AMERICAN STATES WATER CO
Form 10-K
March 12, 2010
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS

PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

(Mark One)

x **Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2009 or**

o **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	Registrant, State of Incorporation Address, Zip Code and Telephone Number	IRS Employer Identification No.
001-14431	**American States Water Company** (Incorporated in California) 630 E. Foothill Boulevard, San Dimas, CA 91773-1212 (909) 394-3600	95-4676679
001-12008	**Golden State Water Company** (Incorporated in California) 630 E. Foothill Boulevard, San Dimas, CA 91773-1212 (909) 394-3600	95-1243678

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
American States Water Company Common Shares	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

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

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

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

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 o

Golden State Water Company	Yes x No o

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).

American States Water Company	Yes o No o
Golden State Water Company	Yes o No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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 o	Accelerated filer x	Non-accelerated filer o	Smaller reporting company o

Golden State Water Company

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

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 o No x
Golden State Water Company	Yes o No x

The aggregate market value of the total voting common stock held by non-affiliates of American States Water Company was approximately $640,463,000 and $627,138,000 on June 30, 2009 and March 10, 2010, respectively. The closing price per Common Share on March 10, 2010, as quoted in the *The Wall Street Journal website*, was $33.80. As of March 10, 2010, the number of Common Shares of American States Water Company outstanding was 18,554,364. As of that same date, American States Water Company owned all 134 outstanding Common Shares of Golden State Water Company. The aggregate market value of the total voting stock held by non-affiliates of Golden State Water Company was zero on June 30, 2009 and March 10, 2010.

Golden State Water Company meets the conditions set forth in General Instruction I(1) and (2) of Form 10-K and is therefore filing this Form, in part, with the reduced disclosure format for Golden State Water Company.

Documents Incorporated by Reference:

Portions of the Proxy Statement of American States Water Company will be subsequently filed with the Securities and Exchange Commission as to Part III, Item Nos. 10, 11, 13 and 14 and portions of Item 12, in each case as specifically referenced herein.

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AMERICAN STATES WATER COMPANY
and

GOLDEN STATE WATER COMPANY

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PART I

Item 1. Business

This annual report on Form 10-K is a combined report being filed by two separate Registrants: American States Water Company (hereinafter AWR), and Golden State Water Company (hereinafter GSWC). 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.

AWR makes its periodic reports, Form 10-Q and Form 10-K, and current reports, Form 8-K, available free of charge through its website, www.aswater.com, as soon as material is electronically filed with or furnished to the Securities and Exchange Commission (SEC). Such reports are also available on the SEC s internet website at http://www.sec.gov. AWR also makes available free of charge its code of business conduct and ethics, its corporate governance guidelines and the charters of its Nominating and Governance Committee, its Compensation Committee, and its Audit and Finance Committee through its website or by calling (800) 999-4033. AWR and GSWC have filed the certification of officers required by Section 302 of the Sarbanes-Oxley Act as Exhibits 31.1 and 31.2 to its Form 10-K for the year ended December 31, 2009.

General

AWR is the parent company of GSWC, Chaparral City Water Company (CCWC) 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)). AWR was incorporated as a California corporation in 1998 as a holding company. AWR has three reportable segments: water, electric and contracted services. Within the segments, AWR has three principal business units: water and electric service utility operations conducted through GSWC, a water service utility operation conducted through CCWC, and contracted services conducted through ASUS and its subsidiaries. FBWS, TUS, ODUS, PSUS and ONUS may be referred to herein collectively as the Military Utility Privatization Subsidiaries.

GSWC is a California public utility company engaged principally in the purchase, production and distribution of water. GSWC also distributes electricity in one customer service area. GSWC is regulated by the California Public Utilities Commission (CPUC) and was incorporated as a California corporation on December 31, 1929. GSWC is organized into one electric customer service area and three water service regions operating within 75 communities in 10 counties in the State of California and provides water service in 21 customer service areas. Region I consists of 7 customer service areas in northern and central California; Region II consists of 4 customer service areas located in Los Angeles County; and Region III consists of 10 customer service areas in eastern Los Angeles County, and in Orange, San Bernardino and Imperial counties. GSWC also provides electric service to the City of Big Bear Lake and surrounding areas in San Bernardino County through its Bear Valley Electric Service (BVES) division.

GSWC served 254,998 water customers and 23,234 electric customers at December 31, 2009, or a total of 278,232 customers, compared with 254,482 water customers and 23,172 electric customers, or a total of 277,654 customers at December 31, 2008. GSWC s utility operations exhibit seasonal trends. Although GSWC s water utility operations have a diversified customer base, residential and commercial customers account for the majority of GSWC s water sales and revenues. Revenues derived from commercial and residential water customers accounted for approximately 90% of total water revenues for the years ended December 31, 2009, 2008 and 2007.

GSWC has also been pursuing opportunities to provide retail water services within the service area of the Natomas Central Mutual Water Company (Natomas). Natomas is a California mutual water company which currently provides water service to its shareholders, primarily for agricultural irrigation in portions of Sacramento and Sutter counties in northern California. GSWC and Natomas have entered into various agreements including the purchase of certain water and water rights that may allow GSWC the ability to serve portions of Sutter County in the future.

CCWC is an Arizona public utility company serving 13,406 customers as of December 31, 2009, compared with 13,423 customers at December 31, 2008. Located in the town of Fountain Hills, Arizona and a portion of the City of Scottsdale, Arizona, the majority of CCWC s customers are residential. The Arizona Corporation Commission (ACC) regulates CCWC.

ASUS, through its wholly-owned subsidiaries, has contracted with the U.S. government to provide water and/or wastewater services, including the operation, maintenance, renewal and replacement of the water and/or wastewater systems, pursuant to 50-year fixed price contracts. Each of the contracts with the U.S. government may be subject to termination, in whole or in part, prior to the end of the 50-year term for convenience of the U.S. government or as a result of default or nonperformance by the subsidiary performing the contract. In either event, each Military Utility Privatization Subsidiary so impacted should be entitled to recover the remaining amount of its capital investment pursuant

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to the terms of a termination settlement with the U.S. government at the time of termination as provided in the contract. The contract price for each of these contracts is subject to redetermination two years after commencement of operations and every three years thereafter under the terms of the contract. Prices are subject to equitable adjustment based upon changes in circumstances, changes in laws and/or regulations, and changes in wages and fringe benefits to the extent provided in each of the contracts. AWR guarantees performance of ASUS military privatization contracts. Pursuant to the terms of these contracts, the Military Utility Privatization Subsidiaries operate, as of the effective date of their respective contracts, the following water and wastewater systems:

- FBWS - water and wastewater systems at Fort Bliss located near El Paso, Texas and extending into southeastern New Mexico effective October 1, 2004;
- TUS - water and wastewater systems at Andrews Air Force Base in Maryland effective February 1, 2006;
- ODUS - wastewater systems at Fort Lee in Virginia effective February 23, 2006 and the water and wastewater systems at Fort Eustis, Fort Monroe and Fort Story in Virginia effective April 3, 2006;
- PSUS - water and wastewater systems at Fort Jackson in South Carolina effective February 16, 2008; and
- ONUS - water and wastewater systems at Fort Bragg, Pope Air Force Base and Camp MacKall, North Carolina effective March 1, 2008.

Certain financial information for each of AWR s business segments - water distribution, electric distribution, and contracted services - is set forth in Note 16 to the Notes to Consolidated Financial Statements of American States Water Company and its subsidiaries. AWR s water and electric distribution segments are not dependent upon a single or only a few customers. The U.S. government is the largest customer for ASUS contracted services.

The revenue from most of AWR s business segments is seasonal. The impact of seasonality on AWR s businesses is discussed in more detail in Item 1A *Risk Factors.*

Environmental matters and compliance with such laws and regulations are discussed in detail in Item 7 *Management s Discussion and Analysis of Financial Condition and Results of Operations* under the section titled Environmental Matters.

Competition

The businesses of GSWC and CCWC are substantially free from direct and indirect competition with other public utilities, municipalities and other public agencies within their existing service territories. GSWC and CCWC compete with governmental agencies and other investor-owned utilities in connection with offering service to new real estate developments on the basis of financial terms, availability of water and ability to commence providing service on a timely basis. AWR s other subsidiary, ASUS, actively competes for business with other investor-owned utilities, other third party providers of water and/or wastewater services, and governmental entities on the basis of price and quality of service.

Employee Relations

GSWC had 582 employees as of December 31, 2009 as compared to 569 at December 31, 2008. Nineteen positions in GSWC s Bear Valley Electric customer service area are covered by a collective bargaining agreement with the International Brotherhood of Electrical Workers, which expired in 2009. GSWC is currently in negotiations with this union on a new agreement. Sixty-three employees in GSWC s Region II ratemaking district are covered by a collective bargaining agreement with the Utility Workers Union of America, which expires in 2011. GSWC has no other unionized employees.

AWR and its other subsidiaries had 121 employees as of December 31, 2009. Eleven of the employees of a subsidiary of ASUS are covered by a collective bargaining agreement with the International Union of Operating Engineers which expires in 2011.

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Forward-Looking Information

This Form 10-K and the documents incorporated by reference 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 include statements regarding our 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 believes, anticipates, expects, plans , estimates, intends, and other words that convey uncertainty of future events or outcome, we are making forward-looking statements. Such statements address future events and conditions concerning such matters as our ability to raise capital, capital expenditures, earnings, litigation, rates, water sales, water quality and other regulatory matters, adequacy of water supplies, our ability to recover electric, natural gas and water supply costs from ratepayers, contract operations, liquidity and capital resources, and accounting matters.

We caution you that any forward-looking statements made by us are not guarantees of future performance and that actual results may differ materially from those currently anticipated in such statements, by reason of factors such as: changes in utility regulation; recovery of regulatory assets not yet included in rates; future economic conditions which affect changes in customer demand and changes in water and energy supply costs; changes in pension and post-retirement benefit plan costs; future climatic conditions; delays in customer payments or price redeterminations or equitable adjustments on contracts executed by ASUS and its subsidiaries; potential assessments for failure to meet interim targets for the purchase of renewable energy; and legislative, legal proceedings, regulatory and other circumstances affecting anticipated revenues and costs.

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Item 1A Risk Factors

You should carefully read the risks described below and other information in this Form 10-K in order to understand certain of the risks of our business.

Our business is heavily regulated and, as a result, decisions by regulatory agencies and changes in laws and regulations can significantly affect our business

Our revenues depend substantially on the rates and fees we charge our customers and the ability to recover our costs on a timely basis, including the ability to recover the costs of purchased water, groundwater assessments, electric power, natural gas, chemicals, water treatment, security at water facilities and preventative maintenance and emergency repairs. Any delays by either the CPUC or the ACC in granting rate relief to cover increased operating and capital costs at our public utilities or delays in obtaining approval of our requests for equitable adjustments or price redetermination for contracted services from the U.S. government may adversely affect our financial performance. We may file for interim rates in California in situations where there may be delays in granting final rate relief during a general rate case proceeding. If the CPUC approves lower rates, the CPUC will require us to refund to customers the difference between the interim rates and the rates approved by the CPUC. Similarly, if the CPUC approves rates that are higher than the interim rates, the CPUC may authorize us to recover the difference between the interim rates and the final rates.

Regulatory decisions may also impact prospective revenues and earnings, affect the timing of the recognition of revenues and expenses, may overturn past decisions used in determining our revenues and expenses and could result in impairment of goodwill if the decision affects CCWC or ASUS. Management continually evaluates the anticipated recovery of regulatory assets, liabilities and revenues subject to refund and provides for allowances and/or reserves as deemed necessary. In the event that our assessment of the probability of recovery through the ratemaking process is incorrect, we will adjust the associated regulatory asset or liability to reflect the change in our assessment or any regulatory disallowances.

Management also reviews goodwill for impairment at least annually. A change in our evaluation of the probability of recovery of regulatory assets, a regulatory disallowance of all or a portion of our costs or material impairment of goodwill could have a material adverse effect on our financial results. CCWC has $3.3 million of goodwill which could be at risk for potential impairment if future requested rate increases are not granted by the ACC. ASUS also has $1.1 million of goodwill which may be at risk for potential impairment if requested price redeterminations and equitable adjustments are not granted.

We are also, in some cases, required to estimate future expenses and in others, we are required to incur the expense before recovering costs. As a result, our revenues and earnings may fluctuate depending on the accuracy of our estimates, the timing of our investments or expenses or other factors. If expenses increase significantly over a short period of time, we may experience delays in recovery of these expenses, the inability to recover carrying costs for these expenses and increased risks of regulatory disallowances or write-offs.

Regulatory agencies may also change their rules and policies which may adversely affect our profitability and cash flows. Changes in policies of the U.S. government may also adversely affect our military base contract operations. In certain circumstances, the U.S. government may be unwilling or unable to appropriate funds to pay costs mandated by changes in rules and policies of state regulatory agencies. The U.S.

government may disagree with the increases that we request and may delay approval of requests for equitable adjustment or redetermination of prices which could adversely affect our anticipated rates of return.

We may also be subject to fines or penalties if a regulatory agency determines that we have failed to comply with laws, regulations or orders applicable to our businesses, unless we appeal this determination or our appeal of an adverse determination is denied.

Our costs involved in maintaining water quality and complying with environmental regulation have increased and are expected to continue to increase

Our capital and operating costs have increased substantially as a result of increases in environmental regulation arising from increases in the cost of disposing of residuals from our water treatment plants, upgrading and building new water treatment plants, monitoring compliance activities and securing alternative supplies when necessary. Our public utilities may be able to recover these costs through the ratemaking process. We may also be able to recover these costs under contractual arrangements. In certain circumstances, costs may be recoverable from parties responsible or potentially responsible for contamination, either voluntarily or through specific court action.

We may also incur significant costs in connection with seeking to recover costs due to contamination of water supplies. Our ability to recover these types of costs also depends upon a variety of factors, including approval of rate increases, the willingness of potentially responsible parties to settle litigation and otherwise address the contamination and

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the extent and magnitude of the contamination. We can give no assurance regarding the adequacy of any such recovery to offset the costs associated with the contamination or the cost of recovery of these costs.

Our subsidiaries operating water and/or wastewater systems on military bases are also subject to increasingly stringent environmental regulations. The contracts provide various mechanisms for recovery of costs, including increasing revenues through change in conditions provisions and equitable adjustment procedures. Our contracts with the U.S. government are, however, subject to the Anti-Deficiency Act. As a result, our recovery of these costs may depend upon Congressional action to appropriate funds.

Additional Risks Associated with our Public Utility Operations

Our operating costs have increased and are expected to continue to increase as a result of groundwater contamination

Our operations are impacted by groundwater contamination in certain service territories. We have taken a number of steps to address contamination, including the removal of wells from service, decreasing the amount of groundwater pumped from wells in order to slow the movement of plumes of contaminated water, constructing water treatment facilities and securing alternative sources of supply from other areas not affected by the contamination.

In some cases, potentially responsible parties have reimbursed us for some or all of our costs. In other cases, we have taken legal action against parties believed to be potentially responsible for the contamination. To date, the CPUC has permitted us to establish memorandum accounts in California for potential recovery of these types of costs. We can give no assurance regarding the outcome of litigation arising out of contamination or our ability to recover these costs in the future.

Persons who are potentially responsible for causing the contamination of groundwater supplies have asserted claims against water distributors on a variety of theories and have thus far brought the water distributors (including us) within the class of potentially responsible parties in federal court actions pending in Los Angeles County. This increases the costs and risks of seeking recovery of these costs. Management believes that rate recovery, proper insurance coverage and reserves are in place to appropriately manage these types of claims. However, such claims, if ultimately resolved unfavorably to us, could, in the aggregate, have a material adverse effect on our results of operations and financial condition.

The adequacy of our water supplies depends upon a variety of uncontrollable factors

The adequacy of our water supplies varies from year to year depending upon a variety of factors, including:

- Rainfall, runoff, flood control and availability of reservoir storage;

- Availability of Colorado River water and imported water from Northern California;
- The amount of useable water stored in reservoirs and groundwater basins;
- The amount of water used by our customers and others;
- Water quality;
- Legal limitations on production, diversion, storage, conveyance and use, and
- Climate change.

Population growth and increases in the amount of water used in California and Arizona have caused increased stress on surface water supplies and groundwater basins. In addition, new court-ordered pumping restrictions on water obtained from the Sacramento-San Joaquin Delta have decreased the amount of water Metropolitan Water District of Southern California (MWD) is able to import from northern California. We are acting to secure additional supplies from conservation, desalination and water transfers; however, we cannot predict to what extent these efforts will be successful and sustainable.

CCWC obtains its water supply from operating wells and from the Colorado River through the Central Arizona Project, or CAP. CCWC s water supply may be subject to interruption or reduction if there is an interruption or reduction in water supplies available to CAP. In addition, CCWC s ability to provide water service to new real estate developments is dependent upon CCWC s ability to meet the requirements of the Arizona Department of Water Resources regarding the CCWC s assured water supply account.

Water shortages may:

- adversely affect our supply mix, for instance, causing increased reliance upon more expensive water sources;
- adversely affect our operating costs, for instance, by increasing the cost of producing water from more highly contaminated aquifers;

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- result in an increase in our capital expenditures, for example by requiring the construction of pipelines to connect to alternative sources of supply, new wells to replace those that are no longer in service or are otherwise inadequate to meet the needs of our customers, and reservoirs and other facilities to conserve or reclaim water, and

- adversely affect the volume of water sold as a result of mandatory or voluntary conservation efforts by customers.

We may be able to recover increased operating and capital costs through the ratemaking process. GSWC implemented a modified supply cost balancing account to track and recover costs from our supply mix changes and rate changes, as authorized by the CPUC. We may also recover costs from certain third parties that may be responsible, or potentially responsible, for groundwater contamination.

Our liquidity may be adversely affected by changes in water supply costs

We obtain our water supplies for GSWC and CCWC from a variety of sources. For example, water is pumped from aquifers within our service areas to meet a portion of the demands of our customers. When water produced from wells in those areas is insufficient to meet customer demand or when such production is interrupted, we have purchased water from other suppliers. As a result, our cost of providing, distributing and treating water for our customers use can vary significantly. Furthermore, imported water wholesalers, such as MWD and CAP may not always have an adequate supply of water to sell to us.

Our liquidity and earnings may be adversely affected by increases in maintenance costs due to our aging infrastructure

Some of our systems in California are more than 50 years old. We have experienced a number of leaks and water quality and mechanical problems in some of these older systems. In addition, well and pump maintenance expenses are affected by labor and material costs and more stringent water discharge requirements. These costs can and do increase unexpectedly and in substantial amounts.

We include increases in maintenance costs in each general rate case filed by our rate-regulated public utilities for possible recovery. However, we estimate the amount of expenses expected to be incurred during future years in California. We may not recover overages from those estimates in rates, which may adversely affect our financial condition, results of operations, cash flow and liquidity.

Our liquidity and earnings may be adversely affected by our conservation efforts

Conservation by all customer classes at GSWC and CCWC is a top priority. However, customer conservation can result in lower volumes of water sold. We are also experiencing a decline in per residential customer water usage due to the use of more efficient household fixtures and appliances by residential consumers, and perhaps, efforts by our customers to reduce costs as a result of adverse economic conditions.

Our public utilities businesses are heavily dependent upon revenue generated from rates charged to our residential customers for the volume of water used. The rates we charge for water are regulated by the CPUC and the ACC and may not be unilaterally adjusted to reflect changes in demand. Declining usage also negatively impacts our long-term operating revenues if we are unable to secure rate increases or if growth in the residential customer base does not occur to the extent necessary to offset the per customer residential usage decline. We implemented a water revenue adjustment mechanism at GSWC which has the effect of reducing, for the most part, the adverse impacts of our customers conservation efforts on earnings.

Our earnings may be affected, to some extent, by weather during different seasons

The demand for water and electricity varies by season. For instance, most water consumption occurs during the third quarter of each year when weather in California and Arizona tends to be hot and dry. During unusually wet weather, our customers generally use less water. GSWC implemented a conservation rate design and a water revenue adjustment mechanism, for Regions II and III in late November 2008, and for Region I s ratemaking areas in September 2009, which should help mitigate fluctuations in revenues and earnings due to changes in water consumption in California. CCWC s revenues and profitability will, however, continue to be impacted by changes in water consumption in Arizona.

The demand for electricity in our electric customer service area is greatly affected by winter snows. An increase in winter snows reduces the use of snowmaking machines at ski resorts in the Big Bear area and, as a result, reduces our electric revenues. Likewise, unseasonably warm weather during a skiing season may result in temperatures too high for snowmaking conditions, which also reduces our electric revenues. In November 2009, GSWC implemented a new base revenue

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requirement adjustment mechanism, as approved by the CPUC, for our electric business which should help mitigate fluctuations in the revenues and earnings of our electric business due to changes in the amount of electricity used by GSWC s customers.

Our liquidity, and in certain circumstances, earnings, may be adversely affected by increases in electricity and natural gas prices in California

We purchase most of our electric energy sold to customers in our electric customer service area from others under purchased power contracts. In addition to purchased power contracts, we purchase additional energy from the spot market to meet peak demand. We may sell surplus power to the spot market during times of reduced energy demand. We also operate a natural gas-fueled 8.4 megawatt, or MW, generator in our electric service area.

The CPUC permits us to recover energy purchase costs from customers, up to an annual weighted average cost of $77 per MWh each year through August 2011. We are required to write-off costs in excess of this cap. As a result, we are at risk for increases in spot market prices of electricity purchased and for decreases in spot market prices for electricity sold.

Unexpected generator downtime or a failure to perform by any of the counterparties to our electric and natural gas purchase contracts could further increase our exposure to fluctuating natural gas and electric prices.

Changes in electricity prices also affected the unrealized gains and losses on our block forward purchased power contracts that qualify as derivative instruments as we adjusted the asset or liability on these contracts to reflect the fair market value of the contracts at the end of each month. The CPUC has authorized us to establish a memorandum account to track the changes in the fair market value of our new power purchased contracts that became effective on January 1, 2009. As a result, unrealized gains and losses on these purchased power contracts will not impact earnings.

Our assets are subject to condemnation

Municipalities and other government subdivisions may, in certain circumstances, seek to acquire certain of our assets through eminent domain proceedings. It is generally our practice to contest these proceedings which may be costly and may divert the attention of management from the operation of our business. If a municipality or other government subdivision succeeds in acquiring our assets, there is a risk that we will not receive adequate compensation for the assets acquired or be able to recover all charges associated with divesting these assets.

Additional Risks Associated with our Contracted Services

We derive revenues from contract operations primarily from the operation and maintenance of water and/or wastewater systems at military bases and the construction of water and wastewater improvements to the infrastructure on these bases. As a result, these operations are subject to risks that are different than those of our public utility operations.

Our operations and maintenance contracts on military bases create certain risks that are different from that of our regulated utility operations

We have entered into contracts to provide water and/or wastewater services at military bases pursuant to 50-year contracts, subject to termination, in whole or in part, for the convenience of the U.S. government. In addition, the U.S. government may stop work under the terms of the contracts, delay performance of our obligations under the contracts or modify the contracts at its convenience.

Our contract pricing was based on a number of assumptions, including assumptions about prices and availability of labor, equipment and materials. We may be unable to recover all costs if any of these assumptions are inaccurate or if all costs that we may incur in connection with performing the work were not considered. Our operations and maintenance contracts are also subject to periodic price adjustments at the time of price redetermination or in connection with requests for equitable adjustments or other changes permitted by the terms of the contracts. The contract price for each of these contracts is subject to redetermination two years after commencement of operations and every three years thereafter to the extent provided in each of the contracts. Prices are also subject to equitable adjustment based upon changes in circumstances and changes in wages and fringe benefits to the extent provided in each of the contracts.

We have experienced delays in the redetermination of prices following completion of the first two years of operation under our operation and maintenance contracts in effect for more than two years. We have also experienced delays in obtaining a final equitable adjustment of prices for the significantly higher infrastructure at certain of the bases than that described by the U.S. government in its request for proposal. These delays have negatively impacted our results of operations and cash flows. Similar delays on other contracts may impact our future earnings and cash flows.

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We are required to record all costs incurred under these types of contracts as these costs are incurred. As a result, we may record losses associated with unanticipated conditions and emergency work at the time such expenses occur. We recognize revenue for such work as, and to the extent that, our requests for equitable adjustments are approved. Delays in obtaining approval of equitable adjustments can negatively impact our results of operations and cash flows.

We are subject to audits, cost review and investigations by contracting oversight agencies. During the course of an audit, the oversight agency may disallow costs. Such cost disallowances may result in adjustments to previously reported revenues.

Payment under these contracts is subject to appropriations by Congress. We may experience delays in receiving payment or delays in redetermination of prices or other price adjustments due to cancelled or delayed appropriations specific to our projects or reductions in government spending for the military generally or military base operations specifically. Appropriations and the timing of payment may be influenced by, among other things, the state of the economy, competing political priorities, budget constraints, the timing and amount of tax receipts and the overall level of government expenditures for the military generally or military base operations specifically.

In addition, we must maintain the proper management of water and wastewater facilities, employ state-certified and other qualified employees to support the operation of these facilities and otherwise comply with contract requirements.

Risks associated with the collection of wastewater are different, in some respects, from that of our water utility operations

The wastewater collection system operations of our subsidiaries providing wastewater services on military bases are subject to substantial regulation and involve significant environmental risks. If collection or sewage systems fail, overflow or do not operate properly, untreated wastewater or other contaminants could spill onto nearby properties or into nearby streams and rivers, causing damage to persons or property, injury to aquatic life and economic damages, which may not be recoverable. This risk is most acute during periods of substantial rainfall or flooding, which are common causes of sewer overflows and system failures. Liabilities resulting from such damage could adversely and materially affect our business, results of operations and financial condition. In the event that we are deemed liable for any damage caused by overflow, our losses might not be covered by insurance policies or we may find it difficult to secure insurance for this business in the future at acceptable rates.

Our contracts for the construction of infrastructure improvements on military bases create risks that are different, in some respects, from that of our operations and maintenance contracts

We have entered into contract modifications with the U.S. government (and in some cases third parties) for the construction of new water and/or wastewater infrastructure at the military bases. Most of these contracts are firm fixed-price contracts. Under firm fixed-price contracts, we benefit from cost savings and earnings, but are generally unable to recover any cost overruns to the approved contract price. Under extenuating circumstances, the U.S. government has approved increased cost change orders.

We recognize revenues from these types of contracts using the percentage-of-completion method of accounting. This accounting practice results in our recognizing contract revenues and earnings ratably over the contract term in proportion to our incurrence of contract costs. The earnings or losses recognized on individual contracts are based on periodic estimates of contract revenues, costs and profitability as the construction projects progress.

We establish prices for these types of firm fixed-price contracts based, in part, on cost estimates that are subject to a number of assumptions, including assumptions regarding future economic conditions. If these estimates prove inaccurate or circumstances change, cost overruns could have a material adverse effect on our contracted business operations and results of operations.

We may be adversely affected by disputes with the U.S. government regarding our performance of contract services on military bases

If there is a dispute with the U.S. government regarding performance under these contracts or the amounts owed to us, the U.S. government may delay, reject or withhold payment, or assert its right to offset damages against amounts owed to us. If we are unable to collect amounts owed to us on a timely basis or the U.S. government asserts its offset rights, profits and cash flows will be adversely affected.

If we fail to comply with the terms of one or more of our U.S. government contracts, other agreements with the U.S. government or U.S. government regulations and statutes, we could be suspended or barred from future U.S. government contracts for a period of time and be subject to possible damages, fines and penalties and damage to our reputation in the water and wastewater industry.

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We depend, to some extent, upon subcontractors to assist us in the performance of contracted services on military bases

We rely, to some extent, on subcontractors to assist us in the operation and maintenance of the water and wastewater systems at a number of military bases, subject to our existing contracts with the U.S. government. The failure of any of these subcontractors to perform services for us in accordance with the terms of our contracts with the U.S. government could result in the termination of our contracts to provide water and/or wastewater services at these bases, a loss of revenues or increases in costs to correct a subcontractor s performance failures. We are able to mitigate these risks, in part, by obtaining, and requiring our subcontractors to obtain, performance bonds.

We are also required to make a good faith effort to achieve our small business subcontracting plan goals pursuant to U.S. government regulation. If we fail to use good faith efforts to meet these goals, the U.S. government may assess damages against us at the end of the contract or, in some cases, at the end of each price redetermination period. The U.S. government has the right to offset claimed damages against any amounts owed to us.

We also rely on third-party manufacturers as well as third-party subcontractors to complete our construction projects. To the extent that we cannot engage subcontractors or acquire equipment or materials, our ability to complete a project in a timely fashion or at a profit may be impaired. If the amount of costs we incur for these projects exceeds the amount we have estimated in our bid, we could experience losses in the performance of these contracts. In addition, if a subcontractor or manufacturer is unable to deliver its services, equipment or materials according to the negotiated terms for any reason, including the deterioration of its financial condition, we may be required to purchase the services, equipment or materials from another source at a higher price. This may reduce the profit to be realized or result in a loss on a project for which the services, equipment or materials were needed.

If these subcontractors fail to perform services to be provided to us or fail to provide us with the proper equipment or materials, we may be penalized for their failure to perform.

We continue to incur costs associated with the expansion of our contract activities

We continue to incur additional costs in connection with the attempted expansion of our contract operations associated with the preparation of bids for new contracts for contract operations on military bases and compliance with regulatory requirements associated with our water marketing efforts. Our ability to recover these costs and to earn a profit on our contract operations will depend upon the extent to which we are successful in obtaining new contracts on military bases and satisfying regulatory requirements associated with our water marketing efforts and recovering these costs and other costs from new contract revenues.

Other Risks

Our business requires significant capital expenditures

The utility business is capital intensive. On an annual basis, we spend significant sums of money for additions to, or replacement of, our property, plant and equipment at our California and Arizona utilities. We obtain funds for these capital projects from operations, contributions by developers and others and advances from developers (which are repaid over a period of time at no interest). We also periodically borrow money or issue equity for these purposes. In addition, we have a syndicated bank credit facility that is partially used for these purposes. We cannot provide assurance that these sources will continue to be adequate or that the cost of funds will remain at levels permitting us to earn a reasonable rate of return.

Our subsidiaries providing water and wastewater services on military bases also expect to incur significant capital expenditures. To the extent that the U.S. government does not reimburse us for these expenditures as the work is performed, the U.S. government will repay us over time with interest. However, if there is a dispute with the U.S. government regarding performance under these contracts or the amounts owed to us, the U.S. government may delay, reject or withhold payment, or assert its right to offset damages against amounts owed to us. If we are unable to collect amounts owed to us on a timely basis or the U.S. government asserts its offset rights, profits and cash flows will be adversely affected.

We may be adversely impacted by a financial crisis

Due to market events that occurred in 2008, our pension and post-retirement benefit plan expenses increased significantly in 2009. We include increases in pension and post-retirement cost in each general rate case filed by our public utilities for possible recovery. However, we estimate the amount of expenses expected to be incurred during future years in California. The actual cost may vary significantly from our estimates due to changes in the market value of the assets in the plans and changes in the discount rates used to estimate the amount of our pension and post-retirement plan liabilities. We

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may not recover overages from those estimates in rates, which may adversely affect our financial condition, results of operations, cash flow and liquidity, unless authorized by the CPUC.

We obtain funds from external sources to finance our on-going capital expenditures. Access to external financing on reasonable terms depends, in part, on conditions in the debt and equity markets. When business and market conditions deteriorate, we may no longer have access to the capital markets on reasonable terms. Our ability to obtain funds is dependent upon our ability to access the capital markets by issuing debt or equity to third parties or obtaining funds from our revolving credit facility which expires in June 2010. In the event of renewed financial turmoil affecting the banking system and financial markets, additional consolidation of the financial services industry, significant financial service institution failures or our inability to renew or replace our existing revolving credit facility on attractive terms, it may become necessary for us to seek funds from other sources on unattractive terms. Moreover, we also have goodwill at CCWC and ASUS that may be adversely impacted if economic conditions worsen.

We are unable to predict at this time how we may otherwise be impacted by a financial crisis.

Our failure to comply with the restrictive covenants in our long-term debt agreements and credit facility could trigger prepayment obligations

Our failure to comply with the restrictive covenants under our long-term debt agreements could result in an event of default, which, if not cured or waived, could result in us being required to repay or refinance these borrowings before their due dates on less favorable terms. If we are forced to repay or refinance these borrowings on less favorable terms, our results of operations and financial condition could be adversely affected by increased costs and interest rates.

We are a holding company that depends on cash flow from GSWC to meet our financial obligations and to pay dividends on our common shares

As a holding company, our subsidiaries conduct substantially all operations and our only significant assets are investments in our subsidiaries. This means that we are dependent on distributions of funds from our subsidiaries to meet our debt service obligations and to pay dividends on our common shares. More than 81% of our revenues are derived from the operations of GSWC. Moreover, none of our other subsidiaries has paid any dividends to us during the past three years. As a result, we are largely dependent on cash flow from GSWC to meet our financial obligations and to pay dividends on our common shares.

Our subsidiaries are separate and distinct legal entities and generally have no obligation to pay any amounts due on our debt. Our subsidiaries only pay dividends if and when declared by the subsidiary board. Moreover, GSWC is obligated to give first priority to its own capital requirements and to maintain a capital structure consistent with that determined to be reasonable by the CPUC in its most recent decision on capital structure, in order that ratepayers not be adversely affected by the holding company structure. Furthermore, our right to receive cash or other assets in the unlikely event of liquidation or reorganization of GSWC is generally subject to the prior claims of creditors of that subsidiary. If we are unable to obtain funds from GSWC in a timely manner, we may be unable to meet our financial obligations, make additional investments or pay dividends.

We are increasingly dependent on the continuous and reliable operation of our information technology systems

We rely on our information technology systems in connection with the operation of our business, especially with respect to customer service and billing, accounting and, in some cases, the monitoring and operation of our treatment, storage and pumping facilities. A loss of these systems or major problems with the operation of these systems could affect our operations and have a significant material adverse effect on our results of operations.

Our operations are geographically concentrated in California

Although we operate water and wastewater facilities in a number of states, our operations are concentrated in California, particularly southern California. As a result, our financial results are largely subject to political, water supply, labor, utility cost and regulatory risks, economic conditions and other economic risks affecting California. California has been particularly hard hit by the current economic crisis. California is raising taxes in order to balance the state budget and jobs may be lost to other states which are perceived as having a more business friendly climate, thereby exacerbating the impact of the financial crisis in California.

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We operate in areas subject to natural disasters or that may be the target of terrorist activities

We operate in areas that are prone to earthquakes, fires, mudslides and other natural disasters. While we maintain insurance policies to help reduce our financial exposure, a significant seismic event in southern California, where our operations are concentrated, or other natural disasters in California could adversely impact our ability to deliver water and adversely affect our costs of operations. The CPUC has historically allowed utilities to establish a catastrophic event memorandum account as another possible mechanism to recover these costs.

Terrorists could seek to disrupt service to our customers by targeting our assets. We have invested in additional security for facilities throughout our regulated service areas to mitigate the risks of terrorist activities. We also may be prevented from providing water and/or wastewater services at the military bases we serve in times of military crisis affecting these bases.

Our electric business is subject to California law requiring procurement of renewable resources

California law requires our electric division to procure renewable resources so that 20% of our annual electricity sales are procured from renewable resources. Due to our relative size as compared to other energy utilities and the constrained renewable energy market, we have not been able to obtain sufficient resources to achieved interim target purchase levels of renewable energy resources. The CPUC considered the future timing and applicability of renewable energy resource requirements as they apply to smaller energy utilities like our BVES division and on May 30, 2008, the CPUC issued its final decision regarding the renewable responsibilities of small utilities (including BVES). The final decision affirmed the renewable obligation targets for the small utilities but also allowed the small utilities to defer compliance under the CPUC s flexible compliance rules.

We will need to continue our efforts to procure renewable resources each year going forward, and where that may prove difficult because the market for such resources is very constrained, we will describe in detail the problems that warrant further deferral, in accordance with the CPUC s flexible compliance rules. We believe that the CPUC s decision effectively forecloses any exposure to financial penalties for the year 2007 and earlier. For the 2008 and 2009 years, we have not met the interim targets and expect that the CPUC will waive any potential fines in accordance with the flexible compliance rules. It is unlikely that BVES will have 20% of its annual electricity sales procured from renewable resources for 2010, however, we believe the CPUC will waive any potential fine in accordance with the flexible compliance rules.

Item 1B Unresolved Staff Comments

None.

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Item 2 - Properties

Electric Properties

GSWC s electric properties are all located in the Big Bear area of San Bernardino County, California. As of December 31, 2009, GSWC owned and operated 29 miles of overhead 34.5 kilovolt (kv) transmission lines, 1 mile of underground 34.5 kv transmission lines, 176.4 miles of 4.16 kv or 2.4 kv distribution lines, 53 miles of underground cable, 13 sub-stations and a natural gas-fueled 8.4 MW peaking generation facility. GSWC also has franchises, easements and other rights of way for the purpose of constructing and using poles, wires and other appurtenances for transmitting electricity.

Water Properties

As of December 31, 2009, GSWC s physical properties consisted of water transmission and distribution systems which included 2,753 miles of pipeline together with services, meters and fire hydrants and approximately 425 parcels of land, generally less than 1 acre each, on which are located wells, pumping plants, reservoirs and other water utility facilities, including four surface water treatment plants. GSWC also has franchises, easements and other rights of way for the purpose of constructing and using pipes and appurtenances for transmitting and distributing water.

As of December 31, 2009, GSWC owned 249 wells, of which 192 are active operable wells equipped with pumps with an aggregate production capacity of approximately 219.3 million gallons per day. GSWC has 58 connections to the water distribution facilities of the MWD, and other municipal water agencies. GSWC s storage reservoirs and tanks have an aggregate capacity of approximately 109 million gallons. GSWC owns no dams in its customer service areas. The following table provides, in greater detail, selected water utility plant of GSWC for each of its water regions:

	Pumps		Distribution Facilities			Reservoirs	
Region	**Well**	**Booster**	**Mains***	**Services**	**Hydrants**	**Tanks**	**Capacity***
Region I	72	122	648	55,897	4,020	46	32,327
Region II	52	68	905	100,657	8,690	25	21,880
Region III	125	196	1,200	98,454	10,453	79	53,225(**1**)
Total	249	386	2,753	255,008	23,163	150	107,432

* Reservoir capacity is measured in thousands of gallons. Mains are in miles.

(1) GSWC has additional reservoir capacity in its Claremont system, through an exclusive right to use all of one 8 million gallon reservoir, one-half of another 8 million gallon reservoir, and one-half of a treatment plant s capacity, all owned by Three Valleys Municipal Water District.

As of December 31, 2009, CCWC s physical properties consisted of water transmission and distribution systems, which included 184 miles of pipeline, together with services, meters, fire hydrants, wells, reservoirs with a combined storage capacity of 7.55 million gallons and other water utility facilities including a surface water treatment plant, which treats water from the CAP.

Adjudicated and Other Water Rights

GSWC

GSWC owns numerous water rights in California, as shown in the table below. Water rights are divided between groundwater and surface water. Groundwater rights are further subject to classification as either adjudicated or unadjudicated rights. Adjudicated rights have been subjected to comprehensive litigation in the courts, are typically quantified and are actively managed for optimization and sustainability of the resource. Unadjudicated groundwater rights have not been quantified and are not subject to predetermined limitations, but are measured by maximum historical usage. Surface water rights are quantified and managed by the State Water Resources Control Board, unless they originated prior to 1914, in which case they resemble unadjudicated groundwater rights. A total of 117,796 acre-feet per year (AFY) of water rights are owned by GSWC as follows:

	Groundwater		Surface Water	
Region	**Adjudicated Rights (AFY)**	**Unadjudicated Rights (AFY)**	**Water Rights (AFY)**	**Totals (AFY)**
Region I	10,248	20,113	10,134	40,495
Region II	23,942	1,771		25,713
Region III	27,377	23,010	1,201	51,588
Total	61,567	44,894	11,335	117,796

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CCWC

CCWC has an assured water supply designation, by decision and order of the Arizona Department of Water Resources stating that CCWC has demonstrated the physical, legal and continuous availability of CAP water and groundwater, in an aggregate volume of 11,759 acre-feet per year for a minimum of 100 years. The 11,759 acre-feet is comprised of existing CAP allocation of 8,909 acre-feet per year, 350 acre-feet per year groundwater allowance, incidental recharge credits of 500 acre-feet per year, and a Central Arizona Groundwater Replenishment District contract of 2,000 acre-feet per year.

Office Buildings

Registrant s general headquarters are housed in two office buildings located in San Dimas, California. The land and the building of one office are owned by GSWC. GSWC also owns and/or leases certain facilities housing regional, district and customer service offices. CCWC owns its primary office space in Fountain Hills, Arizona. ASUS leases an office facility in Costa Mesa, California. ASUS subsidiary, ONUS, leases a service center located in North Carolina.

Mortgage and Other Liens

As of December 31, 2009, GSWC had no mortgage debt outstanding, encumbrances or liens securing indebtedness.

As of December 31, 2009, substantially all of the utility plant of CCWC was pledged to secure its Industrial Development Authority Bonds, which among other things, restricts CCWC s ability to incur debt and make liens, sell, lease or dispose of assets, or merge with another corporation, and pay dividends.

As of December 31, 2009, neither AWR nor ASUS or any of its subsidiaries had any mortgage debt or liens securing indebtedness, outstanding. However, under the terms of certain debt of AWR and GSWC, AWR and GSWC are prohibited from issuing any secured debt, without providing equal and ratable security to the holders of this existing debt.

Condemnation of Properties

The laws of the State of California and the State of Arizona 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, however, the laws of California 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.

Although the City of Claremont, California (the City) located in GSWC s Region III, has not initiated the formal condemnation process pursuant to California law, the City has expressed various concerns to GSWC about the rates charged by GSWC and the effectiveness of the CPUC s rate-setting procedures. In 2004, the City hired consultants to perform an appraisal of the value of Claremont water system. However, in recent meetings held in 2009, the Claremont City Council stated that it will not actively pursue activities related to a potential condemnation of the Claremont water system at this time.

The Town of Apple Valley (the Town) abandoned its activities related to a potential condemnation of GSWC s water system serving the Town in 2007. However, in April 2009, the Town announced that it will again consider a potential takeover of GSWC s Apple Valley water systems as well as those of another privately-owned utility. The Town Council has directed staff to research the costs associated with updating the previously prepared financial feasibility study for the acquisition of GSWC s water system.

The Stanton City Council recently decided to solicit proposals to identify the process, potential costs and legal issues for acquiring the water system owned by GSWC.

Except for the Cities of Claremont and Stanton and the Town of Apple Valley, Registrant has not been, within the last three years, involved in activities related to the potential condemnation of any of its water customer service areas or in its BVES customer service area. No formal condemnation proceedings have been filed against any of the Registrant s service areas during the past three years.

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Item 3 - Legal Proceedings

Water Quality-Related Litigation:

Perchlorate and/or Volatile Organic Compounds (VOC) have been detected in five wells servicing GSWC s South San Gabriel System. GSWC filed suit in federal court, along with two other affected water purveyors (San Gabriel Valley Water Company and City of Monterey Park), and the San Gabriel Basin Water Quality Authority (WQA), against some of those allegedly responsible for the contamination of two of these wells. The lawsuit was filed on August 14, 2002 in the United States District Court for the Central District of California. Some of the other potential defendants settled with GSWC, other water purveyors and the WQA (the Water Entities), on VOC related issues prior to the filing of the lawsuit. In response to the filing of the lawsuit, the Potentially Responsible Party (PRP) defendants filed motions to dismiss the suit or strike certain portions of the suit. The judge issued a ruling on April 1, 2003 granting in part and denying in part the PRP s motions. A key ruling of the court was that the water purveyors, including GSWC, by virtue of their ownership of wells contaminated with hazardous chemicals are themselves PRPs under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA).

GSWC has, pursuant to permission of the court, amended its suit to claim certain affirmative defenses as an innocent party under CERCLA. Registrant is presently unable to predict the outcome of this ruling on its ability to fully recover from the PRPs future costs associated with the treatment of these wells. In this same suit, the PRPs have filed cross-complaints against the Water Entities, the MWD, the Main San Gabriel Basin Watermaster and others on the theory that they arranged for and did transport contaminated water into the Main San Gabriel Basin for use by GSWC and the other two affected water purveyors and for other related claims.

On August 29, 2003, the US Environmental Protection Agency (EPA) issued Unilateral Administrative Orders (UAO) against 41 parties deemed responsible for polluting the groundwater in that portion of the San Gabriel Valley from which these two impacted wells draw water. GSWC was not named as a party to the UAO. The UAO requires that these parties remediate the contamination. The judge in the lawsuit has appointed a special master to oversee mandatory settlement discussions between the PRPs and the Water Entities. EPA is also conducting settlement discussions with several PRPs regarding the UAO. The Water Entities and EPA are working to coordinate their settlement discussions under the special master in order to arrive at a complete resolution of all issues affecting the lawsuit and the UAO. Settlements have been reached between WQA and some PRP s. Settlements with a number of other PRPs are being finalized; however, Registrant is presently unable to predict the ultimate outcome of these settlement discussions.

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 lawsuit was filed on July 14, 1997 in the Santa Clara County Superior Court: *Santa Maria Valley Water Conservation District v. City of Santa Maria, et al* (Lead Case No. CV 770214; consolidated with Case Nos.: CV 784900, 784921, 784926, 785509, 785511, 785515, 785522, 785936, 786791, 787150, 787151, 787152).

The plaintiff s lawsuit sought an adjudication of the Santa Maria Groundwater Basin (the Basin). A stipulated settlement of the lawsuit has been reached, subject to CPUC approval. The settlement, among other things, if approved by the CPUC, would preserve GSWC s historical pumping rights and secure supplemental water rights for use in case of drought or other reductions in the natural yield of the Basin.

On February 11, 2008, the court issued its final judgment, which approves and incorporates the stipulation. The judgment awards GSWC prescriptive rights to groundwater against the non-stipulating parties. In addition, the judgment grants 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 retains jurisdiction over all of the parties to make supplemental orders or to amend the judgment as necessary. On March 20, 2008, the non-stipulating parties filed notices of appeal. Registrant is unable to predict the outcome of the appeal.

***Other Litigation*:**

Two former officers of GSWC filed a lawsuit against both AWR and GSWC alleging among other things, wrongful termination and retaliation against the former officers. GSWC filed a cross-complaint against the former officers. The lawsuits were filed on November 15, 2007 in the Los Angeles Superior Court (*Conway, et. al. v. Golden State Water Company, et. al.,* Case No. BC380721). On February 15, 2010, the parties agreed to mutually settle the matter and a Settlement Agreement was executed. Among other things, the Settlement Agreement releases Registrant from claims of the former officers. The Settlement Agreement further provides that there was no admission of liability by any of the parties and that each party denies any liability to the other. As a result of this matter, Registrant recorded a pre-tax charge of $3.8

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million during the fourth quarter of 2009 for legal and settlement costs. This charge has been reflected in administrative and general expenses in the Statement of Income.

Registrant is also subject to 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. Management is unable to predict an estimate of the loss, if any, resulting from any pending suits or administrative proceedings.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders through the solicitation of proxies or otherwise during the fourth quarter of the fiscal year covered by this report.

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PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Stock Performance Graph

The graph below compares American States Water Company s cumulative five-year total shareholder return on Common Shares with the cumulative total returns of the S&P 500 index and a customized peer group of six companies that includes: Artesian Resources Corp., California Water Service, Connecticut Water, Middlesex Water Company, SJW Corp. and Southwest Water Company. The graph tracks the performance of a $100 investment in our Common Shares, in the index and in the peer group (with the reinvestment of all dividends) from December 31, 2004 to December 31, 2009.

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*$100 invested on 12/31/04 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

	12/04	12/05	12/06	12/07	12/08	12/09
American States Water Company	**$ 100.00**	**$ 122.35**	**$ 157.31**	**$ 157.20**	**$ 141.58**	**$ 156.49**
S&P 500	**100.00**	**104.91**	**121.48**	**128.16**	**80.74**	**102.11**
Peer Group	**100.00**	**108.30**	**129.76**	**123.80**	**118.71**	**109.05**

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

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Market Information Relating to Common Shares

Common Shares of American States Water Company are traded on the New York Stock Exchange (NYSE) under the symbol AWR. The intra-day high and low NYSE prices on the Common Shares for each quarter during the past two years, as reported by the Wall Street Journal s website, were:

	Stock Prices	
	High	Low
2009		
First Quarter	$ 38.79	$ 29.76
Second Quarter	36.40	30.82
Third Quarter	37.42	32.10
Fourth Quarter	36.92	31.58
2008		
First Quarter	$ 40.25	$ 31.78
Second Quarter	38.77	33.09
Third Quarter	42.00	33.03
Fourth Quarter	39.50	27.00

The closing price of the Common Shares of American States Water Company on the NYSE as reported on the Wall Street Journal s website on March 10, 2010 was $33.80.

Approximate Number of Holders of Common Shares

As of March 10, 2010, there were 2,897 holders of record of the 18,554,364 outstanding Common Shares of American States Water Company. AWR owns all of the authorized and outstanding Common Shares of GSWC, CCWC and ASUS. ASUS owns all of the outstanding stock of the Military Utility Privatization Subsidiaries.

Frequency and Amount of Any Dividends Declared and Dividend Restrictions

For the last two years, AWR has paid dividends on its Common Shares on or about March 1, June 1, September 1 and December 1. The following table lists the amount of dividends paid on Common Shares of American States Water Company:

	2009	2008
First Quarter	$ 0.25	$ 0.25
Second Quarter	$ 0.25	$ 0.25
Third Quarter	$ 0.25	$ 0.25

Fourth Quarter	$	0.26	$	0.25
Total	$	1.01	$	1.00

AWR s ability to pay dividends is subject to the requirement in the Company s $115 million revolving credit facility for AWR to maintain compliance with all covenants described in footnote (15) to the table in the section entitled *Contractual Obligations, Commitments and Off Balance Sheet Arrangements* included in Part II, Item 7 in Management s Discussion and Analysis of Financial Condition and Results of Operation. GSWC s maximum ability to pay dividends is restricted by certain Note Agreements to the sum of $21 million plus 100% of consolidated net income from certain dates plus the aggregate net cash proceeds received from capital stock offerings or other instruments convertible into capital stock from various dates. Under the most restrictive of the Note Agreements, $273.3 million was available from GSWC to pay dividends to AWR as of December 31, 2009. GSWC is also prohibited under the terms of senior notes from paying dividends if, after giving effect to the dividend, its total indebtedness to capitalization ratio (as defined) would be more than 0.6667 to 1. GSWC would have to issue additional debt of $344.1 million to invoke this covenant as of December 31, 2009.

The ability of AWR, ASUS and GSWC to pay dividends is also restricted by California law. Under restrictions of the California tests, approximately $136.4 million of AWR s retained earnings was available to pay dividends to common shareholders at December 31, 2009. Approximately $135.7 million was available from the retained earnings of GSWC at December 31, 2009 to pay dividends to AWR. At December 31, 2009, ASUS was unable to pay dividends to AWR under the California tests due to cumulative losses.

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CCWC is subject to contractual restrictions on its ability to pay dividends. CCWC s maximum ability to distribute dividends is limited to maintenance of no more than 55% debt in its capital structure for the quarter immediately preceding the distribution. The ability of CCWC to pay dividends is also restricted under Arizona law. Under restrictions of the Arizona tests, approximately $2.2 million was available to pay dividends to AWR at December 31, 2009. See footnote (6) to the table in the section entitled *Contractual Obligations and Other Commitments* included in Part II, Item 7 in Management s Discussion and Analysis of Financial Conditions and Results of Operation for additional information regarding CCWC s debt.

AWR paid $18.1 million in common dividends to shareholders for the year ended December 31, 2009, as compared to $17.3 million for the year ended December 31, 2008. GSWC paid dividends of $19.4 million and $13.2 million to AWR in 2009 and 2008, respectively. CCWC and ASUS did not pay any dividends to AWR in 2009 or 2008.

Other Information

The shareholders of AWR have approved the material features of all equity compensation plans under which AWR directly issues equity securities. AWR did not directly issue any unregistered equity securities during 2009.

The following table provides information about Company repurchases of its Common Shares during the fourth quarter of 2009:

Period	Total Number of Shares Purchased		Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number of Shares That May Yet Be Purchased under the Plans or Programs (3)
October 1 - 31, 2009		$			NA
November 1 - 30, 2009	218	$	32.84		NA
December 1 - 31, 2009	28	$	35.00		NA
TOTAL	246(2)	$	33.09		NA

(1) None of the Common Shares were purchased pursuant to any publicly announced stock repurchase program.

(2) All of the Common Shares were acquired on the open market for participants in the Company s Common Share Purchase and Dividend Reinvestment Plan.

(3) None of these plans contain a maximum number of Common Shares that may be purchased in the open market under the plans.

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Item 6. Selected Financial Data

AMERICAN STATES WATER COMPANY (AWR):

(in thousands, except per share amounts)	2009	2008	2007	2006	2005
Income Statement Information					
Total Operating Revenues	$ 360,973	$ 318,718	$ 301,370	$ 268,629	$ 238,128
Total Operating Expenses (2)	291,479	263,912	233,638	212,023	176,068
Operating Income (2)	69,494	54,806	67,732	56,606	62,060
Interest Expense	22,306	21,330	21,582	21,121	14,657
Interest Income	947	1,837	2,371	2,818	1,103
Net Income (2)	$ 29,531	$ 22,005	$ 28,030	$ 23,081	$ 26,766
Basic Earnings per Common Share **(1)**	$ 1.63	$ 1.27	$ 1.62	$ 1.34	$ 1.58
Dividends Declared per Common Share	$ 1.010	$ 1.000	$ 0.955	$ 0.910	$ 0.900
Average Shares Outstanding	18,052	17,262	17,121	16,934	16,778
Average Number of Diluted Shares Outstanding	18,188	17,394	17,177	17,101	16,809
Fully Diluted Earnings per Common Share	$ 1.62	$ 1.26	$ 1.61	$ 1.33	$ 1.57
Balance Sheet Information					
Total Assets	$ 1,113,293	$ 1,061,287	$ 963,898	$ 936,955	$ 873,135
Common Shareholders Equity	359,430	310,503	302,129	283,734	264,094
Long-Term Debt	305,866	266,536	267,226	267,833	268,405
Total Capitalization	$ 665,296	$ 577,039	$ 569,355	$ 551,567	$ 532,499

(1) In accordance with authoritative guidance for the effect of participating securities on earnings per share (EPS) calculations, AWR uses the two-class method of computing EPS for the affects of participating securities. 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 stock options and stock units that earn dividend equivalents on an equal basis with Common Shares. Net income available for common shareholders excluding earnings available and allocated to participating securities, was $29,399,000, $21,890,000, $27,723,000 and $22,623,000 for the years ended December 31, 2009, 2008, 2007 and 2006, respectively.

(2) In 2008, results include a $7.7 million goodwill impairment charge related to CCWC, in accordance with accounting guidance for goodwill and other intangible assets.

GOLDEN STATE WATER COMPANY (GSWC):

(in thousands)	2009	2008	2007	2006	2005
Income Statement Information					
Total Operating Revenues	$ 294,119	$ 268,888	$ 258,752	$ 244,425	$ 225,872
Total Operating Expenses	230,633	205,970	194,046	189,123	163,230

Operating Income		63,486		62,918		64,706		55,302		62,642
Interest Expense		21,398		19,651		20,063		19,186		13,288
Interest Income		898		1,774		2,111		2,670		1,047
Net Income	$	25,373	$	27,819	$	26,900	$	23,258	$	27,828
Balance Sheet Information										
Total Assets	$	1,021,845	$	970,150	$	889,973	$	867,661	$	807,249
Common Shareholder s Equity		331,530		324,533		278,441		266,965		255,518
Long-Term Debt		300,221		260,561		260,941		261,248		261,540
Total Capitalization	$	631,751	$	585,094	$	539,382	$	528,213	$	517,058

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation

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, CCWC, ASUS and its subsidiaries. Included in the following analysis is a discussion of water and electric margins. Water and electric margins are computed by taking total revenues, less total supply costs. Registrant uses these 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 our operating budget as approved. However, this measure, which is 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, which is determined in accordance with GAAP, as an indicator of operating performance. A reconciliation of water and electric margins to the most directly comparable GAAP measures are included in the table on page 30.

Overview

Registrant s revenues, operating income and cash flows are earned primarily through delivering potable water to homes and businesses through approximately 2,900 miles of water distribution pipelines and the delivery of electricity in the Big Bear area of San Bernardino County. Rates charged to customers of GSWC and CCWC are determined by the CPUC and ACC, respectively. These rates are intended to allow recovery of operating costs and a reasonable rate of return on capital. Factors affecting financial performance of our regulated utilities include the process and timing of setting rates charged to customers; the ability to recover, and the process for recovering in rates the costs of distributing water and electricity and our overhead costs; weather; the impact of increased water quality standards and environmental regulations on the cost of operations and capital expenditures; water supply shortages caused by a variety of factors; capital expenditures needed to upgrade water systems; and risks associated with litigation relating to water quality and water supply, including suits initiated by Registrant to protect its water supply.

Operating revenues and income from contracted services at ASUS and its subsidiaries are earned from the operation, maintenance, renewal and replacement of water and/or wastewater systems at various military bases. All of these contracts with the U.S. government are 50-year firm, fixed-price contracts with prospective price redeterminations. ASUS also may generate revenues from the construction of infrastructure improvements at these bases pursuant to the terms of these 50-year contracts or new infrastructure contracts pursuant to contract modifications. Additional revenues generated by contract operations are primarily dependent on these additional construction activities. As a result, ASUS is subject to risks that are different than those of Registrant s regulated water and electric utilities. ASUS plans to continue seeking contracts for the operation, maintenance, renewal and replacement of water and/or wastewater services at military bases. Factors affecting the financial performance of our Military Utility Privatization Subsidiaries include delays in receiving payments from the U.S. government and the timing of implementation by the U.S. government of redeterminations and/or equitable adjustments of prices under contracts with the U.S. government.

Registrant plans to continue to seek additional rate increases in future years to recover operating and supply costs and receive reasonable returns on invested capital. Capital expenditures in future years 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. In May 2009, AWR completed a public offering of 1,150,000 shares of its Common Shares, including 150,000 shares issued upon exercise of an option granted to the underwriters to cover over-allotments, at a price to the public of $31 per share. The net proceeds from the offering were $34.0 million, after deductions for underwriting commissions and discounts, and direct legal and accounting fees. The Company used the proceeds of the offering to repay short-term debt. In addition, a senior note was issued by GSWC on March 10, 2009, to CoBank, ACB (CoBank). Under the terms of this senior note, CoBank purchased a 6.7% Senior Note due March 10, 2019 in the aggregate principal amount of $40.0 million from GSWC. The proceeds from the sale of the note to CoBank have been used to pay down short-term borrowings and to fund capital expenditures.

For 2009, net income was $29.5 million compared to $22.0 million in 2008, an increase of 34.2%. Diluted earnings per share for 2009 were $1.62 compared to $1.26 in 2008, an increase of $0.36 per share. Factors that increased diluted earnings per share were the following items, all of which are more fully discussed below: (i) an increase in the water and electric dollar water margin of $13.1 million, or $0.43 per share, during the year ended December 31, 2009 compared to the same period of 2008; (ii) a settlement agreement reached with Mirant Energy Trading, LLC and the recording of $1.0 million in proceeds, or $0.03 per share, as a reduction in legal expenses; (iii) the improved financial performance of the Military Utility Privatization Subsidiaries resulting in an increase in ASUS s pretax operating income of $7.3 million, or $0.24 per share; (iv) a goodwill impairment charge in 2008 of $7.7 million, or $0.27 per share related to CCWC, with no similar charge

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in 2009, and (v) a tax benefit of $918,000 recorded in the first quarter of 2009 resulting from new California apportionment laws as well as the refinement of certain related estimates, which favorably impacted earnings by $0.05 per share.

These increases to diluted earnings per share were partially offset by: (i) a $1.6 million pretax unrealized gain on purchased power contracts in 2008, or $0.05 per share, with no corresponding gain in 2009; (ii) an increase in operating expenses, other than supply costs, at the Company s water and electric utilities of $12.2 million, or $0.40 per share (excluding the Mirant Energy Trading settlement discussed above); (iii) the recording of a $760,000 loss on settlement for the removal of wells at CCWC, or $0.02 per share, as a result of a decision issued by the ACC in October 2009; (iv) an increase in interest expense net of interest income of $1.9 million, or $0.06 per share; (v) an increase in the effective tax rate for the year ended December 31, 2009 as compared to the same period in 2008, negatively impacting earnings by $0.07 per share, and (vi) a decrease of $0.06 per share due to an increase in the weighted average number of common shares outstanding resulting from the issuance of 1.1 million shares of AWR s Common Shares in a public offering completed in May 2009.

During 2008, a charge of $7.7 million, or $0.27 per share, was recorded to reflect the impairment of goodwill at CCWC in accordance with accounting guidance for goodwill and other intangible assets. During impairment testing in 2008, Registrant determined that revenue growth for its Arizona utility, CCWC, was likely to be slower than originally projected due to downturns in overall economic conditions and new housing construction, as well as the current regulatory environment in Arizona resulting in regulatory lags and lower than anticipated rate increases. During the recent impairment testing in 2009, it was determined that no further impairment of CCWC s goodwill had occurred. At December 31, 2009, goodwill associated with the acquisition of CCWC was $3.3 million.

The accounting treatment for unrealized gains and losses on purchased power contracts that qualified as derivative instruments under the accounting guidance for derivatives changed between periods. In May 2009, the CPUC authorized GSWC to establish a memorandum account to track unrealized gains and losses on a new contract, which the CPUC also approved, throughout the term of the contract. At December 31, 2009 there was a $7.3 million cumulative unrealized loss which has been included in the memorandum account. As a result of CPUC approval of the memorandum account, this unrealized loss did not impact GSWC s earnings. GSWC recognized unrealized gains and losses in earnings under its previous power purchase contracts. There was a $1.6 million pretax unrealized gain on purchased power contracts included in earnings for 2008. Diluted earnings per share for the year ended December 31, 2008 were $1.26 per share. Eliminating the effects of the unrealized derivative gain, diluted earnings per share for the year ended December 31, 2008 would decrease by $0.05 per share to $1.21 per share.

Subsequent Events

In March 2009, ONUS filed a request for equitable adjustment (REA) following a joint inventory of the infrastructure at Fort Bragg in North Carolina. On the basis of this joint inventory, it was determined that the size of the ONUS infrastructure to be greater than what was assumed under the original 50-year contract. In January 2010, the U.S. government issued a contract modification approving the REA. As a result of this contract modification, ASUS will record $3.1 million of revenues and operating income (approximately $2.8 million of which is retroactive for the period from the commencement of the contract in March 2008 to December 31, 2009) during the first quarter of 2010. The U.S. government is also expected to issue a further contract modification to continue the payment of this increased amount prospectively.

In March 2008, FBWS filed an REA as a claim with the U.S. government, seeking an adjustment in the contract basis after it was determined that the infrastructure at Fort Bliss was substantially more than originally estimated by the U.S. government as part of its solicitation for this contract. In January 2010, FBWS and the U.S. government entered into a settlement agreement pursuant to which the U.S. government agreed to pay FBWS retroactive operation and maintenance management fees and retroactive renewal and replacement fees from the contract commencement date, October 1, 2004. The payment of these funds is subject to availability of funding by the U.S. government. As such, no amounts will be recorded until an executed contract modification is received from the U.S. government, which is expected during the second quarter of 2010. In addition, the settlement agreement provides that the first and second price redeterminations for FBWS required by the contract be waived.

In January 2010, the City of Big Bear and surrounding areas of San Bernardino County experienced a series of snow storms, which damaged many BVES power lines, poles, transformers, and other facilities and caused temporary interruption of service to many BVES customers. As a result of these storms, BVES has incurred additional operating costs to repair equipment and restore electric service to its customers. While service has been restored to BVES customers, costs are still being incurred to repair equipment affected by the storms. In February 2010, GSWC informed the CPUC it will track these costs in a catastrophic event memorandum account. Once all work resulting from these storms is completed, GSWC intends to file an advice letter with the CPUC for recovery of these costs through a surcharge. At this time, BVES estimates that these

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costs will be approximately $650,000. This estimate includes BVES labor, outside services assistance, equipment, materials, facilities damages and related snow removal services. Management believes that these incremental costs will be approved by the CPUC for recovery.

Two former officers of GSWC filed a lawsuit against both AWR and GSWC alleging among other things, wrongful termination and retaliation against the former officers. On February 15, 2010, the parties agreed to mutually settle the matter and a Settlement Agreement was executed. Among other things, the Settlement Agreement releases Registrant from claims of the former officers. As a result of this matter, Registrant recorded a pre-tax charge of $3.8 million during the fourth quarter of 2009 for legal and settlement costs. This charge has been reflected in administrative and general expenses in the Statement of Income.

The October 15, 2009 decision in the general rate case for BVES allows for an update to BVES rates in 2010 for the corporate headquarters costs based on the CPUC s adoption of new rates for GSWC s current Regions II and III general rate case including the recovery of expenses associated with its corporate headquarters. The general rate case for Regions II, III and the general office has been delayed. In addition, in June 2009, the CPUC had authorized BVES to track the difference between the 2007 adopted general office cost allocation to BVES and the 1996 adopted general office cost allocation to BVES, effective and retroactive from June 4, 2009 to October 31, 2009. The amount in this memorandum account totals approximately $958,000 as of December 31, 2009. However, the decision issued on October 15, 2009 did not address the disposition of this memorandum account. In November 2009, GSWC filed a petition for modification to seek clarification from the CPUC on the treatment and recovery of this memorandum account. In March 2010, the CPUC approved for recovery this memorandum account through a surcharge over a 24-month period. Accordingly, during the first quarter of 2010, GSWC will record a regulatory asset and a corresponding increase to earnings for amounts included in this memorandum account.

Summary Results by Segment

AWR has three reportable segments: water, electric and contracted services. Within the segments, AWR has three principal business units: water and electric service utility operations conducted through GSWC, a water-service utility operation conducted through CCWC, and contracted services conducted through ASUS and its subsidiaries. The tables below set forth summaries of the results by segment (in thousands) for the years ended December 31, 2009 and 2008:

	Operating Revenues				Pretax Operating Income			
	Year Ended 12/31/2009	Year Ended 12/31/2008	$ CHANGE	% CHANGE	Year Ended 12/31/2009	Year Ended 12/31/2008	$ CHANGE	% CHANGE
Water	$ 272,919	$ 247,936	$ 24,983	10.1%	$ 63,776	$ 54,609	$ 9,167	16.8%
Electric	28,922	28,424	498	1.8%	(553)	1,334	(1,887)	-141.5%
Contracted services	59,132	42,358	16,774	39.6%	6,358	(988)	7,346	-743.5%
AWR parent					(87)	(149)	62	-41.6%
Totals from operation	$ 360,973	$ 318,718	$ 42,255	13.3%	$ 69,494	$ 54,806	$ 14,688	26.8%

Water - For the year ended December 31, 2009, pretax operating income for water increased by $9.2 million, or 16.8%, primarily due to a $12.6 million increase in the water dollar margin as compared to 2008, and the goodwill impairment charge of $7.7 million, or $0.27 per share, recorded in 2008 at CCWC in accordance with accounting guidance on goodwill and other intangible assets as more fully described below. This increase was partially offset by an increase in operating expenses of $11.1 million, including higher pension costs. The dollar water margin increased due to higher water rates approved by the CPUC subsequent to December 31, 2008. These higher water rates increased water revenues by $8.3 million, partially offset by lower actual consumption. In addition, as a result of a full year of applying the Water Revenue Adjustment Mechanism (WRAM) in Regions II and III and implementation of the WRAM in Region I s ratemaking areas in September 2009, GSWC recorded $22.5 million of additional revenues in 2009 as compared to $1.3 million for 2008. The revenue requirement and volumetric revenues are adopted as part of a General Rate Case (GRC) every three years. A GRC was filed for Region I in January 2010, with rates effective January 2011 and 2012. GSWC expects to file a GRC for all three water regions in July of 2011 with rates effective January 2013. As part of future GRCs, the CPUC is expected to adopt new volumetric revenues based on historical usage patterns and the revenue requirement adopted in these GRCs.

Although the recording of the WRAM added $22.5 million of water revenues in 2009, this favorable impact to earnings was reduced by $2.2 million of water supply over-collection costs tracked in the Modified Cost Balancing Account (MCBA). The MCBA was also in place for all of 2009 for Regions II and III and beginning in September 2009 for Region I s ratemaking areas. The over-collection in the MCBA account is due to: (i) lower consumption in 2009 as compared to the consumption level adopted by the CPUC, and (ii) a lower percentage of purchased water in the supply mix during 2009 when compared to the supply mix included in customer rates, partially offset by increases in rates charged by GSWC s suppliers. The total increase in the WRAM, net of the MCBA, was $19.5 million for the year ended December 31, 2009 as compared to the same period of 2008. The implementation of the WRAM and MCBA help mitigate fluctuations in GSWC s earnings caused by changes in the volume of water sold and supply costs.

In addition, GSWC recorded $3.1 million of additional water revenues included in the Water Conservation Memorandum Account (WCMA) for all of its water regions in 2009. The CPUC approved an advice letter filing in a separate proceeding to allow GSWC to create and implement a WCMA to track the extraordinary expenses and revenue shortfall associated with conservation measures in conjunction with the declared drought in California. The WCMA was effective August 18, 2008 and was used to track the revenue shortfall until the WRAM was implemented for Regions II and III on November 25, 2008 and for Region I s rate-making areas on September 1, 2009. At November 24, 2008, approximately $2.0 million of net under-collections was included in the WCMA for Regions II and III prior to the

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implementation of the WRAM. On April 16, 2009, the CPUC approved the advice letter filed by GSWC to recover the $2.0 million included in the WCMA for Regions II and III and authorized GSWC to establish a 12-month surcharge to customers bills. The surcharge went into effect on April 21, 2009. Accordingly, GSWC established a $2.0 million regulatory asset, which was recorded as additional water revenues during the second quarter of 2009. In addition, GSWC has established a $1.1 million regulatory asset for Region I s WCMA balance incurred during the period of August 18, 2008 through August 31, 2009 which is also now probable of recovery. In October 2009, GSWC filed an advice letter for recovery of Region I s WCMA, through a 12-month surcharge, for amounts incurred during this period.

Electric For the year ended December 31, 2009, pretax operating income from electric operations decreased by $1.9 million due in large part to a $1.6 million pretax unrealized gain on purchased power contracts included in earnings for the year ended December 31, 2008 with no corresponding gain in 2009. As previously mentioned, the purchased power contracts that impacted GSWC s earnings expired on December 31, 2008. GSWC began taking delivery of power under a new contract effective January 1, 2009. Unrealized gains and losses on this contract do not impact earnings. There was also an increase in operating expenses, including higher pension costs and higher outside consulting and legal costs related to the general rate case and the new purchased power contract. However, these increases in operating costs were partially offset by the recording of $1.0 million in proceeds received in a settlement agreement with Mirant Energy Trading, LLC in May 2009, which reduced previously incurred legal costs.

In October 2009, the CPUC approved BVES s general rate case. The CPUC authorized BVES to establish and implement a Base Revenue Requirement Adjustment Mechanism (BRRAM). The BBRAM decouples customer usage from revenue, which should help mitigate fluctuations in the revenues and earnings of the electric business due to changes in the amount of electricity used by our electric customers. In accordance with the CPUC s decision, GSWC implemented tiered rates in its BVES service area on November 2, 2009 and began recording the difference between what is billed to customers and that which is authorized by the CPUC. For the year ended December 31, 2009, an additional $106,000 in electric revenues was recorded in the BRRAM account.

Contracted Services - For the year ended December 31, 2009, pretax operating income for contracted services increased by $7.3 million, or $0.24 per share. This was primarily due to an increase in construction revenues at FBWS and ODUS, an interim increase in operations and maintenance revenues at FBWS, improved performance at PSUS and ONUS, and lower overall operating expenses. In addition, on September 30, 2009, the U.S. government approved $1.1 million in revenues for an REA filed by PSUS for emergency construction costs mostly incurred in 2008. As a result of the approved REA, ASUS recorded $1.1 million in additional construction revenues and operating income for 2009.

The timely receipt of price redeterminations continues to be critical in order for ASUS to recover increasing costs for operating and maintaining the water and wastewater systems at the military bases. In addition, higher expenses from the General Office and ASUS headquarters allocated to the Military Utility Privatization Subsidiaries were not contemplated at the time the contracts with the U.S. government were negotiated and may be addressed in future price redeterminations. Under the terms of these contracts, the contract price is subject to price redetermination two years after commencement of operations and every three years thereafter.

Redeterminations have been submitted and are under review by the U.S. government for operations of ODUS and TUS in Virginia and Maryland, respectively. The price redeterminations for ODUS is expected to be completed in 2010. Pending redetermination of prices, ODUS has received interim inflation adjustments to the management fees for operating and maintaining the water and wastewater systems for military bases in Virginia, and the wastewater system at Fort Lee, also in Virginia, effective on the second anniversary of the date when ASUS began operating these bases (February 23, 2008 for Fort Lee and April 3, 2008 for the other three bases). ASUS is in discussions with the U.S. government regarding the status of the redetermination filing for TUS as well as an interim inflation adjustment to the management fees under that contract. Management is unable to predict the ultimate outcome of these discussions with the U.S. government or the timing of the finalization of the price redetermination at TUS.

The first price redeterminations for PSUS and ONUS are expected to be filed during the first quarter of 2010.

Management fees for operation and maintenance of the water and wastewater systems at Fort Bliss are based on cost levels prevailing in 2003 when the contract with the U.S. government was bid. Further, the contract pricing was also based on assumptions about the size and age of the infrastructure to be operated and maintained over the 50-year contract. In December 2008, the U.S. government approved an interim adjustment for FBWS which increased the monthly water and wastewater fees by 50% and 59%, respectively, related to operating and maintaining the Fort Bliss systems. The increase was retroactive to October 1, 2008. As previously discussed, in January 2010, FBWS and the U.S. government entered into a settlement agreement regarding the size and age of the Fort Bliss infrastructure.

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These price redeterminations and equitable adjustments, which include adjustments to reflect changes in operating conditions and infrastructure levels from that assumed at the time of the execution of the contracts, are expected to provide added revenues prospectively to help offset increased costs and provide Registrant the opportunity to continue or generate positive operating income at its Military Utility Privatization Subsidiaries. As of December 31, 2009, ASUS has $1.1 million of goodwill, which may be at risk for potential impairment if requested price redeterminations and equitable adjustments that have not yet been approved, are not received.

In September 2009, the U.S. government issued contract modifications to subsidiaries of ASUS. The modifications provided funding for $7.3 million in new construction projects at FBWS, ODUS, TUS and ONUS. The majority of this work will be performed during calendar year 2010. Earnings and cash flows from amendments and modifications to the original 50-year contracts with the U.S. government for additional construction projects may or may not continue in future periods.

The following discussion and analysis for the years ended December 31, 2009, 2008 and 2007 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, CCWC, and ASUS and its subsidiaries.

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Consolidated Results of Operations Years Ended December 31, 2009 and 2008 (amounts in thousands):

	Year Ended 12/31/2009	Year Ended 12/31/2008	$ CHANGE	% CHANGE
OPERATING REVENUES				
Water	$ 272,919	$ 247,936	$ 24,983	10.1%
Electric	28,922	28,424	498	1.8%
Contracted services	59,132	42,358	16,774	39.6%
Total operating revenues	360,973	318,718	42,255	13.3%
OPERATING EXPENSES				
Water purchased	46,113	46,617	(504)	-1.1%
Power purchased for pumping	10,279	10,428	(149)	-1.4%
Groundwater production assessment	11,563	10,623	940	8.8%
Power purchased for resale	12,853	13,616	(763)	-5.6%
Unrealized gain on purchased power contracts		(1,554)	1,554	-100.0%
Supply cost balancing accounts	12,434	(387)	12,821	-3312.9%
Other operation expenses	29,476	30,076	(600)	-2.0%
Administrative and general expenses	70,145	62,716	7,429	11.8%
Depreciation and amortization	33,557	31,562	1,995	6.3%
Maintenance	17,529	16,331	1,198	7.3%
Property and other taxes	13,068	12,312	756	6.1%
ASUS construction expenses	33,717	23,872	9,845	41.2%
Goodwill impairment charge		7,700	(7,700)	-100.0%
Loss on settlement for removal of wells	760		760	100.0%
Net gain on sale of property	(15)		(15)	-100.0%
Total operating expenses	291,479	263,912	27,567	10.4%
OPERATING INCOME	69,494	54,806	14,688	26.8%
OTHER INCOME AND EXPENSES				
Interest expense	(22,306)	(21,330)	(976)	4.6%
Interest income	947	1,837	(890)	-48.4%
Other	221	71	150	211.3%
	(21,138)	(19,422)	(1,716)	8.8%
INCOME FROM OPERATIONS BEFORE INCOME TAX EXPENSE	48,356	35,384	12,972	36.7%
Income tax expense	18,825	13,379	5,446	40.7%
NET INCOME	$ 29,531	$ 22,005	$ 7,526	34.2%

Net income for the year ended December 31, 2009 was $29.5 million, equivalent to $1.63 and $1.62 per common share on a basic and fully diluted basis, respectively, compared to $22.0 million or $1.27 and $1.26 per common share on a basic and fully diluted basis, respectively, for the year ended December 31, 2008. Impacting the comparability in the results of the two periods are the following items which increased diluted earnings per share by $0.36:

- An unrealized gain on purchased power contracts in 2008 which increased pretax income by $1.6 million, or $0.05 per share. As previously mentioned, these purchased power contracts that impacted GSWC s earnings expired on December 31, 2008. GSWC began taking delivery of power under a new contract effective January 1, 2009. Unrealized gains and losses on this contract do not impact earnings.

- A goodwill impairment charge of $7.7 million, or $0.27 per share, during the year ended December 31, 2008 related to CCWC. There was no similar impairment charge in 2009.

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• An increase in the water and electric margin of $13.1 million, or $0.43 per share, during the year ended December 31, 2009 compared to the same period of 2008 due primarily to: (i) higher water rates approved by the CPUC effective January 1, 2009; (ii) the water margin impact from an increase in the WRAM, net of the MCBA of approximately $19.5 million as compared to the same period of 2008; and (iii) the recording of $3.1 million of additional revenues due to the CPUC s approval in April 2009 of the Water Conservation Memorandum Accounts (WCMA). These increases were partially offset by lower water consumption of approximately 8% when compared to the same period in 2008.

• A settlement agreement between GSWC and Mirant Energy Trading, LLC, which resulted in the recording of $1.0 million, or $0.03 per share, as a reduction to legal costs during the second quarter of 2009. There was no similar gain in 2008.

• An increase of $12.2 million, or $0.40 per share in operating expenses, other than supply costs and excluding the Mirant settlement discussed above, at the Company s water and electric utility businesses for the year ended December 31, 2009. This was due to an increase in pension expenses, labor and other related benefits, an increase in outside services costs, maintenance expense, and higher depreciation and amortization expense. In addition, on February 15, 2010 a settlement was reached between Registrant and two former officers. As a result of the settlement, a pre-tax charge of $3.8 million for legal and settlement costs was recorded to administrative and general expenses in the fourth quarter of 2009.

• An increase in pretax operating income for contracted services of $7.3 million, or $0.24 per share, during the year ended December 31, 2009 due primarily to: (i) an increase in special construction projects at FBWS and ODUS, (ii) improved performance at PSUS and ONUS as compared to the prior year, and (iii) an additional $1.1 million in construction revenues recorded at PSUS in the third quarter of 2009 as a result of the approval by the U.S. government of a request for an equitable adjustment relating to previously incurred emergency construction costs.

• The recording of a loss by CCWC on the settlement for removal of wells of $760,000, or $0.02 per share, as a result of a decision issued by the ACC on October 8, 2009.

• An increase in interest expense net of interest income of $1.9 million, or $0.06 per share, due primarily to: (i) an increase in long-term debt from the issuance of $40.0 million of notes in March 2009; (ii) GSWC s recording of $480,000 interest income, during the second quarter of 2008 in connection with revisions to AWR s 2002 income tax return, with no similar gain in 2009; (iii) the recording of $412,000 of interest expense in the interest rate balancing account approved by the CPUC in July 2009 in the cost of capital proceeding; and (iv) lower interest income in 2009 of $392,000 accrued in the Aerojet litigation memorandum account balance.

• A decrease of $0.06 per share due to an increase in the weighted average number of common shares outstanding resulting from the issuance of 1.1 million shares of AWR s Common Shares in a public offering completed in May 2009.

• An increase in the effective tax rate (ETR) during the year ended December 31, 2009 as compared to the same period in 2008 negatively impacted earnings by $0.07 per share due primarily to changes between book and taxable income that are treated as flow-through adjustments in accordance with regulatory requirements. This increase in the ETR was partially offset by a tax benefit of $918,000 recorded in the first quarter of 2009 resulting from new California apportionment laws as well as the refinement of certain related estimates. This increase favorably impacted earnings by $0.05 per share.

Operating Revenues

Water

For the year ended December 31, 2009, revenues from water operations increased by 10.1% to $272.9 million, compared to $247.9 million for the year ended December 31, 2008. Contributing to this increase were rate increases approved by the CPUC effective January 1, 2009, which added approximately $8.3 million to water revenues in 2009. In addition, as a result of the implementation of the WRAM accounts for Regions II and III in late November of 2008 and in Region I s ratemaking areas in September 2009, GSWC recorded an increase of $21.2 million of additional revenues for the year ended 2009 as compared to the same period in 2008. Furthermore, GSWC recorded a total of $3.1 million in the WCMA accounts for GSWC s water regions. There also was an increase in water revenues of $6.4 million due to surcharges approved by the CPUC in effect to recover under-collections in supply costs. These increases were primarily offset by approximately $13.0

million resulting from a decrease in actual consumption of approximately 8% when compared to the year ended December 31, 2008. Although precipitation was overall lower in 2009 compared to the same period in 2008, water consumption was down due to the continued effects of state-wide customer conservation efforts. In addition, 2008 included approximately $764,000 of additional revenues approved by the CPUC, which did not recur in 2009.

GSWC s revenue requirement and volumetric revenues will be adopted as part of a GRC every three years. GSWC filed its Region I GRC in January 2010 for new rates in 2011 and 2012. GSWC will file a GRC for all three water regions in July of 2011 with rates effective January 2013. As part of future GRCs, the CPUC is expected to adopt new volumetric revenues based on historical usage patterns and the revenue requirement adopted in these GRCs.

Electric

For the year ended December 31, 2009, revenues from electric operations increased by 1.8% to $28.9 million compared to $28.4 million for the year ended December 31, 2008 due primarily to rate increases approved by the CPUC and the implementation of the Base Revenue Requirement Adjustment Mechanism, in November 2009.

Contracted Services

Revenues from contracted services are comprised 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 year ended December 31, 2009, revenues from contracted services increased by $16.8 million, or 39.6%, to $59.1 million compared to $42.4 million for the year ended December 31, 2008 primarily due to higher construction revenues. Construction revenues increased by $16.1 million primarily related to new construction projects at FBWS and ODUS, which increased construction revenues by $6.6 million and $7.8 million, respectively. Construction revenues for the year ended December 31, 2009 at PSUS and ONUS increased $3.8 million, including the government approved request for equitable adjustment of $1.1 million recorded in 2009 for PSUS as previously discussed. Increased construction revenues at these four bases were partially offset by lower construction revenues of $2.1 million at TUS. Earnings and cash flows from new construction projects may or may not continue in future periods.

For the year ended December 31, 2009, management fees for operating and maintaining the various systems totaled $13.4 million as compared to $12.8 million for the year ended December 31, 2008. In December 2008, the U.S. government authorized an interim adjustment at FBWS retroactive to October 2008, which increased the monthly water and wastewater fees by 50% and 59%, respectively, pending resolution of FBWS s request for an equitable adjustment due to higher inventory at FBWS than described in the request for proposal. This resulted in an increase of approximately $877,000 to FBWS management fees for operating and maintaining the water and wastewater systems for the year ended December 31, 2009 as compared to the same period of 2008. An additional $933,000 in revenue was generated from management fees for operating and maintaining the water and wastewater systems under the contracts for Fort Jackson and Fort Bragg which commenced during the first quarter of 2008, as a result of a full year of operations in 2009. These increases were partially offset by $1.3 million in one-time transition revenues for the start up of operations for Fort Jackson and Fort Bragg in 2008.

Registrant relies upon rate approvals by state regulatory agencies in California and Arizona to provide for a return on invested and borrowed capital used to fund utility plant, and price redeterminations and equitable adjustments by the U.S. government in order to recover operating expenses and profit margin. If adequate rate relief and price redeterminations and adjustments are not granted in a timely manner, operating revenues and earnings can be negatively impacted.

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 (including the cost of natural gas) and the electric supply cost balancing account. Water and electric margins are computed by taking total revenues, less total supply costs. Registrant uses these 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 our operating budget as approved. However, this measure, which is 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, which is determined in accordance with GAAP, as an indicator of operating performance.

Total supply costs comprise the largest segment of total operating expenses. Supply costs accounted for approximately 32.0% and 30.7% of total operating expenses for the year ended December 31, 2009 and 2008, respectively.

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The table below provides the amount of increases (decreases), percent changes in supply costs, and margins during the year ended December 31, 2009 and 2008 (amounts in thousands):

	Year Ended 12/31/2009	Year Ended 12/31/2008	$ CHANGE	% CHANGE
WATER OPERATING REVENUES **(1)**	$ 272,919	$ 247,936	$ 24,983	10.1%
WATER SUPPLY COSTS:				
Water purchased **(1)**	$ 46,113	$ 46,617	$ (504)	-1.1%
Power purchased for pumping **(1)**	10,279	10,428	(149)	-1.4%
Groundwater production assessment **(1)**	11,563	10,623	940	8.8%
Water supply cost balancing accounts **(1)**	9,296	(2,784)	12,080	-433.9%
TOTAL WATER SUPPLY COSTS	$ 77,251	$ 64,884	$ 12,367	19.1%
WATER MARGIN **(2)**	$ 195,668	$ 183,052	$ 12,616	6.9%
PERCENT MARGIN - WATER	71.7%	73.8%		
ELECTRIC OPERATING REVENUES **(1)**	$ 28,922	$ 28,424	$ 498	1.8%
ELECTRIC SUPPLY COSTS:				
Power purchased for resale **(1)**	$ 12,853	$ 13,616	$ (763)	-5.6%
Electric supply cost balancing accounts **(1)**	3,138	2,397	741	30.9%
TOTAL ELECTRIC SUPPLY COSTS	$ 15,991	$ 16,013	$ (22)	-0.1%
ELECTRIC MARGIN **(2)**	$ 12,931	$ 12,411	$ 520	4.2%
PERCENT MARGIN - ELECTRIC	44.7%	43.7%		

(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 is shown on AWR s Consolidated Statements of Income and totaled $12,434,000 and ($387,000) for the year ended December 31, 2009 and 2008, respectively.

(2) Water and electric margins do not include any depreciation and amortization, maintenance expense, unrealized gains and losses on purchased power contracts, or other operating expenses.

Two of the principal factors affecting water supply costs and gross margin 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. In addition, GSWC is authorized to establish water and electric supply cost balancing accounts for increases and/or decreases in costs due to changes in rates charged by its suppliers which provide purchased water and purchased power, and by agencies assessing groundwater related pump taxes for water service areas in California. Higher or lower actual costs as compared to costs authorized by the CPUC will either be recovered from or refunded to customers in the future.

Prior to November 2008, changes in the water resource mix between water supplied from purchased sources and that supplied from Registrant s wells would increase/decrease actual supply-related costs relative to the mix approved for recovery through rates, thereby impacting earnings either negatively or positively. On August 21, 2008, the CPUC issued a final decision which approved the establishment of a modified cost balancing account or MCBA that allows recovery of supply costs for changes in water supply mix. GSWC implemented the MCBA in late November 2008 for Regions II and III and in September 2009 for Region I s rate-making areas prospectively in connection with the new conservation rate design and the implementation of a WRAM. Under the MCBA, GSWC began tracking adopted expense levels for purchased water, purchased power and pump taxes, as established by the CPUC. Variances (which include the effects of changes in both rate and volume) between adopted and actual purchased water, purchased power, and pump tax expenses are recorded as a component of the supply cost balancing account provision. The amount of such variances will be recovered from or refunded to GSWC s customers at a later date. This is reflected with an offsetting entry to a regulatory asset or liability balancing account (tracked individually for each water ratemaking area).

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For the year ended December 31, 2009, 38.9% of the Company s water supply mix was purchased as compared to 42.0% purchased for the year ended December 31, 2008. However, as noted previously, GSWC implemented the MCBA which eliminates the effects on earnings of changes in the water supply mix prospectively. The adopted percentages of purchased water for the year ended December 31, 2009 at Regions I, II and III were 24.6%, 61.7% and 43.7%, respectively, as compared to actual purchased water of 24.0%, 41.0% and 41.5%, respectively, for 2009. Region I s supply mix consists primarily of pumped water. The variance in Regions II s actual mix compared to the mix approved by the CPUC resulted in an over-collection in the MCBA account. This caused an overall decrease in the water margin percentage to 71.7% for 2009 compared to 73.8% in 2008 since GSWC no longer receives any benefit from a more favorable supply mix than that approved by the CPUC.

Purchased water costs for the year ended December 31, 2009 decreased by 1.1% to $46.1 million as compared to $46.6 million in 2008. The decrease in purchased water costs was due to lower customer usage, partially offset by higher water rates charged from wholesale suppliers.

For the year ended December 31, 2009, power purchased for pumping decreased to $10.3 million, compared to $10.4 million for 2008. This was due to lower customer demand, partially offset by increases in supplier rates. There were also changes in the actual supply mix, as discussed above. Groundwater production assessments were higher by 8.8% due primarily to increases in assessment rates (pump tax rates) levied against groundwater production, effective July 2009. In particular, Region II s average pump tax rates increased by approximately 19% or $1.1 million between the two periods. These increases in groundwater production assessments were partially offset by lower customer demand. The MCBA tracks the increases in pump tax rates for future recovery in water rates.

An increase of $12.1 million in the water supply cost balancing account provision during the year ended December 31, 2009 as compared to the same period in 2008 was primarily caused by: (i) a $6.4 million increase in the amortization of the water supply cost balancing accounts for surcharges currently in effect; (ii) the recording of $1.7 million in the MCBA accounts; (iii) a net decrease of $3.7 million of under-collections in 2009 (only related to Region I prior to its implementation of the MCBA on September 1, 2009) compared to 2008, and (iv) the recording of a $181,000 net under-collection adjustment relating to Region III s pre-2001 supply costs which were approved by the CPUC in May of 2008. Upon approval by the CPUC, a regulatory asset was established for these previously incurred supply costs.

For the year ended December 31, 2009, the cost of power purchased for resale to customers in GSWC s BVES division decreased by 5.6% to $12.9 million compared to $13.6 million for the year ended December 31, 2008 reflecting lower customer demand. In addition, GSWC began receiving power under a new purchased power contract on January 1, 2009. The main product under the new contract provides for 13 MWs of electric energy at a fixed price of $63.75 per MWh during 2009 as compared to $74.65 during 2008. The decrease in the price of purchased power is reflected in the electric supply cost balancing account resulting in no change to the dollar margin for electric services.

Unrealized Gain on Purchased Power Contracts

Pursuant to the accounting guidance for derivatives, the unrealized gain on purchased power contracts during 2008 represented gains recorded for GSWC s purchased power agreements. There was a $1.6 million pretax unrealized gain on purchased power contracts for the year ended December 31, 2008. These contracts terminated on December 31, 2008 and GSWC began taking delivery under a new purchased power contract in January 2009. In May 2009, the CPUC issued a final decision approving the contract and authorizing a memorandum account to track unrealized gains and losses. Accordingly, a cumulative unrealized loss of $7.3 million as of December 31, 2009 has been included in the memorandum account. This unrealized loss did not impact earnings.

Other Operation Expenses

The primary components of other operation expenses include payroll, materials and supplies, chemicals and water treatment, 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 costs as well. For the year ended December 31, 2009 and 2008, other operation expenses by segment consisted of the following (amounts in thousands):

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	Year Ended 12/31/2009	Year Ended 12/31/2008	$ CHANGE	% CHANGE
Water Services	$ 23,735	$ 23,232	$ 503	2.2%
Electric Services	2,324	2,230	94	4.2%
Contracted Services	3,417	4,614	(1,197)	-25.9%
Total other operation expenses	$ 29,476	$ 30,076	$ (600)	-2.0%

For the year ended December 31, 2009, other operation expenses for water and electric services increased by $597,000, or 2.3%, primarily due to higher operation labor and related benefits of $543,000, and an increase of $54,000 in other operation expenses.

Contracted services experienced decreases in other operation expenses of $1.2 million primarily due to transition costs (some of which exceeded non-recurring transition revenues recovered pursuant to the terms of contracts executed by ASUS) of $1.0 million incurred during the year ended December 31, 2008 as a result of the commencement of the operation of water and wastewater systems at Fort Jackson and Fort Bragg. There was also a decrease of approximately $593,000 in outside services costs partly attributable to payments to a subcontractor that provided wastewater services to certain of ASUS subsidiaries in 2008. On January 31, 2008, ASUS and its subsidiaries agreed to buy out all current and future rights which this subcontractor had to provide wastewater services at any bases operated by ASUS and any of its present and/or future subsidiaries. For the year ended December 31, 2009, many of these services were performed internally, some of which are recorded in labor costs within maintenance expense. These decreases were partially offset by an increase of $370,000 relating to operation labor and benefits, and an increase of $26,000 in other miscellaneous operation expenses.

Administrative and General Expenses

Administrative and general expenses include payroll related to administrative and general functions, the related employee benefits charged to expense accounts, insurance expenses, outside legal and consulting fees, regulatory utility commission expenses, expenses associated with being a public company, and general corporate expenses. For the year ended December 31, 2009 and 2008, administrative and general expenses by segment, including AWR (parent), consisted of the following (amounts in thousands):

	Year Ended 12/31/2009	Year Ended 12/31/2008	$ CHANGE	% CHANGE
Water Services	$ 51,720	$ 45,036	$ 6,684	14.8%
Electric Services	7,312	6,857	455	6.6%
Contracted Services	11,028	10,675	353	3.3%
AWR (parent)	85	148	(63)	-42.6%
Total administrative and general expenses	$ 70,145	$ 62,716	$ 7,429	11.8%

For the year ended December 31, 2009, administrative and general expenses increased by $6.7 million in water services compared to the year ended December 31, 2008 due primarily to: (i) an increase of $3.1 million in pension expenses resulting from a reduction in the fair value of plan assets in 2008 caused by market conditions at the time; (ii) a settlement agreement reached with two former officers of GSWC which resulted in a charge of $3.8 million during the fourth quarter of 2009 for legal and settlement costs; and (iii) an increase of $898,000 in labor and other employee benefits. These increases were partially offset by $590,000 of additional compensation expense incurred in 2008 relating to an agreement executed by the Company with respect to the resignation of a GSWC officer effective September 26, 2008. This expense did not recur in 2009. There was also a decrease in travel costs of $289,000 and a decrease of $235,000 in other miscellaneous administrative

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and general expenses.

For the year ended December 31, 2009, administrative and general expenses increased by $455,000 in electric services compared to the year ended December 31, 2008 due primarily to: (i) a $382,000 increase in labor costs and pension costs; (ii) a $347,000 increase in outside consulting, legal and other services resulting from the current general rate case and the new purchased power contract; (iii) an increase in general rate case costs of $363,000 not being recovered in customer rates related to BVES s rate case; (iv) an increase of $336,000 in allocation of costs from the corporate headquarters to BVES; and (v) an increase of $27,000 in other administrative expenses. These increases were partially offset by the recording of $1.0 million as a reduction to previously incurred legal costs in connection with a settlement agreement reached with Mirant Energy Trading, LLC, as previously discussed.

There was an increase of $353,000 in administrative and general expenses for contracted services due primarily to an increase of $1.2 million in labor costs and related employee benefits. This increase was partially offset by a decrease in legal and consulting services of $823,000 resulting from reduced need for such services relating to filings with the U.S. government and costs incurred in 2008 related to the liquidated damages claim at FBWS, which was settled in February 2009. There was also a decrease of $24,000 in other miscellaneous expenses.

Depreciation and Amortization

For the year ended December 31, 2009 and 2008, depreciation and amortization by segment consisted of the following (amounts in thousands):

	Year Ended 12/31/2009	Year Ended 12/31/2008	$ CHANGE	% CHANGE
Water Services	$ 30,635	$ 28,840	$ 1,795	6.2%
Electric Services	2,258	2,209	49	2.2%
Contracted Services	664	513	151	29.4%
Total depreciation and amortization	$ 33,557	$ 31,562	$ 1,995	6.3%

For the year ended December 31, 2009, depreciation and amortization expense for water and electric services increased by $1.8 million to $32.9 million compared to $31.0 million for year ended December 31, 2008 reflecting, among other things, $73.6 million of additions to utility plant during 2008, depreciation on which began in January 2009. Registrant anticipates that depreciation expense will continue to increase due to ongoing construction at its regulated subsidiaries. Registrant believes that depreciation expense related to property additions approved by the appropriate regulatory agency will be recovered through water and electric rates.

There was an increase in depreciation and amortization expense for contracted services due primarily to the addition of fixed assets associated with taking over the assets of ASUS former subcontractor for wastewater services at FBWS, ODUS, and TUS and the purchase of wastewater cleaning vehicles at four of ASUS military base operations.

Maintenance

For the year ended December 31, 2009 and 2008, maintenance expense by segment consisted of the following (amounts in thousands):

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		Year Ended 12/31/2009		Year Ended 12/31/2008		$ CHANGE	% CHANGE
Water Services	$	13,957	$	12,993	$	964	7.4%
Electric Services		878		805		73	9.1%
Contracted Services		2,694		2,533		161	6.4%
Total maintenance	$	17,529	$	16,331	$	1,198	7.3%

For the year ended December 31, 2009, maintenance expense for water services increased by $964,000 to $14.0 million compared to $13.0 million for the year ended December 31, 2008 due primarily to maintenance on GSWC s wells, water supply and distribution facilities at Regions II and III. GSWC s maintenance expense at its three water regions increased by $806,000 during 2009 compared to 2008. In addition, there was an increase of $150,000 in maintenance costs at CCWC.

There was an increase of $73,000 in maintenance expenses for electric services related to the 8.4 MW natural gas-fueled generation plant.

An increase of $161,000 in contracted services maintenance expense was due primarily to increased maintenance costs of $236,000 at FBWS and ODUS, resulting from higher internal labor costs associated with wastewater services performed by employees that were provided by a subcontractor prior to February 2008. These increases were partially offset by decreased maintenance costs at PSUS, which incurred higher emergency maintenance costs in 2008 as a result of the age and condition of the infrastructure upon commencement of operations at Fort Jackson in South Carolina. These costs were a portion of the REA for PSUS previously discussed and for which some recovery has been received from the U.S. government. Further recovery of such costs is pending a final determination by the U.S. government.

Property and Other Taxes

For the year ended December 31, 2009 and 2008, property and other taxes by segment, consisted of the following (amounts in thousands):

		Year Ended 12/31/2009		Year Ended 12/31/2008		$ CHANGE	% CHANGE
Water Services	$	11,101	$	10,641	$	460	4.3%
Electric Services		713		530		183	34.5%
Contracted Services		1,254		1,141		113	9.9%
Total property and other taxes	$	13,068	$	12,312	$	756	6.1%

For the year ended December 31, 2009, property and other taxes for water and electric services increased by $643,000, due to higher payroll taxes and franchise fees, partially offset by lower property taxes as a result of a tax refund of $488,000 due to lower reassessed property values.

Property and other taxes were higher in contracted services due to an increase in payroll taxes resulting from an increase in the number of employees.

ASUS Construction Expenses

For the year ended December 31, 2009, ASUS s construction expenses were $33.7 million, increasing $9.8 million compared to the same period in 2008 due primarily to new construction projects at FBWS and ODUS, which had increases of $5.2 million and $5.7 million, respectively, as compared to 2008. These increases were partially offset by a $1.6 million decrease in construction expense at TUS and a $688,000 decrease at PSUS. For the year ended December 31, 2008, PSUS

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incurred expenses of $935,000 in emergency construction and $379,000 in anticipated losses associated with certain construction projects at Fort Jackson. In 2009, such emergency costs were lower and additional anticipated losses were not incurred. Construction costs at ONUS increased by $1.2 million as compared to the same period in 2008.

Goodwill Impairment Charge

During 2008, a charge of $7.7 million was recorded to reflect the impairment of goodwill in accordance with accounting guidance related to goodwill and other intangible assets. As required by this accounting guidance, Registrant tests goodwill annually for impairment at the reporting unit level, or when events or circumstances indicate the carrying values may not be recoverable. Registrant evaluates goodwill for impairment using discounted cash flow methodologies, transaction values for comparable companies, and other valuation techniques for reporting units with goodwill balances. The realization of goodwill is dependent on expected future cash flows from the underlying operations. Forecasted revenues and capital expenditures, which include forecasted customer connection growth and the timing and amount of regulated rate increases, are key components of the discounted cash flow projections.

During the 2008 impairment analysis, Registrant determined that revenue growth for its Arizona utility, CCWC, was likely to be slower than originally projected due to downturns in overall economic conditions and lower than anticipated rate increases. Based on this goodwill impairment analysis, $7.7 million of goodwill associated with CCWC was found to be impaired and was charged to expense during the fourth quarter of 2008. The current impairment analysis performed for 2009 did not indicate impairment for the current amount of $3.3 million in goodwill for CCWC or the $1.1 million in goodwill for ASUS.

Loss on Settlement for Removal of Wells

In 2005, in an agreement with the Fountain Hills Sanitary District (FHSD), CCWC agreed to permanently cease using one of its wells in order for the FHSD to secure an Aquifer Protection Permit for its recharge system. Based on previous decisions ruled by the ACC on similar gains, CCWC recognized a net gain of $760,000 (50% of the proceeds) in 2005 related to the settlement agreement and established a regulatory liability for the remaining $760,000 pending the ACC s review of this matter. On October 8, 2009, the ACC ordered CCWC to treat the entire settlement proceeds of $1,520,000 as a reduction to rate base. As a result, CCWC recognized a loss of $760,000 during the third quarter of 2009. This effectively reverses the original gain recorded in 2005. In November 2009, CCWC filed an application for rehearing on several issues including the sharing of this gain from the settlement proceeds. The ACC granted CCWC s request to hold a rehearing on the issues. On January 27, 2010, a procedural conference was held with the judge and the staff of the ACC involved in the rate case to address a schedule for the rehearing. The rehearing is now scheduled for April 9, 2010.

Net Gain on Sale of Property

For the year ended December 31, 2009, Registrant recorded a pre-tax gain of $15,000 on the sale of property in the water services segment. There was no similar gain in the same period of 2008.

Interest Expense

For the year ended December 31, 2009 and 2008, interest expense by segment, including AWR (parent) consisted of the following (amounts in thousands):

	Year Ended 12/31/2009	Year Ended 12/31/2008	$ CHANGE	% CHANGE
Water and Electric Services	$ 21,805	$ 20,105	$ 1,700	8.5%
Contracted Services	358	893	(535)	-59.9%
AWR (parent)	143	332	(189)	-56.9%
Total interest expense	$ 22,306	$ 21,330	$ 976	4.6%

Overall, interest expense increased in 2009 reflecting an increase in long-term debt, partially offset by lower interest rates and lower short-term borrowings. On March 10, 2009, GSWC issued a senior note in the amount of $40.0 million to CoBank due March 10, 2019 with an interest rate of 6.7%. In addition, a decision issued in July 2009 in the GSWC cost of

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capital proceeding authorized an interest rate balancing account to track interest costs of new debt. This balancing account tracks any difference between the incremental cost of debt included in the cost of capital decision and the actual cost of debt for any long-term debt issued by GSWC from the effective date of the final decision. This difference totaled $412,000 for the year ended December 31, 2009 and was included in the balancing account, increasing interest expense. These increases were partially offset by a decrease in short-term cash borrowings. Average bank loan balances outstanding under the AWR credit facility for the year ended December 31, 2009 were approximately $34 million, as compared to an average of $57 million during the same period of 2008. The average interest rate on short-term borrowings for the year ended December 31, 2009 was 1.18% as compared to an average of 3.32% during 2008.

Interest Income

For the year ended December 31, 2009 and 2008, interest income by segment, including AWR (parent) consisted of the following (amounts in thousands):

		Year Ended 12/31/2009		**Year Ended 12/31/2008**		**$ CHANGE**	**% CHANGE**
Water and Electric Services	$	934	$	1,780	$	(846)	-47.5%
Contracted Services		7		5		2	40.0%
AWR (parent)		6		52		(46)	-88.5%
Total interest income	$	947	$	1,837	$	(890)	-48.4%

Interest income decreased by approximately $890,000 for the year ended December 31, 2009 due to the recording in 2008 of $480,000 in interest income in connection with the IRS s examination of the 2002 income tax return, with no similar income in 2009. In addition, lower interest rates for the year ended December 31, 2009 as compared to the same period of 2008 resulted in a decrease in interest income, including a decrease of $392,000 in interest accrued on the uncollected balance of the Aerojet litigation memorandum account authorized by the CPUC.

Other

For the year ended December 31, 2009 and 2008, Registrant recorded other income of $112,000 and $71,000, respectively, as a result of Registrant s equity interest in an investment. In 2009, Registrant established a Rabbi Trust for the SERP Plan. Investment income earned in this Trust of $109,000 was also included in other income during 2009.

Income Tax Expense

For the year ended December 31, 2009 and 2008, income tax expense by segment, including AWR (parent), consisted of the following (amounts in thousands):

	Year Ended 12/31/2009	Year Ended 12/31/2008	$ CHANGE	% CHANGE
Water and Electric Services	$ 17,561	$ 14,343	$ 3,218	22.4%
Contracted Services	2,226	(726)	2,952	-406.6%
AWR (parent)	(962)	(238)	(724)	304.2%
Total income tax expense	$ 18,825	$ 13,379	$ 5,446	40.7%

For the year ended December 31, 2009, income tax expense for water and electric services increased by 22.4% to $17.6 million compared to $14.3 million for the year ended December 31, 2008 due primarily to an increase in pretax income. In addition, the effective tax rate (ETR) for water and electric services for the year ended December 31, 2009 increased to approximately 41.3% as compared to a 38.1% ETR applicable for the year ended December 31, 2008. The ETR deviates from the combined federal and state statutory rate primarily due to state taxes and changes between book and taxable income that are treated as flow-through adjustments in accordance with regulatory requirements (principally plant, rate case and compensation-related items). Flow-through adjustments increase or decrease tax expense in one period, with an offsetting increase or decrease occurring in another period.

Income tax expense for contracted services increased to $2.2 million compared to a tax benefit of $726,000 for the year ended December 31, 2008 due primarily to an increase in pretax income. The ETR for contracted services for the year ended December 31, 2009 was 37.1% as compared to a 38.6% ETR applicable to the year ended December 31, 2008.

AWR (parent) receives a tax benefit for expenses incurred at the parent-company level. For the year ended December 31, 2009, the taxes recorded at AWR (parent) also include the effect of a change in California law during the first quarter of 2009. On February 20, 2009, California s governor signed two bills into law that amended and added several new provisions to California s Revenue and Taxation Code. One of the provisions in these bills changed the manner by which most taxpayers may compute the portion of their income derived from multiple jurisdictions that is subject to California taxation. During the first quarter of 2009, AWR applied the change in tax law resulting from enactment of the bills based on its understanding of the legislature s intent, which is to permit taxpayers to apply an alternative apportionment method commencing with the 2011 tax year. On October 11, 2009, California s governor signed a bill into law that conformed the new provision s language to the legislature s intent, consistent with AWR s understanding of that intent. As a result of management s intention to apply the alternative method, AWR adjusted its deferred tax balances in the first quarter of 2009 to reflect the expected amount at which it will realize its California deferred taxes consistent with the change in tax law, and refined certain related estimates. This resulted in the recording of a benefit of approximately $918,000, or $0.05 per share, during the first quarter of 2009, without a material change through the end of 2009. While the effect of the tax law change will continue to affect AWR s state taxes, the future effects may be beneficial or detrimental depending on a combination of the profitability of AWR s non-California activities as well as the relative proportion of the factor(s) applied by its apportionment method. Periodically, management will assess its intention to apply the alternative method and will adjust its deferred tax balances accordingly. Absent this tax benefit, the consolidated ETR for the year ended December 31, 2009 would have been 40.8%.

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Consolidated Results of Operations Years Ended December 31, 2008 and 2007 (amounts in thousands):

	Year Ended 12/31/2008	Year Ended 12/31/2007	$ CHANGE	% CHANGE
OPERATING REVENUES				
Water	$ 247,936	$ 237,882	$ 10,054	4.2%
Electric	28,424	28,574	(150)	-0.5%
Contracted services	42,358	34,914	7,444	21.3%
Total operating revenues	318,718	301,370	17,348	5.8%
OPERATING EXPENSES				
Water purchased	46,617	45,439	1,178	2.6%
Power purchased for pumping	10,428	10,591	(163)	-1.5%
Groundwater production assessment	10,623	9,944	679	6.8%
Power purchased for resale	13,616	14,199	(583)	-4.1%
Unrealized gain on purchased power contracts	(1,554)	(2,100)	546	-26.0%
Supply cost balancing accounts	(387)	(1,962)	1,575	-80.3%
Other operation expenses	30,076	27,375	2,701	9.9%
Administrative and general expenses	62,716	52,637	10,079	19.1%
Depreciation and amortization	31,562	28,941	2,621	9.1%
Maintenance	16,331	15,779	552	3.5%
Property and other taxes	12,312	11,254	1,058	9.4%
ASUS construction expenses	23,872	22,125	1,747	7.9%
Goodwill impairment charge	7,700		7,700	100.0%
Net gain on sale of property		(584)	584	-100.0%
Total operating expenses	263,912	233,638	30,274	13.0%
OPERATING INCOME	54,806	67,732	(12,926)	-19.1%
OTHER INCOME AND EXPENSES				
Interest expense	(21,330)	(21,582)	252	-1.2%
Interest income	1,837	2,371	(534)	-22.5%
Other	71	299	(228)	-76.3%
	(19,422)	(18,912)	(510)	2.7%
INCOME FROM OPERATIONS BEFORE INCOME TAX EXPENSE	35,384	48,820	(13,436)	-27.5%
Income tax expense	13,379	20,790	(7,411)	-35.6%
NET INCOME	$ 22,005	$ 28,030	$ (6,025)	-21.5%

Net income for the year ended December 31, 2008 was $22.0 million, equivalent to $1.27 and $1.26 per common share on a basic and fully diluted basis, respectively, compared to $28.0 million or $1.62 and $1.61 per common share on a basic and fully diluted basis, respectively, for the year ended December 31, 2007. Impacting the comparability in the results of the two periods on a fully diluted per share basis are the following significant items:

- A goodwill impairment charge of $7.7 million, or $0.27 per share, during the year ended December 31, 2008 related to CCWC.

- An unrealized gain on purchased power contracts which increased pretax income during the year ended December 31, 2008 by $1.6 million, or $0.05 per share, as compared to $2.1 million, or $0.07 per share, for the same period in 2007, a net decrease of $0.02 per share.

- Increased water rates partially offset by higher water supply costs contributed $0.41 per share to earnings while an approximate 5% decrease in water usage during the year ended December 31, 2008 resulted in a $7.5 million decrease in water revenues, or $0.18 per share. The 2008 water revenues appear to have been impacted by the effects of state-wide customer conservation efforts. With the implementation of the WRAM and MCBA for

Regions II and III in late November 2008, earnings were favorably impacted by approximately $0.03 per share in the fourth quarter of 2008 that would have previously been lost due to conservation. Therefore, the net impact due to lower sales in 2008 was $0.15 per share. As a result of these individual factors, the overall dollar water margin increased by $7.5 million, or $0.26 per share, during the year ended December 31, 2008.

- Pretax operating income for contracted services declined by $3.0 million, or $0.10 per share, during the year ended December 31, 2008 due primarily to losses incurred at Fort Bragg in North Carolina and Fort Jackson in South Carolina. ASUS commenced operation of water and wastewater systems at these military bases during the first quarter of 2008 and incurred higher than anticipated transition, maintenance and emergency construction costs as well as projected losses on certain construction contracts. Current estimates of construction costs compared to contract revenues indicate losses on certain initial capital upgrade projects. Modifications or change orders had not yet been approved by the U.S. government, and therefore, the anticipated losses on these projects and pre-contract costs were recorded in construction expenses during 2008. As discussed previously, on September 30, 2009, the U.S. government approved an REA filed by PSUS in 2008 for $1.1 million in revenues and operating income, which addresses a portion of these pre-contract costs. The remaining amounts are currently being negotiated with the U.S. government.

- Registrant recorded a net gain on sale of property of $584,000, or $0.02 per share, during the year ended December 31, 2007. There was no similar gain in the same period of 2008.

- GSWC recorded $480,000 in interest income, or $0.02 per share, during the second quarter of 2008 in connection with the IRS s examination of the 2002 income tax return.

- A significant decrease in the effective income tax rate during the year ended December 31, 2008 as compared to the same period in 2007 favorably impacted earnings by $0.10 per share during 2008. These decreases were due primarily to changes between book and taxable income that are treated as flow-through adjustments in accordance with regulatory requirements.

- Higher other expenses at GSWC in 2008 primarily consisting of administrative, general, depreciation and other operating expenses as described below, contributed to an overall decrease of $0.32 per diluted share to the results of operations.

Operating Revenues

Water

For the year ended December 31, 2008, revenues from water operations increased by 4.2% to $247.9 million, compared to $237.9 million for the year ended December 31, 2007. Primarily contributing to this increase were the following: (i) rate increases in all three GSWC water regions approved by the CPUC effective January 1, 2008, which added approximately $13.2 million to water revenues during the year ended December 31, 2008; (ii) an increase in water revenues of $2.1 million due to the surcharge approved by the CPUC effective in May 2008 to recover Region III s under-collection in supply costs; this increase in revenues was offset by a corresponding amount in the supply cost balancing accounts discussed below, resulting in no impact to pretax operating income; (iii) the adoption of the WRAM effective November 25, 2008 at which time GSWC began recording the difference between what is billed to its metered customers in Regions II and III and that which is authorized by the CPUC; GSWC recorded $1.3 million of additional revenues caused by the under-collection in the WRAM accounts during the month of December 2008, and (iv) the recording of $541,000 in July 2008 of additional revenues in connection with corrections to the rate calculation for Region III.

These increases in water revenues were partially offset by a decrease of approximately 5% in water consumption due to conservation during 2008, which caused water revenues to be lower by approximately $7.5 million. The implementation of the WRAM should help mitigate fluctuations in Registrant s future revenues due to changes in water consumption. The decline in the number of customers did not result in a significant decrease in water revenues.

Electric

For the year ended December 31, 2008, revenues from electric operations decreased by 0.5% to $28.4 million compared to $28.6 million for the year ended December 31, 2007 due to a decrease of 2.2% in electric usage and lower connection and reconnection fees. The effects of lower electric usage were partially offset by an adjustment of $437,000 in December 2007 resulting from BVES low income program balancing account which reduced electric revenues during 2007. There was no similar adjustment made during 2008.

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Contracted Services

Revenues from contracted services are composed of construction revenues and management fees for operating and maintaining the water and/or wastewater systems at military bases. For the year ended December 31, 2008, revenues from contracted services increased by $7.4 million, or 21.3%, to $42.4 million compared to $34.9 million for the year ended December 31, 2007. Approximately $5.0 million in new revenue was generated from management fees for operating and maintaining the water and wastewater systems at Fort Bragg in North Carolina and Fort Jackson in South Carolina, both of which began during the first quarter of 2008. There was also approximately $4.9 million in construction and transition revenues at these two bases.

At the other bases under existing contracts in 2008 and 2007, there was an increase of $666,000 in management fees due primarily to interim increases at FBWS and ODUS. This was offset by a net decrease of $3.1 million in construction revenues at these existing bases during 2008 when compared to 2007. In 2007, a wastewater expansion project at Fort Bliss generated $20.6 million of construction revenues out of a total of $29.0 million for all ASUS subsidiaries during the year ended December 31, 2007. The project was completed in August 2007 and did not recur in 2008. Although there was no similar singularly significant project during 2008, ASUS subsidiaries did undertake similar construction activities in 2008 that were on a smaller scale and collectively helped replace construction revenues generated from the wastewater expansion project in 2007. Earnings and cash flows from amendments and modifications to the original 50-year contracts with the U.S. government for construction projects may or may not continue in future periods.

Operating Expenses:

Supply Costs

Supply costs accounted for approximately 30.7% and 33.5% of total operating expenses for the year ended December 31, 2008 and 2007, respectively. The table below provides the amount of increases (decreases), percent changes in supply costs, and margins during the year ended December 31, 2008 and 2007 (amounts in thousands):

		Year Ended 12/31/2008		**Year Ended 12/31/2007**		**$ CHANGE**	**% CHANGE**
WATER OPERATING REVENUES **(1)**	$	247,936	$	237,882	$	10,054	4.2%
WATER SUPPLY COSTS:							
Water purchased **(1)**	$	46,617	$	45,439	$	1,178	2.6%
Power purchased for pumping **(1)**		10,428		10,591		(163)	-1.5%
Groundwater production assessment **(1)**		10,623		9,944		679	6.8%
Water supply cost balancing accounts **(1)**		(2,784)		(3,648)		864	-23.7%
TOTAL WATER SUPPLY COSTS	$	64,884	$	62,326	$	2,558	4.1%
WATER MARGIN **(2)**	$	183,052	$	175,556	$	7,496	4.3%
PERCENT MARGIN - WATER		73.8%		73.8%			
ELECTRIC OPERATING REVENUES **(1)**	$	28,424	$	28,574	$	(150)	-0.5%
ELECTRIC SUPPLY COSTS:							

Power purchased for resale **(1)**	$	13,616	$	14,199	$	(583)	-4.1%
Electric supply cost balancing accounts **(1)**		2,397		1,686		711	42.2%
TOTAL ELECTRIC SUPPLY COSTS	$	16,013	$	15,885	$	128	0.8%
ELECTRIC MARGIN **(2)**	$	12,411	$	12,689	$	(278)	-2.2%
PERCENT MARGIN - ELECTRIC		43.7%		44.4%			

(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 is shown on AWR s Consolidated Statements of Income and totaled ($387,000) and ($1,962,000) for the year ended December 31, 2008 and 2007, respectively.

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(2) Water and electric margins do not include any depreciation and amortization, maintenance expense, unrealized gains and losses on purchased power contracts or other operating expenses.

Prior to November 2008, changes in the water resource mix between water supplied from purchased sources and that supplied from Registrant s wells would increase/decrease actual supply-related costs relative to the mix approved for recovery through rates, thereby impacting earnings either negatively or positively. On August 21, 2008, the CPUC issued a final decision which approved the establishment of a modified cost balancing account that allows recovery of supply costs for changes in water supply mix. GSWC implemented the MCBA in November 2008 prospectively in connection with the new conservation rate design and the implementation of a WRAM to decouple sales from revenues. Under the MCBA, GSWC began tracking adopted expense levels for purchased water, purchased power and pump taxes, as established by the CPUC. Variances (which include the effects of changes in both rate and volume) between adopted and actual purchased water, purchased power, and pump tax expenses are recorded as a component of the supply cost balancing account provision, as the amount of such variances will be recovered from or refunded to GSWC s customers at a later date. This is reflected with an offsetting entry to a current asset or liability balancing account (tracked individually for Regions II and III).

For the year ended December 31, 2008, 40.1% of GSWC s water supply mix was purchased as compared to 40.5% purchased for the year ended December 31, 2007. Because the cost of water purchased is generally higher than pumped water from GSWC s wells, this change in mix resulted in a slight improvement in water s percent margin prior to November 2008 compared to the same period in 2007. As noted above, in November 2008 GSWC implemented the MCBA for Regions II and III which eliminates the effects of changes in the water supply mix prospectively.

Purchased water costs for the year ended December 31, 2008 increased by 2.6% to $46.6 million as compared to $45.4 million in 2007. The increase in purchased water due to higher water rates charged from wholesale suppliers was offset by lower customer usage and the slight favorable change in the supply mix discussed above. In general, the supply cost balancing account as discussed above allows GSWC to track incremental rate changes from suppliers for future recovery in water rates. The favorable change in the supply mix allowed GSWC to serve a portion of the customer demand from groundwater production rather than wholesale purchases, primarily because of the return to service or replacement of wells which had been removed from service in 2007 as a result of water quality issues and mechanical problems.

For the year ended December 31, 2008, the decrease of 1.5% in power purchased for pumping was principally due to lower customer demand, partially offset by a favorable change in the supply mix, as discussed above. Groundwater production assessments were higher by 6.8% due to a favorable change in supply mix and increases in assessment rates (pump tax rates) levied against groundwater production, effective July 2007 and 2008. Average pump tax rates increased in Regions II and III by approximately 3% and 6%, respectively, between the two periods. These increases in groundwater production assessments were partially offset by lower customer demand. The supply cost balancing account and MCBA tracks the increases in pump tax rates for future recovery in water rates.

The supply cost balancing account tracks differences between the current cost for supply items (water, power, and pump taxes) charged by GSWC s suppliers and the cost for those items incorporated into GSWC s rates. Over-collections occur when the current cost of these items is less than the amount in rates which has the effect of increasing the supply cost balancing account in the Statements of Income. Under-collections occur when the current cost exceeds the amount in rates for these items and, conversely, will have the effect of decreasing the supply cost balancing account in the Statements of Income. Typically, over-collections or under-collections, when they occur, are tracked in the supply cost balancing accounts for future refund or recovery through a surcredit (in the event of an over-collection) or surcharge (in the event of an under-collection) on customers bills. Once in rates, the amortization of surcharges that are in place to recover under-collections from customers have the effect of increasing the supply cost balancing account and increasing revenues in the Statements of Income, resulting in no earnings impact. Conversely, the amortization of surcredits that are in rates to refund over-collections to customers have the effect of decreasing the supply cost balancing account and decreasing revenues, also resulting in no earnings impact.

An increase of $864,000 in the water supply cost balancing account provision during the year ended December 31, 2008 as compared to the same period in 2007 was primarily caused by: (i) a $2.8 million increase in the amortization of the water supply cost balancing accounts for surcharges currently in effect; (ii) the recording of $497,000 in the MCBA accounts effective November 25, 2008, and (iii) a $310,000 decrease in interest earned on the supply cost balancing accounts due to lower interest rates, offset by: (i) a net increase totaling $2.5 million of under-collections in 2008 compared to the same period in 2007, and (ii) the recording of a $181,000 net under-collection adjustment relating to Region III s pre-2001 supply costs which were approved by the CPUC in May of 2008; upon approval by the CPUC, a regulatory asset was established for these previously incurred supply costs.

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For the year ended December 31, 2008, the cost of power purchased for resale to customers in GSWC s BVES division decreased by 4.1% to $13.6 million compared to $14.2 million for the year ended December 31, 2007 reflecting primarily lower customer demand and kilowatt-hour usage. Overall, electric s dollar margin decreased by $278,000 due to lower demand and a $579,000 decrease in interest earned on the electric supply cost balancing account due to lower interest rates, partially offset by an adjustment of $437,000 in 2007 resulting from BVES low income program which reduced electric revenues.

Unrealized (Gain) Loss on Purchased Power Contracts

Unrealized (gain) and loss on purchased power contracts represent gains and losses recorded for GSWC s purchased power agreements. There was a $1.6 million pretax unrealized gain on purchased power contracts for the year ended December 31, 2008 compared to $2.1 million for the year ended December 31, 2007. The contract requiring the recording of unrealized gains and losses on the income statement at BVES terminated at December 31, 2008. GSWC began taking delivery under a new purchased power contract in January 2009. In May 2009, the CPUC issued a final decision approving the contract and authorizing a memorandum account to track unrealized gains and losses. As a result, unrealized gains and losses on the new power contract do not impact earnings.

Other Operation Expenses

For the year ended December 31, 2008 and 2007, other operation expenses by segment consisted of the following (amounts in thousands):

	Year Ended 12/31/2008	Year Ended 12/31/2007	$ CHANGE	% CHANGE
Water Services	$ 23,232	$ 21,721	$ 1,511	7.0%
Electric Services	2,230	1,927	303	15.7%
Contracted Services	4,614	3,727	887	23.8%
Total other operation expenses	$ 30,076	$ 27,375	$ 2,701	9.9%

For the year ended December 31, 2008, other operation expenses for water services increased by $1.5 million, or 7.0%, due primarily to an increase: (i) in labor costs of $755,000 due to higher wages and related benefits, and an overall increase in the number of employees; (ii) of $497,000 in bad debt expense due to the economic conditions which affected customers across all water service areas; (iii) of $359,000 in outside legal and consulting services, and (iv) of $101,000 in GSWC s water education program costs in connection with conservation, partially offset by a decrease of $162,000 due to lower water treatment and chemical costs, including the removal of nitrate and perchlorate at various groundwater treatment plants that occurred in 2007. There was a decrease of $39,000 in other expenses.

There was an increase of $303,000 in other operation expenses for electric services primarily due to higher wages and related benefits of $177,000, an increase of $113,000 in bad debt expense and an increase of $13,000 in other expenses.

Contracted services experienced increases in other operation expenses of $887,000 primarily due to the commencement of the operation of water and wastewater systems at Fort Bragg in North Carolina and Fort Jackson in South Carolina that began during the first quarter of 2008. As a result of these new bases, other operating expenses increased by $3.0 million during the year ended December 31, 2008, including $1.0 million in transition costs. These increases were partially offset by decreases at the other military bases during 2008 resulting from lower outside services costs of $1.4 million primarily paid to the subcontractor that provided wastewater services to certain of ASUS subsidiaries. On January 31, 2008, ASUS and its subsidiaries agreed to buy out all current and future rights which this subcontractor had to provide wastewater services at any bases operated by ASUS and any of its present and/or future subsidiaries. For the year ended December 31, 2008, most of these services were performed internally at lower cost, some of which is recorded in labor costs within maintenance expense. There was also a decrease of $791,000 in bad debt expense due to the reversal of previously recorded reserves resulting from collections of past due receivables from the U.S. government, partially offset by an increase of $78,000 in other expenses.

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Administrative and General Expenses

For the year ended December 31, 2008 and 2007, administrative and general expenses by segment, including AWR (parent) consisted of the following (amounts in thousands):

	Year Ended 12/31/2008	Year Ended 12/31/2007	$ CHANGE	% CHANGE
Water Services	$ 45,036	$ 40,527	$ 4,509	11.1%
Electric Services	6,857	5,744	1,113	19.4%
Contracted Services	10,675	6,158	4,517	73.4%
AWR (parent)	148	208	(60)	-28.8%
Total administrative and general expenses	$ 62,716	$ 52,637	$ 10,079	19.1%

For the year ended December 31, 2008, administrative and general expenses increased by $4.5 million in water services compared to the year ended December 31, 2007 due primarily to: (i) an increase of $3.1 million in labor costs and other miscellaneous employee benefits due to higher wages largely related to Registrant s annual performance-based salary review program and an increase in overall number of employees; (ii) additional compensation expenses of $590,000 relating to payments made to a former executive officer under a severance and release agreement; (iii) an increase of $699,000 in outside services including legal, tax and consulting costs, and (iv) an increase of $118,000 in other expenses.

For the year ended December 31, 2008, administrative and general expenses increased by $1.1 million in electric services compared to the year ended December 31, 2007 due primarily to: (i) an increase of $802,000 in allocation of costs from the corporate headquarters to BVES; (ii) a $151,000 increase in labor costs and employee related benefits, and (iii) a $160,000 increase in outside consulting, legal and other services.

There was an increase of $4.5 million in contracted services administrative and general expenses due primarily to an increase of $3.9 million associated with the commencement of the operation of water and wastewater systems at Fort Bragg in North Carolina and Fort Jackson in South Carolina that began during the first quarter of 2008, including allocations from ASUS headquarters and the General Office headquarters. There were also increases at the other bases including: (i) an increase of approximately $217,000 in outside services for legal and consulting work, including costs incurred in connection with a business acquisition, previously discussed; (ii) an approximate $239,000 increase in labor and employee benefit costs, and (iii) a charge of $213,000 relating to the acquisition of the assets of a wastewater subcontractor and the related settlement of the preexisting relationship between ASUS and the wastewater subcontractor used by the Military Utility Privatization Subsidiaries in 2007. These increases were partially offset by a decrease of $62,000 in other expenses.

Depreciation and Amortization

For the year ended December 31, 2008 and 2007, depreciation and amortization by segment consisted of the following (amounts in thousands):