities, and (ii) lower construction activities during the three months ended September 30, 2013 as compared to the same period in 2012 due primarily to excessive rainfall in the month of July 2013 at Fort Bragg and expected slowdown of renewal and replacement capital work at Fort Bliss.

For the three months ended September 30, 2013, diluted earnings from AWR (parent) increased by $0.04 per share as compared to the same period in 2012 resulting primarily from a cumulative tax benefit related to an employee benefit program of approximately $1.5 million recorded during the third quarter of 2013 for deductions taken on recently filed tax returns and amounts expected to be taken on amended income tax returns. Approximately $1.4 million of this benefit relates to periods prior to the third quarter of 2013. It is management's intention to amend tax returns for open years to reflect these deductions which cover a period of 5 years.

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Summary of Year-to-Date Results by Segment

The table below sets forth the year-to-date diluted earnings per share by business segment, as reported:

	Diluted Earnings per Share Nine Months Ended		
	9/30/2013	9/30/2012	CHANGE
Water	$1.00	$0.78	$0.22
Electric	0.06	0.10	(0.04)
Contracted services	0.20	0.27	(0.07)
AWR (parent)	0.05	—	0.05
Consolidated diluted earnings per share, as reported	$1.31	$1.15	$0.16

For the nine months ended September 30, 2013, diluted earnings contributed by the water segment were $1.00 per share as compared to $0.78 per share for the same period in 2012. The significant items in the water segment between the two periods were:

- An increase in the water gross margin of approximately $10.3 million, or $0.15 per share, due primarily to new rates and a new adopted gross margin effective January 1, 2013 approved by the CPUC on May 9, 2013. In addition, there was an increase of $1.8 million in revenues with a corresponding increase in operating expenses, representing new surcharges billed to customers during the nine months ended September 30, 2013 to recover previously incurred costs. As previously mentioned, these surcharges had no impact to net earnings.

- The CPUC's approval of previously incurred operating expenses totaling $2.7 million, or $0.04 per share, in connection with the water general rate case's final decision issued in May 2013. Among other things, the final decision approved the one-time recovery of various memorandum accounts, which tracked certain costs that were previously expensed as incurred. As a result, GSWC recorded regulatory assets for these memorandum accounts with a corresponding reduction in operating expenses during the first quarter of 2013.

- Excluding supply costs, the $1.8 million of surcharges and the impact of the memorandum accounts discussed above, operating expenses decreased by approximately $643,000, or $0.01 per share, due primarily to decreases in: (i) depreciation expense of $1.8 million as a result of lower composite depreciation rates approved in the water rate case, and (ii) operation-related expenses resulting from lower bad debt expense, labor and other employee-related expenses. These decreases were partially offset by increases in: (i) administrative and general expenses resulting from higher legal and other outside services, and workers compensation costs, and (ii) maintenance expense of $1.9 million for planned maintenance work.
- A decrease in the water effective income tax rate for the nine months ended September 30, 2013 as compared to the same period in 2012, increasing earnings by $0.02 per share. The change in the tax rate is primarily due to changes between book and taxable income from plant-related items that are treated as flow-through adjustments in accordance with regulatory requirements.

For the nine months ended September 30, 2013, diluted earnings from the electric segment decreased by $0.04 per share as compared to the same period in 2012. In May 2013, the CPUC approved recovery of legal and outside services costs previously expensed in connection with GSWC's effort to procure renewable resources under the CPUC's renewables portfolio standard (“RPS”). As a result, GSWC recorded an $834,000 reduction in other operating expenses during the first quarter of 2013 as compared to the RPS recovery approved during 2012 of $1.2 million. The difference resulted in a decrease of $416,000 in pretax income, or $0.01 per share for 2013. In addition to the impact of this RPS recovery, there was an increase of $1.1 million, or $0.02 per share, in legal and consulting expenses in connection with the pending general rate case, and a higher effective income tax rate as compared to 2012 negatively impacting earnings by $0.01 per share.

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For the nine months ended September 30, 2013, diluted earnings from contracted services decreased by $0.07 per share as compared to the same period in 2012 due primarily to: (i) a contract modification received in April 2012 for a major water and wastewater pipeline replacement project at Fort Bragg resulting in additional pretax operating income of $820,000, or approximately $0.01 per share, for the nine months ended September 30, 2012, with no similar contract modification received during 2013; (ii) an increase in administrative expenses related to employee related costs and consulting and other outside services costs, in part, to pursue new military base utility privatization opportunities, and (iii) an overall decrease in construction activities and lower profit margin on certain construction projects during the nine months ended September 30, 2013 as compared to the same period in 2012. There was a decrease in construction activities on the major pipeline replacement project at Fort Bragg in North Carolina due to less favorable weather conditions as compared to the first nine months of 2012. As a result, this pipeline project is now expected to be completed in early 2014.

For the nine months ended September 30, 2013, diluted earnings from AWR (parent) increased by $0.05 per share as compared to the same period in 2012 resulting primarily from a cumulative tax benefit related to an employee benefit program of approximately $1.5 million recorded during the third quarter of 2013 for deductions taken on recently filed tax returns and amounts expected to be taken on amended income tax returns. Approximately $1.3 million of this benefit relates to periods prior to the nine months ended September 30, 2013. As previously discussed, it is management's intention to amend tax returns for open years to reflect these deductions which cover a period of 5 years.

The following discussion and analysis provide information on AWR’s consolidated operations and where necessary, includes specific references to AWR’s individual segments and/or other subsidiaries: GSWC and ASUS and its subsidiaries.

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Consolidated Results of Operations — Three Months Ended September 30, 2013 and 2012 (amounts in thousands, except per share amounts):

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	$ CHANGE	% CHANGE
OPERATING REVENUES				
Water	$93,932	$90,976	$2,956	3.2 %
Electric	8,849	8,549	300	3.5 %
Contracted services	28,133	34,368	(6,235)	(18.1)%
Total operating revenues	130,914	133,893	(2,979)	(2.2)%
OPERATING EXPENSES				
Water purchased	19,246	18,874	372	2.0 %
Power purchased for pumping	3,414	3,067	347	11.3 %
Groundwater production assessment	4,656	3,923	733	18.7 %
Power purchased for resale	3,386	2,854	532	18.6 %
Supply cost balancing accounts	(1,003)	1,960	(2,963)	(151.2)%
Other operation	7,185	7,394	(209)	(2.8)%
Administrative and general	20,083	17,734	2,349	13.2 %
Depreciation and amortization	9,753	10,230	(477)	(4.7)%
Maintenance	4,666	4,232	434	10.3 %
Property and other taxes	4,108	3,878	230	5.9 %
ASUS construction	19,256	23,332	(4,076)	(17.5)%
Net gain on sale of property	—	(65)	65	(100)%
Total operating expenses	94,750	97,413	(2,663)	(2.7)%
OPERATING INCOME	36,164	36,480	(316)	(0.9)%
OTHER INCOME AND EXPENSES				
Interest expense	(5,852)	(6,018)	166	(2.8)%
Interest income	185	419	(234)	(55.8)%
Other, net	247	219	28	12.8 %
	(5,420)	(5,380)	(40)	0.7 %
INCOME FROM OPERATIONS BEFORE INCOME TAX EXPENSE	30,744	31,100	(356)	(1.1)%
Income tax expense	9,905	12,436	(2,531)	(20.4)%
NET INCOME	$20,839	$18,664	$2,175	11.7 %
Basic earnings per common share	$0.54	$0.49	$0.05	10.2 %
Fully diluted earnings per common share	$0.53	$0.48	$0.05	10.4 %

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Operating Revenues:

General

Registrant relies upon rate approvals by the CPUC to recover operating expenses and to provide for a return on invested and borrowed capital used to fund utility plant for GSWC. Registrant relies on price redeterminations and equitable adjustments by the U.S. government in order to recover operating expenses and provide a profit margin for ASUS. If adequate rate relief and price redeterminations are not granted in a timely manner, operating revenues and earnings can be negatively impacted. ASUS's earnings have also been positively impacted by additional construction projects at the Military Utility Privatization Subsidiaries.

Water

For the three months ended September 30, 2013, revenues from water operations increased $3.0 million to $93.9 million. The increase in water revenues is primarily due to higher water rates approved by the CPUC effective January 1, 2013 in connection with the general rate case for all three water regions and the general office, as previously discussed. The revenue increase adopted by the CPUC for 2013 is approximately $10 million over 2012 adopted levels. In addition, there was also a $1.5 million increase in surcharges during the three months ended September 30, 2013 to recover previously incurred costs approved by the CPUC. The increase in revenues from these surcharges is offset by a corresponding increase in operating expenses (primarily administrative and general) resulting in no impact to pretax operating income.

Billed water consumption for the third quarter of 2013 decreased by approximately 2.0% as compared to the same period in 2012. A change in consumption does not have a significant impact on earnings due to the CPUC-approved Water Revenue Adjustment Mechanism ("WRAM") account in place in all three water regions. GSWC records the difference between what it bills its water customers and that which is authorized by the CPUC in the WRAM accounts as regulatory assets or liabilities.

Electric

For the three months ended September 30, 2013, revenues from electric operations were $8.8 million as compared to $8.5 million for the same period in 2012. In February 2012, GSWC filed its BVES rate case for rates in years 2013 through 2016. If rates are approved as filed, the rate increases are expected to generate approximately $1.3 million in annual revenues. The CPUC's Office of Ratepayer Advocates ("ORA") has opposed this revenue increase. Alternative dispute resolution meetings with the CPUC are scheduled to be held in December 2013 and a proposed decision is expected in early 2014.

Billed electric usage increased by approximately 3.0% during the three months ended September 30, 2013 as compared to the three months ended September 30, 2012. Due to the CPUC approved Base Revenue Requirement Adjustment Mechanism, which adjusts certain revenues to adopted levels authorized by the CPUC, this change in usage did not have a significant impact on earnings.

Contracted Services

Revenues from contracted services are composed of construction revenues (including renewals and replacements) and management fees for operating and maintaining the water and/or wastewater systems at military bases. For the three months ended September 30, 2013, revenues from contracted services were $28.1 million as compared to $34.4 million for the three months ended September 30, 2012. The decrease was mainly due to lower construction activity at various military bases, particularly at Fort Bliss in Texas and Fort Bragg in North Carolina. This was partially offset by an increase in construction revenues at the military bases in Virginia as compared to the third quarter of 2012.

Contracted services continues to receive U.S. government awarded contract modifications and agreements with third-party prime contractors for new construction projects at the Military Utility Privatization Subsidiaries. During the third quarter of 2013, the U.S. government awarded ASUS approximately $18.5 million in new construction projects, the majority of which are expected to be completed during the next twelve months. Earnings and cash flows from modifications to the original 50-year contracts with the U.S. government and agreements with third-party prime contractors for additional construction projects may or may not continue in future periods.

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Operating Expenses:

Supply Costs

Supply costs for the water segment consist of purchased water, purchased power for pumping, groundwater production assessments and water supply cost balancing accounts. Supply costs for the electric segment consist of purchased power for resale, the cost of natural gas used by BVES' generating unit and the electric supply cost balancing account. Water and electric gross margins are computed by taking total revenues, less total supply costs. Registrant uses these gross margins and related percentages as an important measure in evaluating its operating results. Registrant believes this measure is a useful internal benchmark in evaluating the utility business performance within its water and electric segments. Registrant reviews these measurements regularly and compares them to historical periods and to its operating budget. However, this measure, which is not presented in accordance with GAAP, may not be comparable to similarly titled measures used by other entities and should not be considered as an alternative to operating income, which is determined in accordance with GAAP.

Total supply costs comprise the largest segment of total operating expenses. Supply costs accounted for approximately 31.3% and 31.5% of total operating expenses for the three months ended September 30, 2013 and 2012, respectively.

The table below provides the amount of increases (decreases), percent changes in supply costs, and margins during the three months ended September 30, 2013 and 2012 (dollar amounts in thousands):

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	$ CHANGE	% CHANGE
WATER OPERATING REVENUES (1)	$93,932	$90,976	$2,956	3.2 %
WATER SUPPLY COSTS:				
Water purchased (1)	$19,246	$18,874	$372	2.0 %
Power purchased for pumping (1)	3,414	3,067	347	11.3 %
Groundwater production assessment (1)	4,656	3,923	733	18.7 %
Water supply cost balancing accounts (1)	(1,226)	1,364	(2,590)	(189.9)%
TOTAL WATER SUPPLY COSTS	$26,090	$27,228	$(1,138)	(4.2)%
WATER GROSS MARGIN (2)	$67,842	$63,748	$4,094	6.4 %
PERCENT MARGIN - WATER	72.2 %	70.1 %		
ELECTRIC OPERATING REVENUES (1)	$8,849	$8,549	$300	3.5 %
ELECTRIC SUPPLY COSTS:				
Power purchased for resale (1)	$3,386	$2,854	$532	18.6 %
Electric supply cost balancing accounts (1)	223	596	(373)	(62.6)%
TOTAL ELECTRIC SUPPLY COSTS	$3,609	$3,450	$159	4.6 %
ELECTRIC GROSS MARGIN (2)	$5,240	$5,099	$141	2.8 %
PERCENT MARGIN - ELECTRIC	59.2 %	59.6 %		

(1) As reported on AWR's Consolidated Statements of Income, except for supply cost balancing accounts. The sum of water and electric supply cost balancing accounts in the table above are shown on AWR's Consolidated Statements of Income and totaled $(1,003,000) and $1,960,000 for the three months ended September 30, 2013 and 2012, respectively. Revenues include surcharges, which increase both revenues and operating expenses by corresponding amounts, thus having no net earnings impact.

(2) Water and electric gross margins do not include any depreciation and amortization, maintenance, administrative and general, property or other taxes, or other operation expenses.

Two of the principal factors affecting water supply costs are the amount of water produced and the source of the water. Generally, the variable cost of producing water from wells is less than the cost of water purchased from wholesale suppliers. Under the Modified Cost Balancing Account ("MCBA"), GSWC tracks adopted and actual expense levels for purchased water, power purchased for pumping and pump taxes, as established by the CPUC. GSWC records the variances (which include the effects of changes in both rate and volume) between adopted and actual purchased water, purchased power, and pump tax expenses. GSWC recovers from or refunds to customers the amount of such variances. GSWC tracks these variances individually for each water ratemaking area.

The overall actual percentages of purchased water for the three months ended September 30, 2013 and 2012 were 36.9% and 39.2%, respectively, as compared to the adopted percentages of approximately 37.6% and 43.8%, respectively. The overall water gross margin percent was approximately 72.2% in the third quarter of 2013 as compared to 70.1% for the same period of 2012. This increase is due to higher water rates and a new adopted water gross margin, and as previously discussed, the $1.5 million of surcharges which have a corresponding increase to operating expenses resulting in no impact to net earnings.

Purchased water costs for the three months ended September 30, 2013 increased to $19.2 million as compared to $18.9 million for the same period in 2012 primarily due to increases in wholesale water costs as compared to the three months ended September 30, 2012. These increases were partially offset by a decrease in customer usage.

For the three months ended September 30, 2013 and 2012, the cost of power purchased for pumping was approximately $3.4 million and $3.1 million, respectively, primarily due to increases in pumped water and average electric costs. Groundwater production assessments increased $733,000 due to additional assessments levied as compared to the three months ended September 30, 2012.

The water supply cost balancing account decreased $2.6 million during the three months ended September 30, 2013 as compared to the same period in 2012, due to an overall lower total adopted water supply cost for 2013 and an increase in groundwater production assessments.

For the three months ended September 30, 2013, the cost of power purchased for resale to customers in GSWC’s BVES division increased to $3.4 million as compared to $2.9 million for the three months ended September 30, 2012, due largely to an increase in the average price per megawatt-hour (“MWh”) from $65.21 per MWh for the three months ended September 30, 2012 to $66.62 for the same period in 2013. There was also a 3.0% increase in usage as compared to the three months ended September 30, 2012. The electric supply cost balancing account decreased by $373,000 due to the increase in average price per MWh.

Other Operation

The primary components of other operation expenses for GSWC include payroll, materials and supplies, chemicals and water treatment costs, and outside service costs of operating the regulated water systems, including the costs associated with water transmission and distribution, pumping, water quality, meter reading, billing, and operations of district offices. Registrant’s electric and contracted services operations incur many of the same types of expenses as well. For the three months ended September 30, 2013 and 2012, other operation expenses by business segment consisted of the following (dollar amounts in thousands):

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	$ CHANGE	% CHANGE
Water Services	$5,938	$6,244	$(306)	(4.9)%
Electric Services	568	615	(47)	(7.6)%
Contracted Services	679	535	144	26.9%
Total other operation	$7,185	$7,394	$(209)	(2.8)%

For the three months ended September 30, 2013, other operation expenses for water services decreased by $306,000 due to a decrease of $534,000 in conservation costs and $62,000 in miscellaneous other operation expenses. These decreases were partially offset by a $150,000 increase in chemical treatment cost and $140,000 in labor costs.

For the three months ended September 30, 2013, other operation expenses for contracted services increased by $144,000 due primarily to increases in labor costs charged to other operation expenses.

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Administrative and General

Administrative and general expenses include payroll related to administrative and general functions, the related employee benefits, insurance expenses, outside legal and consulting fees, regulatory utility commission expenses, expenses associated with being a public company, and general corporate expenses charged to expense accounts. For the three months ended September 30, 2013 and 2012, administrative and general expenses by business segment, including AWR (parent), consisted of the following (dollar amounts in thousands):

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	$ CHANGE	% CHANGE
Water Services	$14,595	$13,113	$1,482	11.3 %
Electric Services	2,412	1,880	532	28.3 %
Contracted Services	3,072	2,715	357	13.1 %
AWR (parent)	4	26	(22)	(84.6)%
Total administrative and general	$20,083	$17,734	$2,349	13.2 %

For the three months ended September 30, 2013, administrative and general expenses for water services increased $1.5 million to $14.6 million as compared to $13.1 million for the same period in 2012. This increase is due primarily to the recovery, through surcharges, of various administrative and general costs previously incurred, but approved by the CPUC in the water rate case in May 2013. As these costs are recovered in revenue through surcharges, a corresponding dollar amount is recorded to the various administrative and general expenses. These surcharges included in revenues and the corresponding operating expenses have no impact on pretax operating income. During the third quarter of 2013, approximately $1.2 million in surcharges were billed to customers, with a corresponding increase recorded primarily to legal, other outside services, and pension cost associated with the recovery of the pension balancing account authorized by the CPUC.

Excluding the effect of these surcharges, administrative and general expenses for water services increased by $262,000 during the three months ended September 30, 2013 due primarily to increases in workers' compensation costs of $222,000, and labor and other employee benefit costs of $197,000. These increases were partially offset by a $157,000 decrease in other miscellaneous administrative and general expenses.

For the three months ended September 30, 2013, administrative and general expenses for electric services increased by $532,000 as compared to the three months ended September 30, 2012 due primarily to increases of $253,000 in general office expense allocation in accordance with the approved water rate case and $231,000 in additional legal and other outside services incurred primarily for the pending general rate case.

For the three months ended September 30, 2013, administrative and general expenses for contracted services increased by $357,000 due to: (i) a $155,000 increase in general office expense allocation; (ii) a $122,000 increase in legal and outside service costs, and (iii) a $147,000 increase in labor and other employee related benefits. There was an increase in the number of employees in connection with pursuing new military utility privatization opportunities. These increases were partially offset by a decrease of $67,000 in miscellaneous other administrative and general expenses.

Depreciation and Amortization

For the three months ended September 30, 2013 and 2012 depreciation and amortization by business segment consisted of the following (dollar amounts in thousands):

			$	%

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	CHANGE	CHANGE
Water Services	$8,900	$9,405	$(505)	(5.4)%
Electric Services	574	536	38	7.1%
Contracted Services	279	289	(10)	(3.5)%
Total depreciation and amortization	$9,753	$10,230	$(477)	(4.7)%

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For the three months ended September 30, 2013, depreciation and amortization expense for water and electric services decreased overall by $467,000 to $9.5 million compared to $9.9 million for the three months ended September 30, 2012 due primarily to lower depreciation composite rates approved by the CPUC in the water rate case finalized in May 2013. Overall, composite rates for the water services segment decreased from 3.7% in 2012 to 3.4% for 2013. The decrease resulting from lower depreciation rates was partially offset by approximately $61.0 million of additions to utility plant during 2012.

Maintenance

For the three months ended September 30, 2013 and 2012, maintenance expense by business segment consisted of the following (dollar amounts in thousands):

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	$ CHANGE	% CHANGE
Water Services	$4,031	$3,590	$441	12.3 %
Electric Services	208	211	(3)	(1.4)%
Contracted Services	427	431	(4)	(0.9)%
Total maintenance	$4,666	$4,232	$434	10.3 %

Maintenance expense for water services increased by $441,000 due primarily to planned maintenance work performed in GSWC's Region II and Region III. Maintenance expense for water services is expected to remain higher than 2012 levels for the remainder of 2013.

Property and Other Taxes

For the three months ended September 30, 2013 and 2012, property and other taxes by business segment consisted of the following (dollar amounts in thousands):

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	$ CHANGE	% CHANGE
Water Services	$3,358	$3,108	$250	8.0 %
Electric Services	214	249	(35)	(14.1)%
Contracted Services	536	521	15	2.9 %
Total property and other taxes	$4,108	$3,878	$230	5.9 %

Property and other taxes for water services for the three months ended September 30, 2013 increased $250,000 due to increases in franchise fees and payroll taxes.

ASUS Construction

For the three months ended September 30, 2013, construction expenses for contracted services were $19.3 million, decreasing $4.1 million compared to the same period in 2012 due primarily to lower construction activity at most of the military bases as compared to the same period in 2012. This was partially offset by an increase in construction activities at the military bases in Virginia as compared to the third quarter of 2012.

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Interest Expense

For the three months ended September 30, 2013 and 2012, interest expense by business segment, including AWR (parent) consisted of the following (dollar amounts in thousands):

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	$ CHANGE	% CHANGE
Water Services	$5,442	$5,548	$(106)	(1.9)%
Electric Services	373	411	(38)	(9.2)%
Contracted Services	77	56	21	37.5 %
AWR (parent)	(40)	3	(43)	(1,433.3)%
Total interest expense	$5,852	$6,018	$(166)	(2.8)%

Overall, interest expense decreased by 2.8% due primarily to GSWC's redemption of $8.0 million of its 7.55% notes in October 2012.

Interest Income

For the three months ended September 30, 2013 and 2012, interest income by business segment, including AWR (parent), consisted of the following (dollar amounts in thousands):

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	$ CHANGE	% CHANGE
Water Services	$145	$370	$(225)	(60.8)%
Electric Services	3	14	(11)	(78.6)%
Contracted Services	6	32	(26)	(81.3)%
AWR (parent)	31	3	28	933.3 %
Total interest income	$185	$419	$(234)	(55.8)%

Overall, interest income decreased by $234,000 for the three months ended September 30, 2013 due primarily to refund claims with the Internal Revenue Service recorded during the three months ended September 30, 2012. These refunds were collected during the first quarter of 2013.

Income Tax Expense

For the three months ended September 30, 2013 and 2012, income tax expense by business segment, including AWR (parent), consisted of the following (dollar amounts in thousands):

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	$ CHANGE	% CHANGE
Water Services	$9,812	$9,795	$17	0.2 %
Electric Services	439	235	204	86.8 %
Contracted Services	1,343	2,493	(1,150)	(46.1)%
AWR (parent)	(1,689)	(87)	(1,602)	1,841.4 %
Total income tax expense	$9,905	$12,436	$(2,531)	(20.4)%

For the three months ended September 30, 2013, income tax expense for water and electric services increased to $10.3 million compared to $10.0 million for the three months ended September 30, 2012 due primarily to an increase in pretax income. The effective tax rate ("ETR") for GSWC was 38.2% for the three months ended September 30, 2013 as compared to 40.8% applicable to the three months ended September 30, 2012. The ETR deviates from the federal statutory rate primarily due to state

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taxes and differences between book and taxable income that are treated as flow-through adjustments in accordance with regulatory requirements (primarily related to plant, rate-case and compensation items). Flow-through adjustments increase or decrease tax expense in one period, with an offsetting decrease or increase occurring in another period.

For the three months ended September 30, 2013, income tax expense for contracted services decreased to $1.3 million as compared to $2.5 million for the three months ended September 30, 2012 due to a decrease in pretax income. The ETR was 35.2% and 38.2% for the three months ended September 30, 2013 and 2012, respectively. The change in ETR was due to differences between book and taxable income related to certain permanent items.

For the three months ended September 30, 2013, income tax expense at AWR (parent) decreased by $1.6 million as compared to the three months ended September 30, 2012 resulting primarily from a cumulative tax benefit of approximately $1.5 million recorded during the third quarter of 2013 for deductions taken on recently filed tax returns and amounts expected to be taken on amended income tax returns. Approximately $1.4 million of this tax benefit related to periods prior to the third quarter of 2013. It is management's intention to amend tax returns for open years to reflect these deductions which cover a period of 5 years. As a result, AWR's consolidated ETR was 32.2% for the three months ended September 30, 2013 as compared to 40.0% in the same period of 2012.

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Consolidated Results of Operations — Nine Months Ended September 30, 2013 and 2012 (amounts in thousands, except per share amounts):

	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012	$ CHANGE	% CHANGE
OPERATING REVENUES				
Water	$247,234	$238,334	$8,900	3.7%
Electric	27,980	27,735	245	0.9%
Contracted services	86,947	89,298	(2,351)	(2.6)%
Total operating revenues	362,161	355,367	6,794	1.9%
OPERATING EXPENSES				
Water purchased	46,648	42,257	4,391	10.4%
Power purchased for pumping	7,385	6,642	743	11.2%
Groundwater production assessment	11,666	11,228	438	3.9%
Power purchased for resale	9,894	8,725	1,169	13.4%
Supply cost balancing accounts	(9)	9,560	(9,569)	(100.1)%
Other operation	19,158	21,671	(2,513)	(11.6)%
Administrative and general	56,103	52,626	3,477	6.6%
Depreciation and amortization	29,337	31,127	(1,790)	(5.8)%
Maintenance	13,513	11,415	2,098	18.4%
Property and other taxes	12,004	11,699	305	2.6%
ASUS construction	59,053	58,513	540	0.9%
Net gain on sale of property	(12)	(68)	56	(82.4)%
Total operating expenses	264,740	265,395	(655)	(0.2)%
OPERATING INCOME	97,421	89,972	7,449	8.3%
OTHER INCOME AND EXPENSES				
Interest expense	(17,398)	(17,808)	410	(2.3)%
Interest income	512	1,129	(617)	(54.7)%
Other, net	673	435	238	54.7%
	(16,213)	(16,244)	31	(0.2)%
INCOME FROM OPERATIONS BEFORE INCOME TAX EXPENSE	81,208	73,728	7,480	10.1%
Income tax expense	30,302	29,871	431	1.4%
NET INCOME	$50,906	$43,857	$7,049	16.1%
Basic earnings per common share	$1.31	$1.15	$0.16	13.9%
Fully diluted earnings per common share	$1.31	$1.15	$0.16	13.9%

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Operating Revenues:

Water

For the nine months ended September 30, 2013, revenues from water operations increased $8.9 million to $247.2 million, as compared to $238.3 million for the nine months ended September 30, 2012. The increase in water revenues is primarily due to higher water rates approved by the CPUC effective January 1, 2013 in connection with the general rate case for all three water regions and the general office, as previously discussed. The revenue increase adopted by the CPUC for 2013 is approximately $10 million over 2012 adopted levels. In addition, there was an increase of $1.8 million in surcharges billed during the nine months ended September 30, 2013 to recover previously incurred costs approved by the CPUC. The increase in revenues from these surcharges is offset by a corresponding increase in operating expenses (primarily administrative and general) resulting in no impact to pretax operating income.

Billed water consumption for the first nine months of 2013 increased by approximately 1.0% as compared to the same period in 2012. A change in consumption does not have a significant impact on earnings due to the CPUC-approved WRAM account in place for all three water regions. GSWC records the difference between what it bills its water customers and that which is authorized by the CPUC in the WRAM accounts as regulatory assets or liabilities.

Electric

For the nine months ended September 30, 2013, revenues from electric operations increased slightly to $28.0 million compared to $27.7 million for the same period in 2012. In February 2012, GSWC filed its BVES rate case for rates in years 2013 through 2016. If rates are approved as filed, the rate increases are expected to generate approximately $1.3 million in annual revenues. ORA has opposed this revenue increase. Alternative dispute resolution meetings for this GRC are scheduled to be held in December 2013 and a proposed decision is expected in early 2013.

Billed electric usage increased by 2.4% during the nine months ended September 30, 2013 as compared to the nine months ended September 30, 2012. Due to the CPUC-approved Base Revenue Requirement Adjustment Mechanism, which adjusts certain revenues to adopted levels authorized by the CPUC, this change in usage did not have a significant impact on earnings.

Contracted Services

For the nine months ended September 30, 2013, revenues from contracted services were $86.9 million as compared to $89.3 million for the nine months ended September 30, 2012. Construction revenues decreased due to lower construction activities compared to the same period last year, primarily associated with a major water and wastewater project at Fort Bragg in North Carolina. This project experienced favorable weather during the first several months in 2012, which allowed for more construction work to be performed during that period. The decrease in construction activity on this project is partially offset by various other capital upgrade work being performed at Fort Bragg and the military bases in Virginia.

Contracted services continues to receive U.S. government awarded contract modifications and agreements with third-party prime contractors for new construction projects at the military bases. During the third quarter of 2013, the U.S. government awarded ASUS approximately $18.5 million in new construction projects, the majority of which are expected to be completed during the next twelve months. Earnings and cash flows from modifications to the original 50-year contracts with the U.S. government and agreements with third-party prime contractors for additional construction projects may or may not continue in future periods.

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Operating Expenses:

Supply Costs

Total supply costs comprise the largest segment of total operating expenses. Supply costs accounted for approximately 28.6% and 29.5% of total operating expenses for the nine months ended September 30, 2013 and 2012, respectively.

The table below provides the amount of increases (decreases), percent changes in supply costs, and margins during the nine months ended September 30, 2013 and 2012 (amounts in thousands):

	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012	$ CHANGE	% CHANGE
WATER OPERATING REVENUES (1)	$247,234	$238,334	$8,900	3.7 %
WATER SUPPLY COSTS:				
Water purchased (1)	$46,648	$42,257	$4,391	10.4 %
Power purchased for pumping (1)	7,385	6,642	743	11.2 %
Groundwater production assessment (1)	11,666	11,228	438	3.9 %
Water supply cost balancing accounts (1)	(1,787)	6,969	(8,756)	(125.6)%
TOTAL WATER SUPPLY COSTS	$63,912	$67,096	$(3,184)	(4.7)%
WATER GROSS MARGIN (2)	$183,322	$171,238	$12,084	7.1 %
PERCENT MARGIN - WATER	74.1 %	71.8 %		
ELECTRIC OPERATING REVENUES (1)	$27,980	$27,735	$245	0.9 %
ELECTRIC SUPPLY COSTS:				
Power purchased for resale (1)	$9,894	$8,725	$1,169	13.4 %
Electric supply cost balancing accounts (1)	1,778	2,591	(813)	(31.4)%
TOTAL ELECTRIC SUPPLY COSTS	$11,672	$11,316	$356	3.1 %
ELECTRIC GROSS MARGIN (2)	$16,308	$16,419	$(111)	(0.7)%
PERCENT MARGIN - ELECTRIC	58.3 %	59.2 %		

(1) As reported on AWR’s Consolidated Statements of Income, except for supply cost balancing accounts. The sum of water and electric supply cost balancing accounts in the table above are shown on AWR’s Consolidated Statements of Income and totaled $(9,000) and $9.6 million for the nine months ended September 30, 2013 and 2012, respectively. Revenues include surcharges, which increase both revenues and operating expenses by corresponding amounts, thus having no net earnings impact.

(2) Water and electric gross margins do not include any depreciation and amortization, maintenance, administrative and general, property or other taxes, or other operation expenses.

The overall actual percentages of purchased water for the nine months ended September 30, 2013 and 2012 were 35.8% and 35.5%, respectively, as compared to adopted percentages of 35.7% and 42.1%, respectively. The overall water gross margin percent was approximately 74.1% for the nine months ended September 30, 2013 as compared to 71.8% in the same period of 2012 resulting primarily from higher water rates and the new adopted water gross margin, and as previously discussed, the $1.8 million of surcharges which have a corresponding increase to operating expenses resulting in no impact to net earnings.

Purchased water costs for the nine months ended September 30, 2013 increased to $46.6 million as compared to $42.3 million for the same period in 2012 due primarily to an increase in supply mix as well as higher wholesale water costs as compared to the nine months ended September 30, 2012.

For the nine months ended September 30, 2013 and 2012, the cost of power purchased for pumping was approximately $7.4 million and $6.6 million, respectively, due primarily to an increase in average electric rates. Groundwater production assessments increased $438,000 due to additional assessments levied as compared to the nine months ended September 30, 2012.

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The water supply cost balancing account decreased $8.8 million during the nine months ended September 30, 2013 as compared to the same period in 2012, due to an overall lower total adopted water supply cost for 2013 and an increase in purchased water as discussed above, resulting in an under-collection recorded in the MCBA for the nine months ended September 30, 2013.

For the nine months ended September 30, 2013, the cost of power purchased for resale to customers in GSWC's BVES division increased to $9.9 million as compared to $8.7 million for the nine months ended September 30, 2012 due to an increase in customer usage, as well as an increase in the average price per MWh from $61.75 per MWh for the nine months ended September 30, 2012 to $64.72 for the same period in 2013. The electric supply cost balancing account decreased by $813,000 due to the increase in average cost per MWh.

Other Operation

The primary components of other operation expenses for GSWC include payroll, materials and supplies, chemicals and water treatment costs, and outside service costs of operating the regulated water systems, including the costs associated with water transmission and distribution, pumping, water quality, meter reading, billing, and operations of district offices. Registrant's electric and contracted services operations incur many of the same types of expenses as well. For the nine months ended September 30, 2013 and 2012, other operation expenses by business segment consisted of the following (dollar amounts in thousands):

	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012	$ CHANGE	% CHANGE
Water Services	$15,431	$17,932	$(2,501)	(13.9)%
Electric Services	1,714	1,778	(64)	(3.6)%
Contracted Services	2,013	1,961	52	2.7%
Total other operation	$19,158	$21,671	$(2,513)	(11.6)%

For the nine months ended September 30, 2013, other operation expenses for water services decreased by $2.5 million. This decrease was partially due to the CPUC's final decision issued in May 2013 on the water rate case, which approved among other things, the recovery of $1.0 million of certain other operation costs that were being tracked in memorandum accounts and which had previously been expensed as incurred. As a result of the final decision, GSWC recorded additional regulatory assets with a corresponding reduction in other operation expenses for the nine months ended September 30, 2013. In addition, there were also decreases in: (i) labor of $215,000 due to fewer employees; (ii) bad debt expense of $583,000, and (iii) conservation costs of $947,000. These decreases were partially offset by increased water treatment and other miscellaneous operation expenses.

Administrative and General

Administrative and general expenses include payroll related to administrative and general functions, the related employee benefits, insurance expenses, outside legal and consulting fees, regulatory utility commission expenses, expenses associated with being a public company, and general corporate expenses charged to expense accounts. For the nine months ended September 30, 2013 and 2012, administrative and general expenses by business segment, including AWR (parent), consisted of the following (dollar amounts in thousands):

	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012	$ CHANGE	% CHANGE
Water Services	$40,175	$39,659	$516	1.3%

Electric Services	6,232	4,700	1,532	32.6 %
Contracted Services	9,685	8,146	1,539	18.9 %
AWR (parent)	11	121	(110)	(90.9)%
Total administrative and general	$56,103	$52,626	$3,477	6.6 %

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For the nine months ended September 30, 2013, administrative and general expenses increased by $516,000 in water services compared to the nine months ended September 30, 2012 due, in large part, to the CPUC's final decision on the water rate case which approved the recovery of $1.7 million in certain administrative and general costs that were being tracked in memorandum accounts and had previously been expensed as incurred. As a result of the final decision, GSWC recorded additional regulatory assets for these memorandum accounts with a corresponding reduction to administrative and general expenses during the first quarter of 2013. During the second quarter of 2013, surcharges were implemented to recover these and other costs such as pension. Approximately $1.4 million of surcharges related to these memo accounts and the pension balancing account were recorded with a corresponding increase to administrative and general expenses during the nine months ended September 30, 2013. As previously discussed, these surcharges and additional administrative and general expenses have no impact on pretax operating income. Finally, the CPUC's final decision also decreased transportation expenses by approximately $407,000 as a result of a lower composite depreciation rate used for GSWC's vehicles. Depreciation expense on vehicles is included in transportation expenses in accordance with CPUC guidelines.

Excluding the impact from the final decision and surcharges discussed above, administrative and general expenses for water services increased by approximately $1.2 million due primarily to an increase of $1.3 million in legal and other outside services costs and $726,000 in workers' compensation costs. These increases were partially offset by a decrease of $800,000 resulting primarily from a decrease in general office expense allocation to the water segment in accordance with the approved water rate case.

For the nine months ended September 30, 2013, administrative and general expenses for electric services increased by $1.5 million as compared to the nine months ended September 30, 2012 due, in part, to the CPUC's approval in March 2012 for recovery of $1.2 million in legal and outside services for costs incurred for renewable energy resources, which had previously been expensed as incurred; while in 2013, $834,000 was filed and approved, a difference of $416,000. In addition, there were increases of: (i) $458,000 in additional legal and other outside services incurred primarily for the pending general rate case, and (ii) $541,000 in general office expense allocation to the electric segment in accordance with the approved water rate case.

For the nine months ended September 30, 2013, administrative and general expenses for contracted services is higher by $1.5 million compared to the same period in 2012, due primarily to an increase of: (i) approximately $1.0 million in labor and other employee related benefits resulting mostly from an increase in the number of employees, and (ii) $431,000 in consulting and other outside services costs. These increases are, in part, due to the pursuit of new military base utility privatization opportunities with the U.S. government. Legal and outside services tend to fluctuate and are expected to continue to fluctuate.

Depreciation and Amortization

For the nine months ended September 30, 2013 and 2012 depreciation and amortization by business segment consisted of the following (dollar amounts in thousands):

	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012	$ CHANGE	% CHANGE
Water Services	$26,739	$28,527	$(1,788)	(6.3)%
Electric Services	1,741	1,756	(15)	(0.9)%
Contracted Services	857	844	13	1.5%
Total depreciation and amortization	$29,337	$31,127	$(1,790)	(5.8)%

For the nine months ended September 30, 2013, depreciation and amortization expense for water and electric services decreased by $1.8 million to $28.5 million compared to $30.3 million for the nine months ended September 30, 2012 due primarily to lower depreciation composite rates as approved by the CPUC in the water rate case finalized in May 2013. Overall, composite rates for the water services segment decreased from 3.7% in 2012 to 3.4% for the nine months ended September 30, 2013. The decrease resulting from lower depreciation rates was partially offset by approximately $61.0 million of additions to utility plant during 2012.

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Maintenance

For the nine months ended September 30, 2013 and 2012, maintenance expense by business segment consisted of the following (dollar amounts in thousands):

	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012	$ CHANGE	% CHANGE
Water Services	$11,465	$9,567	$1,898	19.8 %
Electric Services	632	531	101	19.0 %
Contracted Services	1,416	1,317	99	7.5 %
Total maintenance	$13,513	$11,415	$2,098	18.4 %

Maintenance expense for water services increased by $1.9 million due primarily to planned maintenance work performed in GSWC's Region II and Region III. Maintenance expense for water services is expected to remain higher than 2012 levels for the remainder of 2013.

Maintenance expense for electric services increased during the nine months ended September 30, 2013 as compared to the same period of 2012 in connection with expenses for tree trimming required by the CPUC.

Maintenance expense for contracted services increased during the nine months ended September 30, 2013 primarily due to increases in outside services costs, partially offset by a decrease in labor and related employee expenses charged to maintenance expenses.

Property and Other Taxes

For the nine months ended September 30, 2013 and 2012, property and other taxes by business segment consisted of the following (dollar amounts in thousands):

	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012	$ CHANGE	% CHANGE
Water Services	$9,956	$9,745	$211	2.2 %
Electric Services	707	709	(2)	(0.3)%
Contracted Services	1,341	1,245	96	7.7 %
Total property and other taxes	$12,004	$11,699	$305	2.6 %

For the nine months ended September 30, 2013, property and other taxes for water services increased by $211,000 primarily due to increases in payroll and property related taxes.

For the nine months ended September 30, 2013, property and other taxes for contracted services increased by $96,000 due to an increase in gross receipts tax in connection with increased construction activity at the military bases in Virginia as compared to the same period in 2012.

ASUS Construction

For the nine months ended September 30, 2013, construction expenses for contracted services were $59.1 million, increasing $540,000 compared to the same period in 2012 due primarily to an increase in new capital upgrade activities at Fort Bragg in North Carolina and the military bases in Virginia, as well as an increase in renewal and replacement work at Fort Bliss in Texas and Fort Jackson in South Carolina under the respective terms of the 50-year contracts with the U.S. government. These increases were partially offset by a decrease in construction activity on a major water and wastewater pipeline replacement program at Fort Bragg primarily due to less favorable weather conditions for the nine months ended September 30, 2013 compared to the same period in 2012, as previously discussed.

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Interest Expense

For the nine months ended September 30, 2013 and 2012, interest expense by business segment, including AWR (parent) consisted of the following (dollar amounts in thousands):

	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012	$ CHANGE	% CHANGE
Water Services	$16,166	$16,425	$(259)	(1.6)%
Electric Services	1,123	1,223	(100)	(8.2)%
Contracted Services	232	155	77	49.7 %
AWR (parent)	(123)	5	(128)	(2,560.0)%
Total interest expense	$			