CALIFORNIA WATER SERVICE GROUP
Form 10-Q
August 06, 2010

Table of Contents

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

(Mark One)

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

For the quarterly period ended June 30, 2010

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 1-13883

CALIFORNIA WATER SERVICE GROUP

(Exact name of registrant as specified in its charter)

Delaware	77-0448994
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer identification No.)
1720 North First Street, San Jose, CA.	95112
(Address of principal executive offices)	(Zip Code)

408-367-8200
(Registrant s telephone number, including area code)
Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o
		(Do not check if a smaller reporting company)	

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date. Common shares outstanding as of July 31, 2010 20,802,361

TABLE OF CONTENTS

Table of Contents

PART I FINANCIAL INFORMATION
Item 1.
FINANCIAL STATEMENTS

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

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATED BALANCE SHEETS
Unaudited
(In thousands, except per share data)

	June 30, 2010	December 31, 2009
ASSETS		
Utility plant:		
Utility plant	$ 1,786,888	$ 1,709,062
Less accumulated depreciation and amortization	(533,424)	(510,985)
Net utility plant	1,253,464	1,198,077
Current assets:		
Cash and cash equivalents	5,646	9,866
Receivables:		
Customers	27,031	25,567
Regulatory balancing accounts	8,219	10,513
Other	6,036	9,043
Unbilled revenue	19,350	13,417
Materials and supplies at average cost	5,702	5,530
Taxes, prepaid expenses and other assets	19,654	18,305
Total current assets	91,638	92,241
Other assets:		
Regulatory assets	220,621	204,104
Goodwill	2,615	2,615
Other assets	32,094	28,544
Total other assets	255,330	235,263
	$ 1,600,432	$ 1,525,581
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stock, $.01 par value	$ 208	$ 208
Additional paid-in capital	216,063	215,528
Retained earnings	204,930	204,898
Total common stockholders equity	421,201	420,634
Long-term debt, less current maturities	380,017	374,269

Total capitalization	801,218	794,903
Current liabilities:		
Current maturities of long-term debt	2,923	12,953
Short-term borrowings	55,150	12,000
Accounts payable	48,830	43,689
Regulatory balancing accounts	903	2,430
Accrued interest	4,033	4,258
Accrued expenses and other liabilities	33,905	35,028
Total current liabilities	145,744	110,358
Unamortized investment tax credits	2,318	2,318
Deferred income taxes, net	94,463	91,851
Pension and postretirement benefits other than pensions	143,543	137,127
Regulatory and other liabilities	92,243	85,780
Advances for construction	188,015	185,027
Contributions in aid of construction	132,888	118,217
	$ 1,600,432	$ 1,525,581

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

Table of Contents

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
Unaudited
(In thousands, except per share data)

For the three months ended	June 30, 2010	June 30, 2009
Operating revenue	$ 118,321	$ 116,667
Operating expenses:		
Operations:		
Water production costs	41,834	41,702
Administrative and general	18,480	19,386
Other operations	14,749	14,330
Maintenance	5,158	4,312
Depreciation and amortization	10,638	10,282
Income taxes	7,091	6,789
Property and other taxes	4,087	3,911
Total operating expenses	102,037	100,712
Net operating income	16,284	15,955
Other income and expenses:		
Non-regulated revenue	3,692	3,098
Non-regulated expenses, net	(3,691)	(721)
Gain on sale of non-utility property		72
Income taxes expense on other income and expenses		(992)
Net other income and expenses	1	1,457
Interest expense:		
Interest expense	6,939	5,962
Less: capitalized interest	(1,035)	(640)
Net interest expense	5,904	5,322
Net income	$ 10,381	$ 12,090
Earnings per share		
Basic	$ 0.50	$ 0.58

Diluted	$ 0.50	$ 0.58
Weighted average shares outstanding		
Basic	20,803	20,745
Diluted	20,818	20,767
Dividends declared per share of common stock	$ 0.2975	$ 0.2950

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

Table of Contents

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
Unaudited
(In thousands, except per share data)

For the six months ended	June 30, 2010	June 30, 2009
Operating revenue	$ 208,593	$ 203,280
Operating expenses:		
Operations:		
Water production costs	72,289	70,570
Administrative and general	35,924	38,247
Other operations	28,315	26,786
Maintenance	10,109	8,947
Depreciation and amortization	21,430	20,480
Income taxes	8,499	8,021
Property and other taxes	7,990	7,999
Total operating expenses	184,556	181,050
Net operating income	24,037	22,230
Other income and expenses:		
Non-regulated revenue	7,113	5,979
Non-regulated expenses, net	(7,237)	(3,362)
Gain on sale of non-utility property		675
Income taxes benefit (expense) on other income and expenses	60	(1,330)
Net other (expense) income	(64)	1,962
Interest expense:		
Interest expense	13,428	11,000
Less: capitalized interest	(1,854)	(1,319)
Net interest expense	11,574	9,681
Net income	$ 12,399	$ 14,511
Earnings per share		
Basic	$ 0.60	$ 0.70

Diluted	$ 0.60	$ 0.70
Weighted average shares outstanding		
Basic	20,791	20,738
Diluted	20,806	20,763
Dividends declared per share of common stock	$ 0.5950	$ 0.5900

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

Table of Contents

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited
(In thousands)

For the six months ended:	June 30, 2010	June 30, 2009
Operating activities		
Net income	$ 12,399	$ 14,511
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	22,857	21,614
Gain on sale of non-utility property		(675)
Change in value of life insurance contracts	83	(1,827)
Other changes in noncurrent assets and liabilities	(1,008)	3,729
Changes in operating assets and liabilities:		
Receivables	(2,095)	(12,065)
Accounts payable	5,327	9,916
Other current assets	(1,509)	(5,018)
Other current liabilities	(1,347)	(143)
Other changes, net	(1,851)	518
Net adjustments	20,457	16,049
Net cash provided by operating activities	32,856	30,560
Investing activities:		
Utility plant expenditures	(60,458)	(52,930)
Purchase of life insurance	(1,706)	(1,613)
Proceeds on sale of non-utility property		750
Restricted cash (increase)	(13)	
Net cash used in investing activities	(62,177)	(53,793)
Financing activities:		
Short-term borrowings	43,150	20,000
Repayment of short-term borrowing		(48,000)
Advances and contributions in aid of construction	1,620	2,414
Refunds of advances for construction	(3,018)	(2,520)
Dividends paid	(12,367)	(12,233)
Proceeds from long-term debt, net of issuance cost	7,903	96,610
Repayment of long-term debt	(12,187)	(5,439)
Issuance of common stock		30
Net cash provided by financing activities	25,101	50,862
Change in cash and cash equivalents	(4,220)	27,629

Cash and cash equivalents at beginning of period	9,866	13,869
Cash and cash equivalents at end of period	$ 5,646	$ 41,498
Supplemental information		
Cash paid for interest (net of amounts capitalized)	$ 11,316	$ 8,553
Cash paid for income taxes	$ 45	$ 358
Supplemental disclosure of non-cash activities:		
Accrued payables for investments in utility plant	$ 8,755	$ 7,623
Utility plant contribution by developers	$ 23,239	$ 7,584

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

Table of Contents

CALIFORNIA WATER SERVICE GROUP
Notes to Unaudited Condensed Consolidated Financial Statements
June 30, 2010
(Amounts in thousands, except share and per share amounts)

Note 1. Organization and Operations and Basis of Presentation

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

Basis of Presentation

The unaudited interim financial information has been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X promulgated by the Securities and Exchange Commission (SEC) and therefore do not contain all of the information and footnotes required by GAAP and the SEC for annual financial statements. The condensed consolidated financial statements should be read in conjunction with the Company s consolidated financial statements for the year ended December 31, 2009, included in its annual report on Form 10-K as filed with the SEC on March 1, 2010.

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

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

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

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

The Company evaluated its operations through the time these financial statements were issued and determined there were no subsequent events requiring additional adjustments or disclosures as of the time these financial statements were issued.

Note 2. Summary of Significant Accounting Policies

Revenue

Revenue includes monthly cycle customer billings for regulated water and wastewater services at rates authorized by regulatory commissions and billings to certain non-regulated customers. Revenue from metered customers includes billings to customers based on monthly meter readings plus an estimate for water used between the customer s last meter reading and the end of the accounting period. Flat rate customers are billed in advance at the beginning of the service period. The revenue is prorated so that the portion of revenue applicable to the current accounting period is included in that period s revenue, with the balance recorded as unearned revenue on the balance sheet and recognized as revenue when earned in the subsequent accounting period. In addition, effective July 1, 2008 with the adoption of the Water Revenue Adjustment Mechanism (WRAM) and the Modified Cost Balancing Account (MCBA), Cal Water records the difference between what is billed to its regulated customers and that which is authorized by the California Public Utilities Commission (CPUC).

Under the WRAM, Cal Water records the adopted level of volumetric revenues as authorized by the CPUC for metered accounts (adopted volumetric revenues). In addition to volumetric-based revenues, the revenue requirements approved by the CPUC include

7

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

Under the MCBA, Cal Water tracks adopted expense levels for water production costs (purchased water, purchased power, and pump taxes), as established by the CPUC. Variances (which include the effects of changes in both rate and volume) between adopted and actual purchased water, purchased power, and pump tax expenses are recorded as a component of revenue, as the amount of such variances will be recovered from or refunded to the Company s customers at a later date. This is reflected with an offsetting entry to a current or long-term asset or liability regulatory balancing account (tracked individually for each Cal Water district).

The balances in the WRAM and MCBA assets and liabilities accounts fluctuate on a monthly basis depending upon the variance between adopted and actual results. The recovery or refund of the WRAM is netted against the MCBA over- or under-recovery for the corresponding district and is interest bearing at the current ninety day commercial paper rate. When the net amount for any district achieves a pre-determined level at the end of any calendar year (i.e., at least 2.5 percent over- or under-recovery of the approved revenue requirement), Cal Water will file with the CPUC to refund or collect the balance in the accounts. Account balances less than those levels may be refunded or collected in Cal Water s general rate case proceedings or aggregated with future calendar year balances for comparison with the recovery level. As of June 30, 2010 included in the net regulatory balancing accounts, current and long-term assets were \$8.2 million and \$20.6 million, respectively, and the net regulatory balancing accounts current and long-term liabilities were \$0.9 million and \$1.5 million, respectively. As of December 31, 2009, included in the net regulatory balancing accounts, current and long-term assets were \$10.5 million and \$5.1 million, respectively, and the net regulatory balancing accounts current and long-term liabilities were \$2.4 million and \$0.9 million, respectively.

Note 3. Stock-based Compensation

Long-Term Incentive Plan

The long-term incentive plan was replaced on April 27, 2005, by a stockholder-approved equity incentive plan. The Long-Term Incentive Plan allowed granting of nonqualified stock options, some of which are currently outstanding. There will be no future grants made. The Company had accounted for options using the intrinsic value method. Options were granted at an exercise price that was not less than the per share common stock market price on the date of grant. The options vested at a 25% rate on their anniversary date over their first four years and are exercisable over a ten-year period. At June 30, 2010, options are fully vested and exercisable at a weighted average price of \$25.50. No options were granted for the six-month periods ended June 30, 2010 and 2009.

Equity Incentive Plan

The Company s Equity Incentive Plan, which was approved by shareholders on April 27, 2005, is authorized to issue up to 1,000,000 shares of common stock. As of June 30, 2010 and 2009, the Company granted Restricted Stock Awards (RSAs) of 36,909 and 21,000 shares, respectively, of common stock both to officers and to directors of the Company. Employee options vest over forty-eight months, while director options vest at the end of twelve months. In the second quarters of 2010 and 2009, the shares were valued at \$35.48 and \$38.38 per share, respectively, based upon the fair market value of the Company s common stock on the date of grant.

During the first six months of 2009, the Company granted Stock Appreciation Rights (SARs) to officers of 71,500 shares, which vest ratably over forty-eight months and expire at the end of ten years. The Company did not grant any SARs in 2010.

The Company has recorded compensation costs for the RSAs and SARs in Operating Expense in the amount of \$0.5 million for both the six months ended June 30, 2010 and June 30, 2009.

Note 4. Earnings Per Share Calculations

The computations of basic and diluted earnings per share are noted below. Basic earnings per share are computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts were exercised or converted

Table of Contents

into common stock. RSAs are included in the common shares outstanding because the shares have all the same voting and dividend rights as issued and unrestricted common stock.

The SARs outstanding of 180,210 shares are anti-dilutive for the three and six months ended June 30, 2010 and 2009. All options are dilutive and the dilutive effect is shown in the table below.

(In thousands, except per share data)

	Three Months Ended June 30	
	2010	**2009**
Net income available to common stockholders	$ 10,381	$ 12,090
Weighted average common shares, basic	20,803	20,745
Dilutive common stock options (treasury method)	15	22
Shares used for dilutive computation	20,818	20,767
Net income per share basic	$ 0.50	$ 0.58
Net income per share diluted	$ 0.50	$ 0.58

	Six Months Ended June 30	
	2010	**2009**
Net income available to common stockholders	$ 12,399	$ 14,511
Weighted average common shares, basic	20,791	20,738
Dilutive common stock options (treasury method)	15	25
Shares used for dilutive computation	20,806	20,763
Net income per share basic	$ 0.60	$ 0.70
Net income per share diluted	$ 0.60	$ 0.70

Note 5. Pension Plan and Other Postretirement Benefits

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

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

Cash payments by the Company related to pension plans and other postretirement benefits were $6.6 million for the six months ended June 30, 2010. The estimated cash contribution to the pension plans for 2010 is $23.5 million. The estimated contribution to the other benefits plan for 2010 is $5.6 million.

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

	Three Months Ended June 30	Six Months Ended June 30

	Pension Plan		Other Benefits		Pension Plan		Other Benefits	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Service cost	$ 2,451	$ 2,354	$ 793	$ 954	$ 4,902	$ 4,560	$ 1,586	$ 1,458
Interest cost	3,332	3,158	783	890	6,664	6,176	1,566	1,408
Expected return on plan assets	(2,051)	(1,871)	(279)	(208)	(4,102)	(3,578)	(558)	(393)
Recognized net initial APBO (1)	N/A	N/A	69	69	N/A	N/A	138	138
Amortization of prior service cost	1,649	1,533	29	29	3,298	3,066	58	58
Recognized net actuarial loss	524	505	392	612	1,048	966	784	811
Net periodic benefit cost	$ 5,905	$ 5,679	$ 1,787	$ 2,346	$ 11,810	$ 11,190	$ 3,574	$ 3,480

(1) APBO Accumulated postretirement benefit obligation

Table of Contents

Note 6. Short-term and Long-term Borrowings

California Water Service Group and subsidiaries which it designates may borrow up to $50 million under the Company s short-term credit facility. Cal Water may borrow up to $250 million under its credit facility; however, all borrowings need to be repaid within twelve months unless otherwise authorized by the CPUC.

Both short-term unsecured credit agreements contain affirmative and negative covenants and events of default customary for credit facilities of this type including, among other things, limitations and prohibitions relating to additional indebtedness, liens, mergers, and asset sales. Also, these unsecured credit agreements contain financial covenants governing the Company and its subsidiaries consolidated total capitalization ratio and interest coverage ratio. As of June 30, 2010, the Company has met all borrowing covenants for both credit agreements.

As of June 30, 2010 and 2009, the outstanding borrowings on the Company lines of credit were $20.2 million and $12 million, respectively, and borrowings on the Cal Water lines of credit were $35 million and none, respectively. During the six months ended June 30, 2010, we added new long-term debt of $7.9 million to fund Cal Water and Washington Water capital projects and repaid debt of $12.2 million.

Note 7. Commitment and Contingencies

Commitments

The Company has significant commitments to lease certain office spaces and water systems, and for the purchase of water from water wholesalers. These commitments are described in footnote 15 of the current report on Form 10-K.

Contingencies

Groundwater Contamination

The Company has been and is involved in litigation against third parties to recover past and future costs related to ground water contamination in our service areas. The cost of litigation is expensed as incurred and any settlement is first offset against such costs. Any settlement in excess of the cost to litigate is accounted for on a case by case basis, dependent upon the nature of the settlement.

The Company is involved in a lawsuit against major oil refineries regarding the contamination of the ground water as a result of the gas additive Methyl *tert*-butyl ether (MTBE). The Company entered into a partial settlement with the defendants in April of 2008 that represent approximately 70% of the responsible parties (as determined by the Superior Court). On October 22, 2008, the Company received $34.2 million after deducting attorneys fees and litigation expenses. The Company is aggressively pursuing legal action against the remaining responsible parties. The Company has filed with the Commission to determine the appropriate regulatory treatment of the proceeds. It anticipates that the proceeds will be used on MTBE qualified capital investments. When an agreement is reached with the Commission regarding the regulatory treatment, the Company will adjust the accounting of the settlement, accordingly.

The Company has recorded the proceeds to replace the infrastructure damaged or lost due to the MTBE contamination in accordance with the Internal Revenue Code Section 1033. This treatment will reduce the tax basis of the replacement property and therefore deferring any taxable gain.

As previously reported, the Company has filed with the City of Bakersfield, in the Superior Court of California, a lawsuit that names potentially responsible parties, who manufactured and distributed products containing 1,2,3 trichloropropane (TCP) in California. TCP has been detected in the ground water. The lawsuit seeks to recover treatment costs necessary to remove TCP. The Court has now coordinated our action with other water purveyor cases (TCP Cases JCCP 4435) in San Bernardino County. No trial date has yet been set. The Company has entered into a settlement with one of the distributor defendants, FMC Corporation. The Company will record the proceeds in a memorandum account until the Commission approves an allocation between ratepayers and shareholders.

Table of Contents

The Company has filed in San Mateo County Superior Court a complaint (*California Water Service Company v. The Dow Chemical Company, et al.* CIV 473093) against potentially responsible parties that manufactured and distributed products in California, which contained perchloroethylene, also known as tetrachloroethylene (PCE) for recovery of past, present, and future treatment costs. The case has not been consolidated with other PCE cases. Discovery is underway and no trial date has yet been set.

Other Legal Matters

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

From time to time, the Company is involved in various disputes and litigation matters that arise in the ordinary course of business. The status of each significant matter is reviewed and assessed for potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount of the range of loss can be estimated, a liability is accrued for the estimated loss in accordance with the accounting standards for contingencies. Legal proceedings are subject to uncertainties, and the outcomes are difficult to predict. Because of such uncertainties, accruals are based on the best information available at the time. While the outcome of these disputes and litigation matters cannot be predicted with any certainty, management does not believe when taking into account existing reserves the ultimate resolution of these matters will materially affect the Company s financial position, results of operations, or cash flows.

Note 8. Fair Value of Financial Instruments

For those financial instruments for which it is practicable to estimate a fair value, the following methods and assumptions were used. For cash equivalents, accounts receivable and accounts payable, the carrying amounts approximated the fair value because of the short-term maturity of the instruments. The fair value of the Company s long-term debt was estimated at $391 million and $367 million as of June 30, 2010 and December 31, 2009, respectively, using the published quoted market price, if available, or the discounted cash flow analysis, based on the current rates available to the Company for debt of similar maturities and credit risk. The book value of the long-term debt was $380 million and $374 million as of June 30, 2010 and December 31, 2009, respectively. The fair value of advances for construction contracts was estimated at $76 million as of June 30, 2010 and $74 million as of December 31, 2009.

Note 9. Condensed Consolidating Financial Statements

The following tables present the condensed consolidating statements of income of California Water Service Group (Guarantor and Parent), Cal Water (issuer and wholly-owned consolidated subsidiary of California Water Service Group) and other wholly-owned subsidiaries of the Company for the six-month periods ended June 30, 2010 and 2009, the condensed consolidating statements of cash flows for the six-months ended June 30, 2010 and 2009 and the condensed consolidating balance sheets as of June 30, 2010 and December 31, 2009. The information is presented utilizing the equity method of accounting for investments in consolidating subsidiaries.

Table of Contents

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING BALANCE SHEET
As of June 30, 2010
(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS					
Utility plant:					
Utility plant	$	$ 1,661,713	$ 132,374	$ (7,199)	$ 1,786,888
Less accumulated depreciation and amortization		(509,185)	(25,434)	1,195	(533,424)
Net utility plant		1,152,528	106,940	(6,004)	1,253,464
Current assets:					
Cash and cash equivalents		2,669	2,977		5,646
Receivables and unbilled revenue		56,510	4,126		60,636
Receivables from affiliates	22,165	11,369	2,976	(36,510)	
Other current assets	110	24,065	1,181		25,356
Total current assets	22,275	94,613	11,260	(36,510)	91,638
Other assets:					
Regulatory assets		218,674	1,947		220,621
Investments in affiliates	422,143			(422,143)	
Long-term affiliate notes receivable	9,529			(9,529)	
Other assets	476	27,187	7,251	(205)	34,709
Total other assets	432,148	245,861	9,198	(431,877)	255,330
	$ 454,423	$ 1,493,002	$ 127,398	$ (474,391)	$ 1,600,432
CAPITALIZATION AND LIABILITIES					
Capitalization:					
Common stockholders equity	$ 421,202	$ 390,332	$ 38,204	$ (428,537)	$ 421,201
Affiliate long-term debt			9,529	(9,529)	
Long-term debt, less current maturities		375,622	4,395		380,017
Total capitalization	421,202	765,954	52,128	(438,066)	801,218
Current liabilities:					
Current maturities of long-term debt		2,246	677		2,923
Short-term borrowings	20,150	35,000			55,150
Payables to affiliates	12,868	315	23,327	(36,510)	
Accounts payable		45,232	4,501		49,733
Accrued expenses and other liabilities	203	32,086	5,611	38	37,938
Total current liabilities	33,221	114,879	34,116	(36,472)	145,744

Unamortized investment tax credits		2,318			2,318
Deferred income taxes, net		92,941	1,375	147	94,463
Pension and postretirement benefits other than pensions		143,543			143,543
Regulatory and other liabilities		81,371	10,872		92,243
Advances for construction		186,475	1,540		188,015
Contributions in aid of construction		105,521	27,367		132,888
	$ 454,423	$ 1,493,002	$ 127,398	$ (474,391)	$ 1,600,432

Table of Contents

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING BALANCE SHEET
As of December 31, 2009
(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS					
Utility plant:					
Utility plant	$	$ 1,604,680	$ 111,581	$ (7,199)	$ 1,709,062
Less accumulated depreciation and amortization		(488,577)	(23,538)	1,130	(510,985)
Net utility plant		1,116,103	88,043	(6,069)	1,198,077
Current assets:					
Cash and cash equivalents	532	6,000	3,334		9,866
Receivables	28	54,117	4,395		58,540
Receivables from affiliates	11,026	12,827	2,140	(25,993)	
Other current assets		23,025	810		23,835
Total current assets	11,586	95,969	10,679	(25,993)	92,241
Other assets:					
Regulatory assets		202,268	1,836		204,104
Investments in affiliates	422,287			(422,287)	
Long-term affiliate notes receivable	11,155			(11,155)	
Other assets		24,026	7,337	(204)	31,159
Total other assets	433,442	226,294	9,173	(433,646)	235,263
	$ 445,028	$ 1,438,366	$ 107,895	$ (465,708)	$ 1,525,581
CAPITALIZATION AND LIABILITIES					
Capitalization:					
Common stockholders equity	$ 420,634	$ 389,127	$ 39,592	$ (428,719)	$ 420,634
Affiliate long-term debt			11,155	(11,155)	
Long-term debt, less current maturities		370,900	3,369		374,269
Total capitalization	420,634	760,027	54,116	(439,874)	794,903
Current liabilities:					
Current maturities of long-term debt		12,246	707		12,953
Short-term borrowings	12,000				12,000
Payables to affiliates	11,983	12	13,998	(25,993)	
Accounts payable	86	41,405	4,628		46,119
Accrued expenses and other liabilities	325	34,580	4,369	12	39,286
Total current liabilities	24,394	88,243	23,702	(25,981)	110,358

Unamortized investment tax credits		2,318			2,318
Deferred income taxes, net		90,330	1,374	147	91,851
Pension and postretirement benefits other than pensions		137,127			137,127
Regulatory and other liabilities		74,956	10,824		85,780
Advances for construction		183,555	1,472		185,027
Contributions in aid of construction		101,810	16,407		118,217
	$ 445,028	$ 1,438,366	$ 107,895	$ (465,708)	$ 1,525,581

Table of Contents

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING STATEMENT OF INCOME
For the three months ended June 30, 2010
(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
Operating revenue	$	$ 111,376	$ 6,945	$	$ 118,321
Operating expenses:					
Operations:					
Water production costs		39,556	2,278		41,834
Administrative and general		16,581	1,899		18,480
Other operations		12,954	2,049	(254)	14,749
Maintenance		4,951	207		5,158
Depreciation and amortization		10,113	590	(65)	10,638
Income taxes (benefit)	(71)	7,134	(381)	409	7,091
Property and other taxes		3,567	520		4,087
Total operating expenses	(71)	94,856	7,162	90	102,037
Net operating income (loss)	71	16,520	(217)	(90)	16,284
Other Income and Expenses:					
Non-regulated revenue	290	2,313	1,560	(471)	3,692
Non-regulated expense, net		(2,593)	(1,098)		(3,691)
Income tax (expense) benefit on other income and expense	(118)	109	(191)	200	
Net other income (expense)	172	(171)	271	(271)	1
Interest:					
Interest expense	174	6,730	379	(344)	6,939
Less: capitalized interest		(706)	(329)		(1,035)
Net interest expense	174	6,024	50	(344)	5,904
Gross income (loss)	69	10,325	4	(17)	10,381
Equity earnings of subsidiaries	10,312			(10,312)	
Net income	$ 10,381	$ 10,325	$ 4	$ (10,329)	$ 10,381

Table of Contents

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING STATEMENT OF INCOME
For the six months ended June 30, 2010
(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
Operating revenue	$	$ 194,989	$ 13,604	$	$ 208,593
Operating expenses:					
Operations:					
Water production costs		68,023	4,266		72,289
Administrative and general		32,021	3,903		35,924
Other operations		24,727	3,842	(254)	28,315
Maintenance		9,756	353		10,109
Depreciation and amortization		20,280	1,215	(65)	21,430
Income taxes (benefit)	(95)	8,622	(437)	409	8,499
Property and other taxes		6,948	1,042		7,990
Total operating expenses	(95)	170,377	14,184	90	184,556
Net operating income (loss)	95	24,612	(580)	(90)	24,037
Other Income and Expenses:					
Non-regulated revenue	530	4,772	2,714	(903)	7,113
Non-regulated expense, net		(5,175)	(2,062)		(7,237)
Gain on sale on non-utility property					
Income tax (expense) benefit on other income and expense	(216)	164	(270)	382	60
Net other income (expense)	314	(239)	382	(521)	(64)
Interest:					
Interest expense	234	13,099	745	(650)	13,428
Less: capitalized interest		(1,260)	(594)		(1,854)
Net interest expense	234	11,839	151	(650)	11,574
Gross income (loss)	175	12,534	(349)	39	12,399
Equity earnings of subsidiaries	12,224			(12,224)	
Net income (loss)	$ 12,399	$ 12,534	$ (349)	$ (12,185)	$ 12,399

Table of Contents

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING STATEMENT OF INCOME
For the three months ended June 30, 2009
(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
Operating revenue	$	$ 109,797	$ 6,870	$	$ 116,667
Operating expenses:					
Operations:					
Water production costs		39,979	1,723		41,702
Administrative and general		17,303	2,083		19,386
Other operations		12,386	2,058	(114)	14,330
Maintenance		4,054	258		4,312
Depreciation and amortization		9,448	869	(35)	10,282
Income taxes (benefit)	(40)	6,953	(242)	118	6,789
Property and other taxes		3,444	467		3,911
Total operating expenses	(40)	93,567	7,216	(31)	100,712
Net operating income (loss)	40	16,230	(346)	31	15,955
Other Income and Expenses:					
Non-regulated revenue	181	1,987	1,249	(319)	3,098
Non-regulated expense, net		87	(808)		(721)
Gain on sale of properties		77	(5)		72
Income tax (expense) on other income and expense	(74)	(876)	(146)	104	(992)
Net other income	107	1,275	290	(215)	1,457
Interest:					
Interest expense	98	5,812	257	(205)	5,962
Less: capitalized interest		(505)	(135)		(640)
Net interest expense	98	5,307	122	(205)	5,322
Equity earnings of subsidiaries	12,041			(12,041)	
Net income (loss)	$ 12,090	$ 12,198	$ (178)	$ (12,020)	$ 12,090

Table of Contents

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING STATEMENT OF INCOME
For the six months ended June 30, 2009
(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
Operating revenue	$	$ 190,073	$ 13,207	$	$ 203,280
Operating expenses:					
Operations:					
Water production costs		67,059	3,511		70,570
Administrative and general		34,542	3,705		38,247
Other operations		23,417	3,597	(228)	26,786
Maintenance		8,574	373		8,947
Depreciation and amortization		18,883	1,666	(69)	20,480
Income taxes (benefit)	(65)	8,132	(359)	313	8,021
Property and other taxes		6,953	1,046		7,999
Total operating expenses	(65)	167,560	13,539	16	181,050
Net operating income (loss)	65	22,513	(332)	(16)	22,230
Other Income and Expenses:					
Non-regulated revenue	352	3,944	2,296	(613)	5,979
Non-regulated expense, net		(1,655)	(1,707)		(3,362)
Gain on sale of properties		675			675
Income tax (expense) on other income and expense	(144)	(1,207)	(264)	285	(1,330)
Net other income and expense	208	1,757	325	(328)	1,962
Interest:					
Interest expense	159	10,728	498	(385)	11,000
Less: capitalized interest		(1,050)	(269)		(1,319)
Net interest expense	159	9,678	229	(385)	9,681
Equity earnings of subsidiaries	14,397			(14,397)	
Net income (loss)	$ 14,511	$ 14,592	$ (236)	$ (14,356)	$ 14,511

Table of Contents

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
For the six months ended June 30, 2010
(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
Operating activities:					
Net income (loss)	$ 12,399	$ 12,534	$ (349)	$ (12,185)	$ 12,399
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Equity earnings of subsidiaries	(12,224)			12,224	
Dividends received from affiliates	12,367			(12,367)	
Depreciation and amortization		21,619	1,303	(65)	22,857
Change in value of life insurance contracts		83			83
Other changes in noncurrent assets and liabilities		(753)	(255)		(1,008)
Changes in operating assets and liabilities:					
Net increase (decrease) in advances to affiliates	(10,159)	1,761	8,398		
Other changes, net	(229)	(3,127)	1,855	26	(1,475)
Net adjustments	(10,245)	19,583	11,301	(182)	20,457
Net cash provided by (used in) operating activities	2,154	32,117	10,952	(12,367)	32,856
Investing activities:					
Utility plant expenditures		(50,686)	(9,772)		(60,458)
Purchase of life insurance		(1,706)			(1,706)
Restricted cash decrease		(13)			(13)
Proceeds from affiliate long-term debt	1,531			(1,531)	
Net cash provided by (used in) investing activities	1,531	(52,405)	(9,772)	(1,531)	(62,177)
Financing Activities:					
Short-term borrowings	8,150	35,000			43,150
Repayment of short-term borrowings					
Repayment of affiliate long-term borrowings			(1,531)	1,531	
Proceeds from long-term debt		5,805	2,098		7,903
Repayment of long-term borrowings		(11,083)	(1,104)		(12,187)
Advances and contributions in aid for construction		1,563	57		1,620
Refunds of advances for construction		(2,999)	(19)		(3,018)
Dividends paid to non-affiliates	(12,367)				(12,367)
Dividends paid to affiliates		(11,329)	(1,038)	12,367	
Issuance of common stock					
Net cash provided by (used in) financing activities	(4,217)	16,957	(1,537)	13,898	25,101

Change in cash and cash equivalents	(532)	(3,331)	(357)		(4,220)
Cash and cash equivalents at beginning of period	532	6,000	3,334		9,866
Cash and cash equivalents at end of period	$	$ 2,669	$ 2,977	$	$ 5,646

Table of Contents

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
For the six months ended June 30, 2009
(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
Operating activities:					
Net income (loss)	$ 14,511	$ 14,592	$ (236)	$ (14,356)	$ 14,511
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Equity earnings of subsidiaries	(14,397)			14,397	
Dividends received from affiliates	12,233			(12,233)	
Depreciation and amortization		19,838	1,845	(69)	21,614
Gain on sale of non-utility property		(675)			(675)
Change in value of life insurance contracts		(1,827)			(1,827)
Other changes in noncurrent assets and liabilities	890	4,124	(1,288)	3	3,729
Changes in operating assets and liabilities:					
Net increase (decrease) in advances to affiliates	(1,147)	2,780	(1,633)		
Other changes, net	768	(8,196)	611	25	(6,792)
Net adjustments	(1,653)	16,044	(465)	2,123	16,049
Net cash provided by (used in) operating activities	12,858	30,636	(701)	(12,233)	30,560
Investing activities:					
Utility plant expenditures		(48,917)	(4,013)		(52,930)
Sale of non-utility property		750			750
Purchase of life insurance		(1,613)			(1,613)
Proceeds from affiliates long-term debt	289			(289)	
Net cash provided by (used in) investing activities	289	(49,780)	(4,013)	(289)	(53,793)
Financing Activities:					
Short-term borrowings		20,000			20,000
Repayment of short-term borrowings		(48,000)			(48,000)
Repayment of affiliate long-term borrowings			(289)	289	
Proceeds from long-term debt, net of issuance cost of $3,390		96,610			96,610
Repayment of long-term borrowings		(5,034)	(405)		(5,439)
Advances and contributions in aid for construction		2,257	157		2,414
Refunds of advances for construction		(2,495)	(25)		(2,520)
Dividends paid to non-affiliates	(12,233)				(12,233)
Dividends paid to affiliates		(11,249)	(984)	12,233	
Issuance of common stock	30				30

Net cash provided by (used in) financing activities	(12,203)	52,089	(1,546)	12,522	50,862
Change in cash and cash equivalents	944	32,945	(6,260)		27,629
Cash and cash equivalents at beginning of period	427	3,025	10,417		13,869
Cash and cash equivalents at end of period	$ 1,371	$ 35,970	$ 4,157	$	$ 41,498

19

Table of Contents

Item 2
MANAGEMENT S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Dollar amounts in thousands, except where otherwise noted and per share amounts)
FORWARD LOOKING STATEMENTS

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

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

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

changes in regulatory commissions policies and procedures;

the timeliness of regulatory commissions actions concerning rate relief;

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

new legislation;

changes in accounting valuations and estimates;

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

electric power interruptions;

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

fluctuations in interest rates;

changes in environmental compliance and water quality requirements;

acquisitions and the ability to successfully integrate acquired companies;

the ability to successfully implement business plans;

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

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

our ability to attract and retain qualified employees;

labor relations matters as we negotiate with the unions;

- federal health care law changes could result in increases to Company health care costs and additional income tax expenses in future years;
- implementation of new information technology systems;
- changes in operations that result in an impairment to acquisition goodwill;
- restrictive covenants in or changes to the credit ratings on current or future debt that could increase financing costs or affect the ability to borrow, make payments on debt, or pay dividends;
- general economic conditions, including changes in customer growth patterns and our ability to collect billed revenue from customers;
- changes in customer water use patterns and the effects of conservation;
- the impact of weather on water sales and operating results;
- the ability to satisfy requirements related to the Sarbanes-Oxley Act and other regulations on internal controls; and
- the risks set forth in Risk Factors included elsewhere in this quarterly report.

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

CRITICAL ACCOUNTING POLICIES

We maintain our accounting records in accordance with accounting principles generally accepted in the United States of America (GAAP) and as directed by the regulatory commissions to which we are subject. The process of preparing financial statements in accordance with GAAP requires the use of estimates and assumptions on the part of management. The estimates and assumptions used by management are based on historical experience and our understanding of current facts and circumstances. Management believes that the following accounting policies are critical because they involve a higher degree of complexity and judgment, and can have a material impact on our results of operations and financial condition. These policies and their key characteristics are discussed in detail in the 2009 Form 10-K. They include:

- revenue recognition and the water revenue adjustment mechanism;
- expense balancing and memorandum accounts;
- modified cost balancing accounts;
- regulatory utility accounting;
- income taxes;
- pension benefits;
- workers compensation and other claims;

goodwill accounting and evaluation for impairment; and

contingencies

Table of Contents

For the three and six month periods ended June 30, 2010, there were no changes in the methodology for computing critical accounting estimates, no additional accounting estimates met the standards for critical accounting policies, and there were no material changes to the important assumptions underlying the critical accounting estimates.

Table of Contents

RESULTS OF SECOND QUARTER 2010 OPERATIONS COMPARED TO
SECOND QUARTER 2009 OPERATIONS
Amounts in thousands except share data

Overview

Second quarter of 2010 net income was $10.4 million equivalent to $0.50 per diluted common share compared to net income of $12.1 million or $0.58 per diluted common share in the second quarter of 2009. The decrease in net income is primarily due to a significant reduction to other income and expenses mostly from a decline in the cash surrender value of life insurance contracts associated with our benefit plans. In addition, interest expenses increased $0.6 million as a result of the issuance of $100 million of first mortgage bonds on April 17, 2009 and additional short-term borrowings of $43.2 million during 2010 on the unsecured revolving lines of credit.

Operating Revenue

Operating revenue increased $1.7 million or 1% to $118.3 million in the second quarter of 2010. As disclosed in the following table, the increase was due to rate increases, partially offset by a reduction in customer usage and other changes.

The factors that impacted the operating revenue for the second quarter of 2010 compared to 2009 are presented in the following table:

Rate increases	$ 8,083
Net change due to actual versus adopted results, usage, and other	(6,429)
Net operating revenue increase	$ 1,654

The net change due to actual versus adopted results, usage, and other in the above table refers primarily to the revenue impact year over year of the change in revenue recognized by the WRAM and MCBA. The WRAM is impacted by changes in consumption patterns from our historical trends as well as an increase in conservation efforts. The MCBA, which records the differences in production costs from the adopted costs, is recorded as an element of revenue as it represents pass through costs which are billed to customers. The MCBA is impacted by changes in total production quantities, the production mix of the source of water, the price paid for purchased water and power, and the amount of pump taxes paid.

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

Purchased water offset increases	$ 4,857
Step rate increases	2,211
Balancing account adjustments	540
General rate case (GRC) increases	475
Total increase in rates	$ 8,083

Total Operating Expenses

Total operating expenses were $102.0 million for the second quarter of 2010, versus $100.7 million for the same period in 2009, a 1% increase.

Water production expense consists of purchased water, purchased power, and pump taxes. It represents the largest component of total operating expenses, accounting for approximately 41% of total operating expenses in the second quarter of 2010. Water production expenses increased due to purchased water and power price increases, which were partially offset by reductions in customer usage. Our wholly-owned operating subsidiaries, Washington Water, New Mexico Water, and Hawaii Water obtain all of their water supply from wells.

Table of Contents

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

	Three Months Ended June 30	
	2010	2009
Well production	49%	49%
Purchased	46%	47%
Surface	5%	4%
Total	100%	100%

The components of water production costs are shown in the table below:

	Three Months Ended June 30		
	2010	2009	Change
Purchased water	$ 32,407	$ 31,654	$ 753
Purchased power	7,414	7,584	(170)
Pump taxes	2,013	2,464	(451)
Total	$ 41,834	$ 41,702	$ 132

Purchased water costs increased due to price increases from water wholesalers. Total water production, measured in acre feet, decreased by 11% during the second quarter of 2010 as compared with the second quarter of 2009 due to lower customer usage.

Administrative and general expense and other operations expense decreased 1% to $33.2 million. The decrease was due to an increase in the proportion of labor and benefit costs included in capital projects, lower outside service and legal fees, and a decrease in employee healthcare expenses during the second quarter of 2010. These cost decreases were partially offset by higher employee costs due to wage increases on January 1, 2010, and an increase in the number of employees. At June 30, 2010, there were 1,028 employees and at June 30, 2009, there were 956 employees.

Maintenance expenses increased by 20% to $5.2 million in the second quarter of 2010 compared to $4.3 million in the second quarter of 2009, due to an increase in main and service repairs. Depreciation and amortization expense increased $0.4 million, or 3%, because of 2009 capital additions.

Federal and state income taxes charged to operating expenses and other income and expenses decreased $0.7 million, from a provision of $7.8 million in the second quarter of 2009 to $7.1 million in the second quarter of 2010, due to a decrease in pretax income. We expect the effective tax rate to be between 38% and 40% for fiscal year 2010.

Other Income and Expense

Other income and expenses, net of income taxes, decreased $1.5 million to break-even during the second quarter of 2010 mostly due to a decline in the cash surrender value of the life insurance contracts associated with our benefit plans. There were no property sales during the second quarter of 2010 compared to a $0.1 million property sale in the same period last year.

Interest Expense

Total interest expense, net of interest capitalized, increased $0.6 million to $5.9 million for the second quarter of 2010 compared to the same period last year. This increase was attributable to interest on Cal Water s first mortgage bonds and additional short-term borrowings of $43.2 million on the unsecured revolving lines of credit.

Company Health Care Benefits

During the month of March 2010, both the federal Patient Protection and Affordable Care Act (P.L. 111-148) and Health Care and Education Reconciliation Act (H.R. 4872) were enacted. The new federal health care laws eliminated future Company federal and state income tax deductions of approximately $11.4 million. We do not expect the new federal health care laws to significantly increase the Company s health care and other costs during the calendar year ending December 31, 2010.

Table of Contents

RESULTS OF THE SIX MONTHS ENDED JUNE 2010 COMPARED TO
THE SIX MONTHS ENDED JUNE 2009 OPERATIONS
Amounts in thousands except per share data

Overview

Net income for the six-month period ended June 30, 2010, was $12.4 million, or $0.60 per diluted common share compared to net income of $14.5 million or $0.70 per diluted common share for the six months ended June 30, 2009. The decrease in net income is primarily attributable to a significant reduction in other income and expenses from a decline in the cash surrender value of life insurance contracts associated with our benefit plans from a loss of $0.1 million for six months ended June 30, 2010 compared to a gain of $1.8 million in the same period last year, a non-recurring property sale of $0.7 million during the six months ended June 30, 2009, and a $0.6 million increase in new business costs incurred during the first six months of 2010 to evaluate potential acquisitions. In addition, interest expenses increased due to the issuance of $100 million first mortgage bonds on April 17, 2009, additional short-term borrowings of $43.2 million during 2010 on the unsecured revolving lines of credit, and additional other long-term debt of $7.9 million.

Operating Revenue

Operating revenue increased $5.3 million, or 3%, to $208.6 million in the six-month period ended June 30, 2010. As disclosed in the following table, the increase was primarily due to increases in rates, partially offset by reductions in usage by customers and other changes.

The factors that affected the operating revenue for the six-month period ended June 30, 2010 compared to 2009 are presented in the following table:

Rate increases	$ 12,379
Net change due to actual versus adopted results, usage, and other	(7,066)
Net changes in operating revenue	$ 5,313

The net change due to actual versus adopted results, usage, and other in the above table refers primarily to the revenue impact year over year of the change in revenue recognized by the WRAM and MCBA. The WRAM is impacted by changes in consumption patterns from our historical trends as well as an increase in conservation efforts. The MCBA, which records the differences in production costs from the adopted costs, is recorded as an element of revenue as it represents pass through costs which are billed to customers. The MCBA is impacted by changes in total production quantities, the production mix of the source of water, the price paid for purchased water and power, and the amount of pump taxes paid.

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

Purchased water offset increase	$ 6,428
Step rate increase	3,961
Balancing account adjustments	1,122
General rate case (GRC) increase	868
Total increase in rates	$ 12,379

Total Operating Expenses

Total operating expenses were $184.6 million for the six months ended June 30, 2010, versus $181.1 million for the same period in 2009, a 2% increase.

Water production expense consists of purchased water, purchased power and pump taxes. Water production expense represents the largest component of total operating expenses, accounting for approximately 39% of total operating expenses. Water production expenses increased $1.7 million in the six months ended June 30, 2010, or 2% compared to the same period last year due to increased cost of purchased water and purchased power. Our wholly-owned operating subsidiaries, Washington Water, New Mexico Water, and Hawaii Water obtain all of their water supply from wells.

Table of Contents

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

	Six Months Ended June 30	
	2010	2009
Well production	47%	47%
Purchased	48%	49%
Surface	5%	4%
Total	100%	100%

The components of water production costs are shown in the table below:

	Six Months Ended June 30		
	2010	2009	Change
Purchased water	$ 56,272	$ 54,594	$ 1,678
Purchased power	12,583	12,127	456
Pump taxes	3,434	3,849	(415)
Total	$ 72,289	$ 70,570	$ 1,719

Purchased water cost increased due to higher prices from wholesalers. Total water production, measured in acre feet, decreased 10% for the first six months of 2010 compared to the same period last year due to lower customer usage. Purchased power costs increased due to higher prices from electric utilities.

Administration and general and other operations expenses were $64.2 million, decreasing $0.8 million, or 1%, for the six months ended June 30, 2010. The decrease was primarily attributable to an increase in the proportion of labor and benefit costs included in capital projects, lower outside service and legal fees, and a decline in employee healthcare costs during the six months ended June 30, 2010. These decreases were partially offset by higher employee costs due to wage increases and an increase in the number of employees.

Maintenance expense increased $1.2 million, or 13%, for the six months ended June 30, 2010, to $10.1 million due to an increase in repairs of mains, water treatment facilities, and wells. Depreciation and amortization expense increased $1.0 million, or 5%, because of 2009 capital additions.

Federal and state income taxes decreased $0.9 million, or 10%, for the six months ended June 30, 2010, due to the decline in pretax income. We expect the effective tax rate to be between 38% and 40% for 2010.

Other Income and Expense

Other income and expense, net of income taxes, was a loss of $0.1 million for the six months ended June 30, 2010, compared to income of $2.0 million in the same period last year, which was a decrease of $2.1 million. The decrease was primarily attributable to a $0.1 million decline in the cash surrender value of life insurance contracts associated with our benefit plans during the first six months of 2010 compared to a gain of $1.8 million during the first six months of 2009. In addition, there was a non-recurring property sale of $0.7 million during the first six months of 2009 and a $0.6 million increase in new business costs incurred during the first six months of 2010 to evaluate potential acquisitions.

Interest Expense

Net interest expense increased $1.9 million to $11.6 million for the period ended June 30, 2010 compared to the six-month period ended June 30, 2009. This increase was attributable to the additional interest on Cal Water s first mortgage bonds, additional short-term borrowings of $43.2 million on the unsecured revolving lines of credit, and additional other long-term debt of $7.9 million during the six months ended June 30, 2010.

Company Health Care Benefits

During the month of March 2010, both the federal Patient Protection and Affordable Care Act (P.L. 111-148) and Health Care and Education Reconciliation Act (H.R. 4872) were enacted. The new federal health care laws eliminated future Company federal and state income tax deductions of approximately $11.4 million. We do not expect the new federal health care laws to significantly increase the Company s health care and other costs during the calendar year ending December 31, 2010.

Table of Contents

REGULATORY MATTERS

Rates and Regulations

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

GRCs, escalation rate increase filings, and offset filings change rates to amounts that will remain in effect until the next GRC. The CPUC follows a rate case plan, which requires Cal Water to file a GRC for each of its twenty-four regulated operating districts every three years. In a GRC proceeding, the CPUC not only considers the utility s rate setting requests, but may also consider other issues that affect the utility s rates and operations. Effective in 2004, Cal Water s GRC schedule was shifted from a calendar year to a fiscal year with test years commencing on July 1st of each year. The CPUC is generally required to issue its GRC decision prior to the first day of the test year or authorize interim rates. As such, Cal Water s GRC decisions, prior to 2005, were generally issued in the fourth quarter. Effective with the 2009 GRC, the processing time is scheduled for eighteen months with rates effective on January 1, 2011.

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

In addition, utilities are entitled to file offset filings. Offset filings may be filed to adjust revenues for construction projects authorized in GRCs when the plant is placed in service or for rate changes charged to the Company for purchased water, purchased power, and pump taxes (referred to as offsettable expenses). Such rate changes approved in offset filings remain in effect until a GRC is approved. Additional information on the Company s regulatory process is described in its annual report on Form 10-K for the year ended December 31, 2009.

Remaining Unrecorded Balances from Previously Authorized Balancing Accounts Recoveries/Refunds

The total of unrecorded, under-collected memorandum and balancing accounts was approximately $1.5 million as of June 30, 2010. Included in this amount, Cal Water has amounts from districts that are pending further action when balances become large enough to warrant action of either recovery or refund.

2009 California General Rate Case Filing

On July 2, 2009, Cal Water filed its required application for a general review of rates for all operating districts and general operations. The application, A.09-07-001, requests an annual increase in rates of $70.6 million on January 1, 2011, $24.8 million on January 1, 2012, and $24.8 million on January 1, 2013. The filing marks the beginning of an eighteen month review process. On June 28, 2010, Cal Water filed a settlement of most issues in the proceeding with the Commission s Division of Ratepayer Advocates and several other parties. Based on its past practice, the Commission will consider the settlement but is not obligated to approve it. The Commission may also approve only portions of the settlement. However, if the settlement were adopted in whole, it would add $34.3 million to annual gross revenue beginning in January 2011. Cal Water expects the Commission will issue its decision in the fourth quarter of 2011. The Commission is generally required under state law to allow Cal Water interim rates and an effective date of January 1, 2011 if a decision is not rendered in the proceeding by that date.

Request for MTBE regulatory treatment

On July 8, 2009, Cal Water filed an application requesting the CPUC adopt ratemaking treatment of proceeds from its partial settlement of MTBE contamination litigation. Cal Water has requested that all of the proceeds be reinvested in infrastructure to treat or replace MTBE-contaminated facilities. In addition, Cal Water has requested that 50% of the reinvestment be included in rate base upon which Cal Water could earn its authorized fair and reasonable rate of return. The remaining 50% of the settlement

proceeds would be included in rate base as contributions in aid of construction which does not earn a return. Cal Water has also requested specific regulatory treatment of future settlement or litigation proceeds that may occur in the consolidated MTBE cases. On August 3, 2010, in a separate industry-wide proceeding, the CPUC issued a draft decision in its review of general policies for accounting treatment of contamination proceeds. The draft decision would make it the obligation of water utilities to pursue polluters through litigation. As a result, the Commission under the draft would consider litigation expenses and proceeds normal business operations and not allow litigation proceeds to earn a rate of return except in extraordinary circumstances. Under its proposal the Commission could allow other adjustments, again in limited circumstances, which could reward companies for pursuit of litigation awards which exceed damage incurred. If this decision were adopted as proposed, Cal Water s application would be unlikely to be granted, as Cal Water s damages from MTBE contamination exceed the settlement proceeds. A draft decision may be approved as proposed, amended, or rejected in favor of another recommendation. Cal Water and others have the opportunity to comment on the draft decision. We believe the proposed draft decision is not in the best interest of the Company or ratepayers and therefore, Cal Water will work with other water utilities to recommend changes to the draft decision to provide a balanced approach that will minimize risks to the Company and ratepayers. The Commission may take those comments into account to modify the proposal. Cal Water expects a final determination in the general policy proceeding to be made before December 31, 2010.

2010 Regulatory Activity to Date

In February, March, and April 2010, Cal Water filed advice letters to offset increased purchased water and pump tax rates in seven of its regulated districts totaling $17.1 million in annual revenue. Under CPUC advice letter processing rules, Cal Water charges the rates in expense offset advice letters to its customers upon filing. These rates were approved during the months of March, April, and May 2010. However, expense offsets are dollar-for-dollar increases in revenue to match increased expenses and interact with the WRAM and MCBA mechanisms so that net operating income is not affected by an offset increase.

On January 7, 2010, Cal Water filed an application for additional financing authority with the CPUC. If adopted as proposed, Cal Water would be allowed authority to issue $350 million of debt and common stock to finance capital projects and operations. Cal Water cannot predict the timing or outcome of the application at this time.

On January 12, 2010, Cal Water filed an advice letter to collect the balance of the Dominguez Synergies memorandum account by surcharge for twelve months. This was approved in February 2010 and adds monthly fixed charges to bills for eight districts, totaling $0.8 million over the recovery period.

In April and May, 2010, Cal Water filed advice letters for nineteen districts to recoup the net balance of the WRAM and MCBA from 2008 and 2009. The total requested was $11.4 million. The recovery period requested was between twelve and eighteen months, consistent from past practice, from the date of advice letter approval. Advice letters for eleven of the districts were approved as filed. The Commission required Cal Water to lengthen the recovery period for balances in fifteen of the districts. While preliminarily implementing the longer recovery periods, Cal Water has appealed the Commission s ruling and expects to propose other regulatory remedies to ensure that balances are recovered within 24 months of the end of the accounting period. Cal Water cannot determine the outcome of this appeal or other remedies at this time.

In May 2010, as allowed in the Commission s 2007 Rate Case Plan, Cal Water filed advice letters to establish interim rates for eight districts. The effective date for these interim rates was July 1, 2010. These advice letters do not immediately impact revenues. The interim rate changes will be adjusted once the Commission has issued a determination in Cal Water s 2009 GRC, expected in the fourth quarter of 2010.

In May 2010, Cal Water filed for escalation rate increases effective in July for seven districts totaling $4.2 million in annual revenues. These rate changes were effective as filed.

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

During the calendar year, Hawaii Water plans to file general rate increase applications with the Hawaii Public Utilities Commission for all service areas. Hawaii Water expects the HPUC to rule in 2011 on its requests. However, these applications have not been filed at this time and therefore Hawaii Water cannot determine the final amount of rate relief these filings will generate.

Table of Contents

LIQUIDITY

Cash flows from Operations

Cash flows from operations were $32.9 million for the six months ended June 30, 2010. Cash flows from operations is primarily generated by net income and changes in our operating assets and liabilities. Cash generated by operations varies during the year due to the timing of customer billings, contributions to our benefit plans, vendor payments, bond principal payments, and other long-term debt payments.

During the six months ended June 30, 2010, we made contributions to our pension and retiree health care plan of $6.6 million compared to $17.9 million paid during the six months ended June 30, 2009. As approved in the 2007 General Rate Case, we increased the funding level of our pension and retiree health care plan from $27.5 million during 2009 to $29.1 million during 2010.

Bond principal and other long-term debt payments were $12.2 million during the six months ended June 30, 2010, compared to $5.4 million during the same period last year.

The water business is seasonal. Revenue is lower in the cooler winter months and higher in the warm summer months. This seasonality results in the possible need for short-term borrowings under the bank lines of credit in the event cash is not available during the cooler winter months. The increase in cash flows during the summer months allows short-term borrowings to be paid down. Short-term borrowings are used to finance capital expenditures until long-term financing is arranged.

Investing Activities

During the six months ended June 30, 2010, we had company and developer funded capital expenditures of $60.5 million. For 2010, our capital budget is approximately $120 to $140 million.

Financing Activities

During the first six months ended June 30, 2010, there were no equity offerings; however, we borrowed $43.2 million on our bank lines of credit and added new long-term debt of $7.9 million. Advances and contributions in aid of construction increased $1.6 million during the six months ended June 30, 2010, which was offset by refunds to developers of $3.0 million during the six months ended June 30, 2010. Dividend payments were higher than the prior year due to an increased dividend rate paid in the current year.

Short-Term and Long-Term Debt

Short-term liquidity is provided by bank lines of credit funds extended to us and certain of our subsidiaries and by internally generated funds. Long-term financing is accomplished through the use of both debt and equity. As of June 30, 2010, there were short-term borrowings of $55.2 million outstanding on the unsecured revolving line of credit compared to $12.0 million as of June 30, 2009.

Given our ability to access our lines of credit on a daily basis, cash balances are managed to levels required for daily cash needs and excess cash is invested in short-term or cash equivalent instruments. Minimal operating levels of cash are maintained for Washington Water, New Mexico Water, and Hawaii Water.

California Water Service Group and subsidiaries which it designates may borrow up to $50 million under the Company s short-term credit facility. California Water Service Company may borrow up to $250 million under its credit facility; however, all borrowings need to be repaid within twelve months unless otherwise authorized by the CPUC.

Both short-term credit agreements contain affirmative and negative covenants and events of default customary for credit facilities of this type including, among other things, limitations and prohibitions relating to additional indebtedness, liens, mergers, and asset sales. Also, these unsecured credit agreements contain financial covenants governing the Company and its subsidiaries consolidated total capitalization ratio and interest coverage ratio. As of June 30, 2010, we have met all of the covenant requirements and are eligible to use the full amounts of these credit agreements.

Table of Contents

There was $7.9 million of new debt added to long-term debt during the six months ended June 30, 2010, and we made principal payments on Cal Water s first mortgage bonds and other long-term debt of $12.2 million during the six months ended June 30, 2010.

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

Dividends, Book Value and Shareholders

The second quarter common stock dividend of $0.2975 per share was paid on May 21, 2010, compared to a quarterly dividend in the second quarter of 2009 of $0.2950. This was Cal Water s 261st consecutive quarterly dividend. Annualized, the 2010 dividend rate is $1.19 per common share, compared to $1.18 in 2009. For the full year 2009, the payout ratio was 61% of net income. On a long-term basis, our goal is to achieve a dividend payout ratio of 60% of net income accomplished through future earnings growth.

At its July 28, 2010 meeting, the Board declared the third quarter dividend of $0.2975 per share payable on August 20, 2010, to stockholders of record on August 9, 2010. This will be our 262nd consecutive quarterly dividend.

2010 Financing Plan

Cal Water is currently reviewing its financing needs for the balance of 2010 and 2011. We intend to fund our capital needs in future periods through a relatively balanced approach between long-term debt and equity. The Company and Cal Water have a three-year syndicated unsecured revolving line of credit of $50 million and $250 million, respectively for short-term borrowings. As of June 30, 2010, the Company s availability on these unsecured revolving lines of credit was $244.9 million.

Book Value and Stockholders of Record

Book value per common share was $20.25 at June 30, 2010 compared to $20.26 at December 31, 2009.

There are approximately 2,569 (not in thousands) stockholders of record for our common stock, as of our record date, July 29, 2010.

Utility Plant Expenditures

During the six months ended June 30, 2010, capital expenditures totaled $60.5 million for company-funded and developer-funded projects. The planned 2010 company-funded capital expenditure budget is approximately $120 to $140 million. The actual amount may vary from the budget number due to timing of actual payments related to current year projects and prior year projects. We do not control third-party-funded capital expenditures and therefore are unable to estimate the amount of such projects for 2010.

At June 30, 2010, construction work in progress was $124.4 million compared to $116.9 million at June 30, 2009. Work in progress includes projects that are under construction but not yet complete and placed in service.

WATER SUPPLY

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

Table of Contents

California s normal weather pattern yields little precipitation between mid-spring and mid-fall. The Washington Water service areas receive precipitation in all seasons, with the heaviest amounts during the winter. New Mexico Water s rainfall is heaviest in the summer monsoon season. Hawaii Water receives precipitation throughout the year, with the largest amounts in the winter months. Water usage in all service areas is highest during the warm and dry summers and declines in the cool winter months. Rain and snow during the winter months replenish underground water aquifers and fill reservoirs, providing the water supply for subsequent delivery to customers. To date, snowpack water content and rainfall accumulation during the 2009 2010 water year is 109% of normal (as of July 1, 2010 per the California Department of Water Resources). Precipitation in the prior year was below average. Management believes that supply pumped from underground aquifers and purchased from wholesale suppliers will be adequate to meet customer demand during 2010 and beyond. However, water rationing may be required if declared by the state or local jurisdictions. Long-term water supply plans are developed for each of our districts to help assure an adequate water supply under various operating and supply conditions. Some districts have unique challenges in meeting water quality standards, but management believes that supplies will meet current standards using current treatment processes.

CONTRACTUAL OBLIGATIONS

During the six-months ended June 30, 2010, there were no material changes in contractual obligations outside the normal course of business.

Item 3.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We do not hold, trade in or issue derivative financial instruments and therefore are not exposed to risks these instruments present. Our market risk to interest rate exposure is limited because the cost of long-term financing and short-term bank borrowings, including interest costs, is covered in consumer water rates as approved by the commissions. We do not have foreign operations; therefore, we do not have a foreign currency exchange risk. Our business is sensitive to commodity prices and is most affected by changes in purchased water and purchased power costs.

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

Item 4.

CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

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

Our management, with the participation of our CEO and our CFO, evaluated the effectiveness of our disclosure controls and procedures on July 22, 2010, for the period ended June 30, 2010. Based on that evaluation, we concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

(b) Changes to Internal Control Over Financial Reporting

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

Table of Contents

PART II OTHER INFORMATION

Item 1.

LEGAL PROCEEDINGS

Groundwater Contamination

The Company has been and is involved in litigation against third parties to recover past and future costs related to ground water contamination in our service areas. The cost of litigation is expensed as incurred and any settlement is first offset against such costs. Any settlement in excess of the cost to litigate is accounted for on a case by case basis, dependent upon the nature of the settlement.

The Company is involved in a lawsuit against major oil refineries regarding the contamination of the ground water as a result of the gas additive Methyl *tert*-butyl ether (MTBE). The Company entered into a partial settlement with the defendants in April of 2008 that represent approximately 70% of the responsible parties (as determined by the Superior Court). On October 22, 2008, the Company received $34.2 million after deducting attorneys fees and litigation expenses. The Company is aggressively pursuing legal action against the remaining responsible parties. The Company has filed with the Commission to determine the appropriate regulatory treatment of the proceeds. It anticipates that the proceeds will be used on MTBE qualified capital investments. When an agreement is reached with the Commission regarding the regulatory treatment, the Company will adjust the accounting of the settlement, accordingly.

The Company has recorded the proceeds to replace the infrastructure damaged or lost due to the MTBE contamination in accordance with the Internal Revenue Code Section 1033. This treatment will reduce the tax basis of the replacement property and therefore deferring any taxable gain.

As previously reported, the Company has filed with the City of Bakersfield, in the Superior Court of California, a lawsuit that names potentially responsible parties, who manufactured and distributed products containing 1,2,3 trichloropropane (TCP) in California. TCP has been detected in the ground water. The lawsuit seeks to recover treatment costs necessary to remove TCP. The Court has now coordinated our action with other water purveyor cases (TCP Cases JCCP 4435) in San Bernardino County. No trial date has yet been set. The Company has entered into a settlement with one of the distributor defendants, FMC Corporation. The Company will record the proceeds in a memorandum account until the Commission approves an allocation between ratepayers and shareholders.

The Company has filed in San Mateo County Superior Court a complaint (*California Water Service Company v. The Dow Chemical Company, et al.* CIV 473093) against potentially responsible parties that manufactured and distributed products in California, which contained perchloroethylene, also known as tetrachloroethylene (PCE) for recovery of past, present, and future treatment costs. The case has not been consolidated with other PCE cases. Discovery is underway and no trial date has yet been set.

Other Legal Matters

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

From time to time, the Company is involved in various disputes and litigation matters that arise in the ordinary course of business. The status of each significant matter is reviewed and assessed for potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount of the range of loss can be estimated, a liability is accrued for the estimated loss in accordance with the accounting standards for contingencies. Legal proceedings are subject to uncertainties, and the outcomes are difficult to predict. Because of such uncertainties, accruals are based on the best information available at the time. While the outcome of these disputes and litigation matters cannot be predicted with any certainty, management does not believe when taking into account existing reserves the ultimate resolution of these matters will materially affect the Company s financial position, results of operations, or cash flows.

Table of Contents

Item 4. (Removed and Reserved)
Item 6.
EXHIBITS

Exhibit	**Description**
31.1	Chief Executive Officer certification of financial statements pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Chief Financial Officer certification of financial statements pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Chief Executive Officer and Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes- Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

The financial information contained in these XBRL documents is unaudited and is furnished, not filed with the Commission.

Table of Contents

SIGNATURES

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

CALIFORNIA WATER SERVICE GROUP
Registrant

August 6, 2010

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

Table of Contents

Exhibit Index

Exhibit	Description
31.1	Chief Executive Officer certification of financial statements pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Chief Financial Officer certification of financial statements pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Chief Executive Officer and Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes- Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

The financial information contained in these XBRL documents is unaudited and is furnished, not filed with the Commission.