

# focus on what matters

CALIFORNIA WATER SERVICE GROUP  
2019 10-K AND PROXY STATEMENT





CALIFORNIA  
**WATER SERVICE GROUP**  
INVESTING FOR LIFE

## California Water Service Group

California Water Service Company, Hawaii Water Service Company,  
New Mexico Water Service Company, Washington Water Service Company,  
CWS Utility Services, and HWS Utility Services

1720 North First Street  
San Jose, CA 95112-4508  
(408) 367-8200

April 15, 2020

### Dear Fellow Stockholder:

You are cordially invited to attend our Annual Meeting of Stockholders at 9:30 a.m. Pacific Time on Wednesday, May 27, 2020. This year, we plan to hold the Annual Meeting online due to the public health impact of the novel coronavirus (COVID-19) and to support the health and well-being of our employees and stockholders. You will be able to attend and participate in the Annual Meeting by visiting [www.virtualshareholdermeeting.com/CWT2020](http://www.virtualshareholdermeeting.com/CWT2020), where you will be able to listen to the meeting live, submit questions, and vote. We intend to return to an in-person annual meeting next year.

Enclosed please find a notice of matters to be voted on at the meeting, our Proxy Statement, a proxy card, and our 2019 Annual Report.

Whether or not you plan to attend, your vote is important. Please vote your shares as soon as possible in one of three ways: by Internet, by telephone, or by mail. Instructions regarding how to vote are included on the proxy card or voting instruction card.

In a continuing effort to conserve natural resources and reduce costs, we produced a summary annual report again this year, opting not to duplicate the financial information that continues to be provided in our Form 10-K filed with the Securities and Exchange Commission. Your perspectives on the annual report are valuable to us. Please send your feedback to [annualreport@calwater.com](mailto:annualreport@calwater.com).

Thank you for your investment in the California Water Service Group.

Sincerely,

/s/ PETER C. NELSON

**Peter C. Nelson**  
Chairman of the Board

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# California Water Service Group

## Notice of Annual Meeting of Stockholders

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The 2020 Annual Meeting of Stockholders (Annual Meeting) of California Water Service Group (Group) will be held on Wednesday, May 27, 2020, at 9:30 a.m. Pacific Time. You will be able to attend and participate in the Annual Meeting by visiting [www.virtualshareholdermeeting.com/CWT2020](http://www.virtualshareholdermeeting.com/CWT2020), where you will be able to listen to the meeting live, submit questions, and vote. At the Annual Meeting, stockholders will consider and vote on the following matters:

1. Election of the eleven directors named in the Proxy Statement;
2. An advisory vote to approve executive compensation;
3. Ratification of the selection of Deloitte & Touche LLP as the Group's independent registered public accounting firm for 2020; and
4. Such other business as may properly come before the Annual Meeting.

The Board of Directors has fixed the close of business on March 31, 2020 as the record date for the determination of holders of common stock entitled to notice of, and to vote at, the Annual Meeting.

Please submit a proxy as soon as possible so that your shares can be voted at the Annual Meeting in accordance with your instructions. You may submit your proxy: (a) by Internet, (b) by telephone, or (c) by U.S. Postal Service mail. You may revoke your proxy at any time prior to the vote at the Annual Meeting. Of course, in lieu of submitting a proxy, you may vote online during at the Annual Meeting. For specific instructions, please refer to "Questions and Answers about the Proxy Materials and the Annual Meeting" in this Proxy Statement and the instructions on the proxy card.

**Important Notice Regarding the Availability of Proxy Materials for the Stockholders Meeting to be Held on May 27, 2020:** Electronic copies of the Group's Form 10-K, including exhibits, and this Proxy Statement will be available at [www.proxyvote.com](http://www.proxyvote.com).

By Order of the Board of Directors

/s/ MICHELLE R. MORTENSEN

**MICHELLE R. MORTENSEN**  
Corporate Secretary

April 15, 2020

At this time, we plan to hold the Annual Meeting entirely online. We are actively monitoring the public health and safety concerns relating to the novel coronavirus (COVID-19) and the advisories or mandates that federal, state, and local governments, and related agencies, may issue. Depending on developments relating to COVID-19, we may make alternative arrangements relating to the Annual Meeting, which could include changing the date and/or time of the meeting, or providing for the ability to attend the meeting in person as well as online if it is feasible to do so. We will announce any alternative arrangements for the meeting as promptly as practicable. Please monitor our Investor Relations website at <http://ir.calwatergroup.com/> and check the website one week prior to the meeting date. As always, we encourage you to vote your shares prior to the Annual Meeting.



# PROXY SUMMARY

## Information about our 2020 Annual Meeting of Stockholders

**Date and time:** Wednesday, May 27, 2020 at 9:30 a.m. Pacific Time  
**Location:** To attend and participate in the Annual Meeting visit [www.virtualshareholdermeeting.com/CWT2020](http://www.virtualshareholdermeeting.com/CWT2020)

**Record Date:** March 31, 2020

**Voting matters** Stockholders will be asked to vote on the following matters at the Annual Meeting:

| Items of Business   | Board's Recommendation  | Where to Find Details |
|---|-------------------------|-----------------------|
| 1. Election of eleven directors   | <b>FOR all nominees</b> | <b>pp. 19-26</b>      |
| 2. Advisory Vote on Executive Compensation  | <b>FOR</b>              | <b>p. 72</b>          |
| 3. Ratification of Deloitte & Touche LLP as the Group's independent registered public accounting firm | <b>FOR</b>              | <b>p. 76</b>          |

### What's New

**We continue to enhance our governance, compensation, and sustainability practices and disclosures. Among many other items, since last year California Water Service Group has:**

- ▶ **Formed the Enterprise Risk Management, Safety, and Security Committee**
- ▶ **Environmental, social responsibility, and sustainability items are now overseen by the Nominating/Corporate Governance Committee**
- ▶ **Modified the performance criteria used for the 2019 incentive compensation program as follows:**
  - **Long-term performance-based equity compensation uses three performance metrics vesting over a three-year period from 2019 – 2021**
  - **Short-term incentive compensation now uses five different performance metrics from the long-term performance-based equity compensation measures that are measured over fiscal year 2019**

## Governance Highlights (PAGE 4)

### Effective Board Leadership and Independent Oversight

- ▶ Election of two new independent directors in 2019
- ▶ Independent Lead Director with well-defined responsibilities
- ▶ Executive session led by independent Lead Director at Board meetings
- ▶ Ongoing review of the Board composition and succession planning
- ▶ Mandatory director retirement age 75

### Overview of Corporate Governance

- ▶ Code of Conduct for Directors, Officers and Employees
- ▶ Clawback policy
- ▶ Stock ownership guidelines for directors and executive officers
- ▶ Prohibition on short sales, transactions in derivatives, and hedging and pledging of stock by directors and executive officers
- ▶ Annual election of all directors
- ▶ Majority voting for directors in uncontested elections

# California Water Board of Directors (PAGE 4)

## Director Nominees

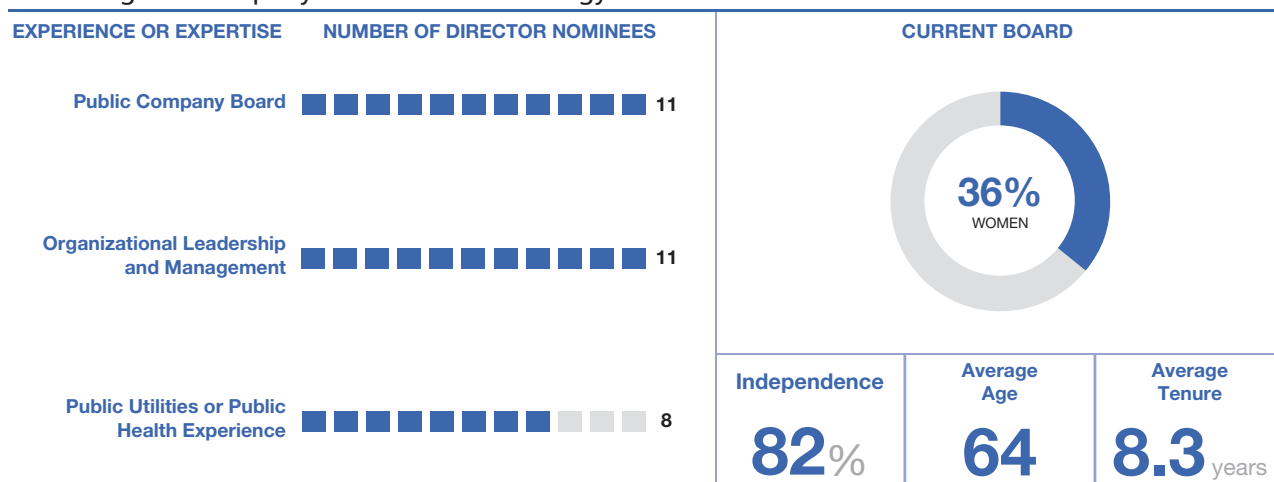
California Water's Board is composed of a diverse, experienced group of global thought, business, and academic leaders.

| Name and Principal Occupation  | Director |       |             | Committees |          |          |          |          |
|--|----------|-------|-------------|------------|----------|----------|----------|----------|
|  | Age      | Since | Independent | A          | C        | F        | NG       | S        |
| <b>Gregory E. Aliff</b><br>Former Vice Chairman and Senior Partner of U.S. Energy & Resources, Deloitte LLP                              | 66       | 2015  | YES         | ○          |          |          |          | ●        |
| <b>Terry P. Bayer</b><br>Former COO of Molina Healthcare, Inc.   | 69       | 2014  | YES         | ●          | ●        | ○        |          |          |
| <b>Shelly M. Esque</b><br>Former Vice President and Global Director of Corporate Affairs of Intel Corporation                            | 59       | 2018  | YES         |            |          |          | ●        | ●        |
| <b>Martin A. Kropelnicki</b><br>President & CEO of California Water Service Group  | 53       | 2013  | —           |            |          |          |          |          |
| <b>Thomas M. Krummel, M.D.</b><br>Emile Holman and Chair Emeritus of the Department of Surgery at Stanford University School of Medicine | 68       | 2010  | YES         |            | ○        |          | ●        |          |
| <b>Richard P. Magnuson</b><br>Lead Director<br>Venture Capitalist  | 64       | 1996  | YES         | ●          |          | ●        | ○        |          |
| <b>Scott L. Morris</b><br>Chairman of Avista Corporation   | 62       | 2019  | YES         |            | ●        |          |          | ●        |
| <b>Peter C. Nelson</b><br>Chairman of the Board of California Water Service Group  | 72       | 1996  | —           |            |          |          |          |          |
| <b>Carol M. Pottenger</b><br>Principal and Owner of CMP Global, LLC  | 64       | 2017  | YES         |            |          | ●        | ●        | ●        |
| <b>Lester A. Snow</b><br>Director and President of the Klamath River Renewal Corporation   | 68       | 2011  | YES         |            | ●        | ●        |          | ○        |
| <b>Patricia K. Wagner</b><br>Former Group President of U.S. Utilities for Sempra Energy  | 57       | 2019  | YES         | ●          |          |          | ●        |          |
| <b>Number of meetings held during 2019</b>   |          |       |             | <b>4</b>   | <b>3</b> | <b>4</b> | <b>4</b> | <b>2</b> |

○ Chair      **A:** Audit      **C:** Organization and Compensation      **F:** Finance and Capital Investment  
 ● Member      **NG:** Nominating/Corporate Governance      **S:** Enterprise Risk Management, Safety and Security

## Optimal Mix of Skills and Experience of Director Nominees

California Water's directors collectively contribute significant experience in the areas most relevant to overseeing the Company's business and strategy.





# 2019 Financial Highlights

Operating Revenue

**\$714.6M**

Net Income

**\$63.1M**

Dividend Increase

**5%**

Earnings per Share

**\$1.31**

Capital Investment

**\$273.8M**

## Compensation Highlights (PAGE 41)

**Our compensation program supports California Water’s long-term business strategy and high value business model to create long-term shareholder value**

| WHAT WE DO   | WHAT WE DON'T DO  |
|--|---|
| <ul style="list-style-type: none"> <li>☑ We pay for performance with compensation in the form of annual short-term performance-based incentives, as well as award 50% of long-term equity incentive compensation in the form of restricted stock units (RSUs) subject to performance-based vesting criteria over a three-year period.</li> <li>☑ We retain an independent compensation consultant who reports to the Organization and Compensation Committee.</li> <li>☑ We hold an annual “say-on-pay” advisory vote.</li> <li>☑ We require stock ownership with minimum holding requirements for all directors and officers to promote a long-term perspective in managing the Group and to help align the interests of our stockholders, directors, and officers.</li> <li>☑ We cap individual payouts for short-term performance-based incentive and long-term equity incentive compensation plans.</li> <li>☑ We have an officer compensation recovery (“clawback”) policy requiring the reimbursement of excess incentive-based compensation provided to the Group’s officers in the event of certain restatements of the Group’s financial statements.</li> </ul> | <ul style="list-style-type: none"> <li>⊗ We limit perquisites; the Group does provide officers with only limited perquisites consisting of a company vehicle with related excess liability insurance.</li> <li>⊗ We do not provide tax gross-ups on perquisites or other personal benefits.</li> <li>⊗ We do not provide employment agreements; other than participation in the Executive Severance Plan, none of our officers are party to individual employment or severance agreements.</li> <li>⊗ We do not provide single-trigger change in control benefits; the Group’s Executive Severance Plan provides for change in control severance benefits upon a termination of employment following a change in control; the Group’s equity incentive plan does not require single-trigger vesting acceleration upon a change in control.</li> <li>⊗ We do not allow hedging and pledging of Group stock; the Group’s directors and officers are prohibited from hedging their ownership of Group stock, including trading in options, puts, calls, or other derivative instruments related to Group stock or debt, in accordance with the anti-hedging prohibition in our insider trading policy; directors and officers are also prohibited from pledging their ownership of Group stock in accordance with an anti-pledging provision in our insider trading policy.</li> </ul> |

# CORPORATE GOVERNANCE PRACTICES AT CALIFORNIA WATER SERVICE GROUP

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We are committed to objective, independent leadership for our Board and each of its committees. In addition, our Board believes the active, objective, and independent oversight of management is central to effective Board governance, and serves the best interests of all stakeholders, including customers, stockholders, regulators, suppliers, associates, and the general public.

Specifically, our Board has adopted Corporate Governance Guidelines comprised of rigorous governance practices and procedures. To maintain and enhance its independent oversight, our Board has implemented measures to further enrich Board composition, leadership, and effectiveness. These measures align our corporate governance structure with achieving our strategic objectives and enable our Board to effectively communicate and oversee our culture of compliance and in-depth risk management. Our Board frequently discusses business and other matters with the senior management team and principal advisors such as our legal counsel, auditors, consultants, and financial advisors. Our Board annually reviews and approves the Corporate Governance Guidelines and charters of the Board committees to ensure they reflect evolving best practices and regulatory requirements, including the New York Stock Exchange (NYSE) corporate governance listing standards. The Corporate Governance Guidelines and the current charters for the Audit, Organization and Compensation, Finance and Capital Investment, Nominating/Corporate Governance, and Enterprise Risk Management, Safety and Security committees are posted on our website at <http://www.calwatergroup.com>.

## Our Board of Directors

### Board Structure and Independence

Our Board encompasses the optimal mix of diverse backgrounds, experiences, skills, expertise, and an uncompromising commitment to integrity and thorough judgment. The Board thoughtfully advises and guides management as they work to achieve our long-term strategic goals. To promote sound board structure and independence standards, our Board adheres to the following policies and procedures:

- ▶ Directors must retire no later than the Annual Meeting that follows the date of the director's 75th birthday.
- ▶ Our Board conducts an ongoing review of Board composition and succession planning, resulting in refreshment of the Board and a diversity of skills, attributes, and perspectives on the Board.
- ▶ Upon election at the annual meeting, the average tenure of the members of the Board will be approximately eight years.
- ▶ Our Board has a majority of independent directors.

In 2019, based upon the recommendation of the Nominating/Corporate Governance Committee, the Board has approved changes to the Committee memberships and elected Ms. Bayer as chair of the Finance and Capital Investment Committee.

## Board Oversight

Our Board is responsible for seeing that our organization is appropriately stewarding the resources entrusted to it and following legal and ethical standards. In addition, our Board has the fundamental and legal responsibility to provide oversight and accountability for the organization. By respecting the following key risk management principles, our Board provides a solid foundation of organizational oversight:

- ▶ Understands the organization's key drivers of success
- ▶ Continually assesses the risks in the organization's strategy
- ▶ Appropriately defines the role of the full Board and its standing committees specific to risk oversight
- ▶ Assesses the organization's risk management system – including people and processes – to ensure appropriateness and sufficient resources
- ▶ Works with management to understand and agree on the types (and format) of risk information the Board requires
- ▶ Encourages dynamic and constructive risk dialogue between management and the Board, including a willingness to challenge assumptions
- ▶ Closely monitors the potential risks to culture and the incentives structure
- ▶ Oversees the critical alignment of strategy, risk, controls, compliance, incentives, and people

## Director Education

Our director education about California Water Service Group, our strategy, control framework, regulatory environment, and our industry begins when a director is elected to our Board and continues throughout his or her tenure on the Board. Upon joining our Board, new directors are provided with a comprehensive orientation about our company which includes an overview of director duties and our corporate governance, one-on-one sessions with the Chairman and President and CEO, and presentations by senior management and other key management representatives on the organization's strategy, regulatory framework, and control framework. As directors are appointed to new committees or assume a leadership role, such as committee chair, they receive additional orientation sessions specific to such responsibilities.

Board and Committee presentations, educational briefings, discussions with subject matter experts on business, governance, regulatory, and control matters help to keep directors appropriately apprised of key developments in our business and in our industry, including material changes in regulation, so they can carry on their oversight responsibilities.

## Leadership Structure

Peter C. Nelson has served as Chairman of the Board since 2012. The roles of Chairman of the Board and CEO for the organization are separate. Our Board believes separating these roles is the most appropriate leadership structure based on numerous factors, including the Board's historical practice (which has predominantly been to separate the roles), its assessment of the organization's leadership, and the organizations current and anticipated needs. The Board attributes a portion of the historical success of its leadership model to the Chairman of the Board's 17-plus years of service as the former President & CEO, including his industry knowledge and executive management skills, rather than by the particular leadership structure chosen. The Board believes that Mr. Nelson, who retired in 2013, brings significant experience in the water and public utility industries making him best positioned to lead the Board as it oversees and monitors implementation our business strategy, considers risks related to strategy and business decisions, and performs its oversight function.

## Lead Independent Director

Our Lead Independent Director is selected from and by the independent directors, serves for a period of at least one year, and has expansive duties and authority as included in our Corporate Governance Guidelines.

Richard P. Magnuson currently serves as Lead Independent director. Our Corporate Governance Guidelines list the Lead Independent Director's responsibilities and authority including:

- ▶ Presides at meetings of the Board in the absence of the Chairman of the Board
- ▶ Recommends to the Chairman of the Board items for consideration to be included in the Board meeting agendas and schedules
- ▶ Serves as liaison between the Chairman of the Board and the independent directors
- ▶ Consults and communicates with major stockholders upon request

In evaluating candidates for Lead Independent Director, the independent directors consider several factors, including each candidate's corporate governance experience, board service and tenure, leadership roles, and the ability to meet the necessary time commitment. For an incumbent Lead Independent Director, the independent directors also consider the results of the annual Lead Independent Director assessment as described on Page 7.

## Independence of Directors

As discussed in our Corporate Governance Guidelines, a substantial majority of the Board is comprised of independent directors. Currently, the Group's independent directors are Gregory E. Aliff, Terry P. Bayer, Shelly M. Esque, Thomas M. Krummel, M.D., Richard P. Magnuson, Scott L. Morris, Carol M. Pottenger, Lester A. Snow, and Patricia K. Wagner.

Under the listing standards of the New York Stock Exchange, a director is independent if he or she has no material relationship, whether commercial, industrial, banking, consulting, accounting, legal, charitable, familial, or otherwise, with the organization, either directly or indirectly as a partner, stockholder, or executive officer of an entity that has a material relationship with us. Our Board makes an affirmative determination regarding the independence of each director annually, based on the recommendation of the Nominating/Corporate Governance Committee.

The Board has adopted standards to assist in assessing the independence of directors, which are set forth in the Corporate Governance Guidelines, which are posted on our website at <http://www.calwatergroup.com>. Under these standards, our Board has determined that a director is not independent if:

### Director Independence

- ▶ The director is, or has been within the last three years, an employee of any company that comprises the Group or an immediate family member is, or has been within the last three years, an executive officer of any company that comprises the Group;
- ▶ The director has received, or has an immediate family member who has received, during any 12-month period during the last three years, more than \$120,000 in direct compensation from companies that comprise the Group, other than director or committee fees and pension or other forms of deferred compensation for prior service (compensation received by an immediate family member for service as an employee, other than an executive officer, of the Group is not considered for purposes of this standard);
- ▶ The director, or an immediate family member, is a current partner of the Group's internal or external auditor; the director is a current employee of such a firm; the director's immediate

family member is a current employee of such a firm who personally works on the Group's audit, or the director or an immediate family member was within the last three years a partner or employee of such a firm and personally worked on the Group's audit within that time;

- ▶ The director, or an immediate family member, is, or has been within the last three years, employed as an executive officer of another company where any of the Group's present executive officers serves or served at the same time on that company's compensation committee;
- ▶ The director is a current employee, or has an immediate family member who is a current executive officer, of a customer or vendor or other party that has made payments to or received payments from companies that comprise the Group for property or services in an amount that, in any of the last three fiscal years, exceeded the greater of \$1 million or 2% of the party's consolidated gross revenues; or
- ▶ The director, or the director's spouse, is an executive officer of a non-profit organization to which the Group makes, or in the past three years has made, payments that, in any single fiscal year, exceeded the greater of \$1 million or 2% of the non-profit organization's consolidated gross revenues.

In addition, our Board has determined that none of the following relationships, by itself, is a material relationship that would impair a director's independence:

- ▶ Being a residential customer of any service territory;
- ▶ Being a current executive officer or employee of, or being otherwise affiliated with, a commercial customer from which the Group has received payments that, in any of the last three fiscal years, did not exceed the greater of (i) 1% of the Group's consolidated gross revenues for the year; or (ii) \$500,000;
- ▶ Being a current executive officer or employee of, or having a 5% or greater ownership or similar financial interest in, a supplier or vendor that has received payments from the Group that, in any of the last three fiscal years, did not exceed the lesser of (i) 1% of the Group's consolidated gross revenues for the year; or (ii) \$500,000; or
- ▶ Being a director of any of the Group's subsidiaries.

Directors inform the Board as to any relationships they may have with the organization and provide other pertinent information in annual questionnaires they complete, sign, and certify. The Board reviews relevant relationships to identify possible impairments to director independence and in connection with disclosure obligations. For those directors who reside in one of our service territories and are customers, our Board has determined that it is not a material relationship that would impair their independence under the above standards.

## **Annual Evaluation of Board, Committees and Independent Lead Director**

Our Board and Committees maintain a regular and robust evaluation process to promote the effective functioning of our Board. It is important to examine Board, Committee, and director performance and to solicit and act upon feedback received from each member of our Board. The Board utilizes several long-standing corporate governance practices and processes to support evaluations, including annual assessments of the Board and its committees, annual assessments of the Lead Independent Director, annual assessments of individual directors, director questionnaires, and one-on-one discussions. Evaluations are intended to assess the effectiveness in board composition and conduct, meeting structure, materials and information, committee composition and effectiveness, strategic and succession planning, culture and exercise of oversight, as well as continued education and access to management.

## Board Composition

Our Board believes our directors should possess a combination of skills, professional experience, and a diversity of backgrounds necessary to oversee our business. Also, the Board believes every director should possess certain attributes as reflected in the Board’s membership criteria.

The Nominating/Corporate Governance Committee assesses the composition of and criteria for membership on the Board and its committees on an ongoing basis in consideration of our current and future business and operations. In fulfilling this responsibility, the Nominating/Corporate Governance Committee takes a long-term view and seeks a variety of occupational and personal backgrounds on the Board in order to obtain a range of viewpoints and perspectives and to enhance the diversity of the Board as a group. The Nominating/Corporate Governance Committee considers a variety of factors, including our long-term strategy, the skills and experiences that directors provide to the Board (including in the context of the our business strategy), the performance of the Board and the organization, the Board’s director retirement policy, the Board’s view that a balanced and effective board should include members across a continuum of tenure, and the belief that valuable insights can be gained from gender and ethnic diversity. As a result of these long-term strategic assessments, the Nominating/Corporate Governance Committee has articulated a set of principles on board composition, which include:

| Board Composition   |   |
|---------------------|---|
| Diversity           | Our Board shall be comprised of members who demonstrate a diversity of thought, perspectives, skills, backgrounds and experiences, and have a goal of identifying candidates that can contribute to that diversity in a variety of ways, including ethnically and gender diverse candidates   |
| Board Skills        | Our Board will have a collective set of skills to address management challenges, especially in the areas of business strategy, financial performance, risk management, cybersecurity, technology and enterprise innovation, and executive talent and leadership, and should evolve with the organization’s business strategy              |
| Industry Experience | Our Board will seek and retain members with industry experience including water, utility and technology, that align with our long-term strategy; recognize the utility industry is complex and understand the importance of having directors who have witnessed challenging business cycles and can share the wisdom of those experiences |
| Tenure              | Our Board will seek and retain members across the director tenure spectrum to promote effective oversight, and embrace innovation, a changing market and customer expectations; seek to have a mix of long-standing members, relatively new members, and remaining members at different points along the tenure spectrum                  |
| Board Size          | Our Board will consider the appropriate size of the board in relation to promoting active engagement, open discussion and effective challenge of management; continuously assess the bench of successors for Board leadership positions in both expected and unexpected departure scenarios   |

## Director Criteria

The Nominating/Corporate Governance Committee’s regular evaluation of the composition of, and criteria for membership on, the Board is ongoing. Incumbent directors eligible for re-election, nominees to fill vacancies on the Board, and any nominees recommended by stockholders all

undergo a strenuous review by the Committee. The Nominating/Corporate Governance Committee focuses on the development of a Board composed of directors that meet the criteria set forth below:

| <b>Director Criteria</b>            |  |
|-------------------------------------|--|
| Personal Characteristics            | <ul style="list-style-type: none"> <li>▶ High personal and professional ethics, integrity and honesty, good character and sound judgment</li> <li>▶ Independence and absence of any actual or perceived conflicts of interest</li> <li>▶ The ability to be an independent thinker</li> </ul>   |
| Commitment to the Organization      | <ul style="list-style-type: none"> <li>▶ A willingness to put in the time and energy to satisfy the requirements of Board and committee membership, including attendance and participation in Board and committee meetings of which they are a member and the annual meeting of stockholders and be available to management to provide advice and counsel</li> <li>▶ Possess, or be willing to develop, a broad knowledge of critical issues facing the organization</li> </ul>  |
| Diversity                           | <ul style="list-style-type: none"> <li>▶ Diversity, including the candidate’s professional and personal experience, background, perspective, and viewpoint; as well as the candidate’s gender and ethnicity</li> </ul>   |
| Skills and Experience               | <ul style="list-style-type: none"> <li>▶ The value derived from each nominee’s skills, qualifications, experience, and ability to impact long-term strategic objectives</li> <li>▶ Solid educational background</li> <li>▶ Substantial tenure and experience in leadership capacities</li> <li>▶ Business and financial experience</li> <li>▶ Understanding the intricacies of a public entity</li> <li>▶ Experience in risk management</li> <li>▶ Additionally, Section 2.9 of our bylaws contains requirements that a person must meet to avoid conflicts of interest that would disqualify that person from serving as a director.</li> </ul> |
| Identification of Director Nominees | <ul style="list-style-type: none"> <li>▶ Through a variety of sources, the Nominating/Corporate Governance Committee identifies new director nominees and will consider director nominees recommended by stockholders in the same manner it considers other nominees. This process is described in “Director Qualifications and Diversity” and found elsewhere in this Proxy Statement.</li> </ul>   |
| Retirement Age of Directors         | <ul style="list-style-type: none"> <li>▶ We have established a mandatory retirement age for directors. A director must retire no later than the Annual Meeting that follows the date of the director’s 75th birthday. An employee director must retire as an employee no later than the Annual Meeting that follows the date of his or her 70th birthday, but may remain on the Board at the discretion of the Board of Directors.</li> </ul>  |
| Executive Sessions of the Board     | <ul style="list-style-type: none"> <li>▶ Under our Corporate Governance Guidelines, the non-management directors meet at least four times each year in executive session without management present, and the independent directors meet in executive session at least once a year. The Lead Independent Director, Richard P. Magnuson, chairs these sessions.</li> </ul>   |

Our directors as of April 15, 2020, are as follows:

| Name                    | Age | Position  | Current Term Expires | Director Since | Independent | Occupation   | Other Board Experience | Public Utilities or Public Health Experience |
|-------------------------|-----|---|----------------------|----------------|-------------|--|------------------------|--|
| Gregory E. Aliff        | 66  | Director  | 2020                 | 2015           | Yes         | Former Vice Chairman and Senior Partner of U.S. Energy & Resources, Deloitte LLP                       | Yes                    | Yes  |
| Terry P. Bayer          | 69  | Director  | 2020                 | 2014           | Yes         | Former COO of Molina Healthcare, Inc.  | Yes                    | Yes  |
| Shelly M. Esque         | 59  | Director  | 2020                 | 2018           | Yes         | Former Vice President and Global Director of Corporate Affairs of Intel Corporation                    | Yes                    |  |
| Martin A. Kropelnicki   | 53  | President & CEO and Director                            | 2020                 | 2013           | No          | President & CEO of California Water Service Group  | Yes                    | Yes  |
| Thomas M. Krummel, M.D. | 68  | Director  | 2020                 | 2010           | Yes         | Emile Holman and Chair Emeritus of the Department of Surgery at Stanford University School of Medicine | Yes                    | Yes  |
| Richard P. Magnuson     | 64  | Lead Director & Chair of the Board's Executive Sessions | 2020                 | 1996           | Yes         | Venture Capitalist   | Yes                    |  |
| Scott L. Morris         | 62  | Director  | 2020                 | 2019           | Yes         | Chairman of Avista Corporation   | Yes                    | Yes  |
| Peter C. Nelson         | 72  | Chairman of the Board                                   | 2020                 | 1996           | No          | Chairman of the Board of California Water Service Group  | Yes                    | Yes  |
| Carol M. Pottenger      | 64  | Director  | 2020                 | 2017           | Yes         | Principal and Owner of CMP Global, LLC   | Yes                    |  |
| Lester A. Snow          | 68  | Director  | 2020                 | 2011           | Yes         | Director and President of the Klamath River Renewal Corporation  | Yes                    | Yes  |
| Patricia K. Wagner      | 57  | Director  | 2020                 | 2019           | Yes         | Former Group President of U.S. Utilities for Sempra Energy   | Yes                    | Yes  |

## Identification of Director Nominees

Through a variety of sources, the Nominating/Corporate Governance Committee identifies new director nominees and will consider director nominees recommended by stockholders in the same manner it considers other nominees. This process is described in "Director Qualifications and Diversity" and found on page 9 in this Proxy Statement. Stockholders seeking to recommend nominees for consideration by the Nominating/Corporate Governance Committee should submit a recommendation in writing describing the nominee's qualifications and other relevant biographical information together with confirmation of the nominee's consent to serve as director. Please submit this information to the Corporate Secretary, California Water Service Group, 1720 North First Street, San Jose, California 95112-4508.

Stockholders may also propose director nominees by adhering to the advance notice procedure described under "Questions and Answers About the Proxy Materials and the Annual Meeting — How can a stockholder propose a nominee for the Board or other business for consideration at a stockholders' meeting?" on page 83 in this Proxy Statement.

## Board Role in Risk Oversight

Under the Corporate Governance Guidelines, the full Board reviews and oversees our enterprise risk management program, including reviewing our enterprise risk portfolio and evaluating management's approach to addressing identified risks. The Board does not view risk in isolation, but



includes risk as part of its regular consideration of business decisions and business strategy. The Board exercises its risk oversight function through the Board as a whole and through its committees, which assist the Board in focusing on specific categories of risk relevant to the Group.

| <b>Board Committee</b>                          | <b>Role and Oversight</b>  |
|---|--|
| Audit   | Oversees risks related to financial reporting and internal controls  |
| Organization and Compensation                   | Oversees periodic assessments of risks relating our compensation plans and programs to see that these plans and programs do not encourage management to take unreasonable risks relating to our business       |
| Finance and Capital Investment                  | Oversees risks within the capital investment programs  |
| Nominating/Corporate Governance                 | Oversees risks related to matters of corporate governance, including director independence and Board performance, as well as risks related to environmental, social responsibility, and sustainability matters |
| Enterprise Risk Management, Safety and Security | Oversees management's development and execution of the Group's enterprise risk management, safety and security programs, including physical and cyber security.  |

The Group has a Management Committee (MC) that is chaired by our President & CEO and membership is comprised of our Group and subsidiary executives, hereafter collectively known as "executives" and meets monthly. Among other functions, the MC identifies and prioritizes key risks and recommends the implementation of appropriate mitigation measures, as needed. The MC provides reporting to the Audit Committee and Enterprise Risk Management, Safety, and Security Committee no less frequently than annually. Further review or reporting on risks is conducted as needed or as requested by the Board or committee.

## **Annual Meeting Attendance**

All directors are expected to attend the Annual Meeting of Stockholders, unless attendance is prevented by an emergency. All of our board members who were directors as of the date of our 2019 Annual Meeting attended the meeting.

## **Board Meetings and Committees**

### ***Board Meetings***

Our policy is that all directors must be able to devote the required time to carry out director responsibilities and should attend all meetings of the Board and of committees on which they sit.

Members of the Board are expected to attend Board meetings in person, unless the meeting is held by teleconference. During 2019, there were nine meetings of the Board and collectively 17 committee meetings. The incumbent directors attended at least 75% of all Board and applicable committee meetings in 2019 (held during the period each director served). All then incumbent directors attended the 2019 annual meeting. Mr. Morris and Ms. Wagner joined the Board in November 2019.

## Board Committees

There are five committees within our Board of Directors: (1) Audit; (2) Organization and Compensation; (3) Finance and Capital Investment; (4) Nominating/Corporate Governance; (5) and Enterprise Risk Management, Safety and Security. The membership and the function of each of these committees are described below.

| Name                                       | Audit    | Organization and Compensation | Finance and Capital Investment | Nominating/Corporate Governance | Enterprise Risk Management, Safety and Security |
|--|----------|-------------------------------|--------------------------------|---------------------------------|---|
| Gregory E. Aliff                           | ○        |                               |                                |                                 | ●   |
| Terry P. Bayer                             | ●        | ●                             | ○                              |                                 |   |
| Shelly M. Esque                            |          |                               |                                | ●                               | ●   |
| Martin A. Kropelnicki                      |          |                               |                                |                                 |   |
| Thomas M. Krummel, M.D.                    |          | ○                             |                                | ●                               |   |
| Richard P. Magnuson                        | ●        |                               | ●                              | ○                               |   |
| Scott L. Morris                            |          | ●                             |                                |                                 | ●   |
| Peter C. Nelson                            |          |                               |                                |                                 |   |
| Carol M. Pottenger                         |          |                               | ●                              | ●                               | ○   |
| Lester A. Snow                             |          | ●                             | ●                              |                                 | ○   |
| Patricia K. Wagner                         | ●        |                               |                                | ●                               |   |
| <b>Number of meetings held during 2019</b> | <b>4</b> | <b>3</b>                      | <b>4</b>                       | <b>4</b>                        | <b>2</b>  |

○ Chair    ◌ Vice Chair    ● Member

## AUDIT COMMITTEE

| AUDIT COMMITTEE   | Primary Responsibilities:   |
|---|---|
| <p>Current Members:</p> <p>Gregory E. Aliff, Chair<br/>           Terry P. Bayer<br/>           Richard P. Magnuson<br/>           Patricia K. Wagner</p> <p>Committee Meetings Held in 2019: 4</p> | <ul style="list-style-type: none"> <li>▶ Represents and assists the Board in oversight of the quality and integrity of the Company’s financial statements, the Company’s compliance with legal, environmental, regulatory and reporting requirements; the qualifications, performance and independence of the Company’s Independent Registered Public Accounting Firm; and the Company’s internal audit function</li> <li>▶ Responsible for the appointment, retention, compensation, and oversight of the Independent Registered Public Accounting Firm</li> <li>▶ Reviews with management each Form 10-K and 10-Q report required to be submitted to the SEC</li> <li>▶ Reviews annually the quality of internal accounting and financial controls, internal auditor reports and opinions, and any recommendations the Independent Registered Public Accounting Firm may have for improving or changing the Company’s internal controls</li> <li>▶ Oversees and reviews with management risks related to the Company’s financial reporting and internal controls</li> <li>▶ Oversees the Company’s compliance program with respect to legal and regulatory requirements, including the Company’s codes of conduct, and oversees the Company’s policies and procedures for monitoring compliance</li> </ul> <p>The Board has determined that each Audit Committee member has considerable knowledge in financial and auditing matters to serve on the Audit Committee. Gregory E. Aliff, Terry P. Bayer, and Patricia K. Wagner meet the New York Stock Exchange listing standard of financial sophistication and are “audit committee financial experts” under SEC rules.</p> |

## ORGANIZATION AND COMPENSATION COMMITTEE

| ORGANIZATION & COMPENSATION COMMITTEE  | Primary Responsibilities:  |
|--|--|
| <p>Current Members:</p> <p>Thomas M. Krummel, M.D., Chair<br/> Terry A. Bayer<br/> Scott L. Morris<br/> Lester A. Snow</p> <p>Committee Meetings Held in 2019: 3</p> | <ul style="list-style-type: none"> <li>▶ Oversees the Company's officer compensation structure, policies and programs, assesses whether the Company's compensation structure establishes appropriate incentives for officers, and assesses the results of the Company's most recent advisory vote on executive compensation</li> <li>▶ Oversees the evaluation and recommendations of the compensation of the CEO to the independent directors and of the executive officers to the Board of Directors</li> <li>▶ Reviews the organizational structure for the Company's senior management</li> <li>▶ Oversees a periodic assessment of the risk related to the Company's compensation policies and practices applicable to offices and employees, and review the results</li> <li>▶ Reviews and discusses with our management the Compensation Discussion and Analysis disclosure required to be included in the proxy statement for the annual meeting of stockholders to be filed with the SEC and, based on such review and discussion, determines whether to recommend to the Board that the Compensation Discussion and Analysis disclosure be included in such filing</li> <li>▶ Oversees preparation of the Compensation Committee report required by SEC rules to be included in the proxy statement for the annual meeting of stockholders</li> </ul> <p>All members are independent as defined in the listing standards of the New York Stock Exchange, and meet additional independence requirements for compensation committee members applicable under the New York Stock Exchange listing standards</p> |

*Compensation Consultant:* The Organization and Compensation Committee retained Veritas Executive Compensation Consultants (Veritas) to advise it on marketplace trends in executive compensation, management proposals for the 2020 compensation program, and executive officer compensation decisions. Additionally, Veritas generally evaluated our equity compensation programs. Veritas also consulted with the Nominating/Corporate Governance Committee about its recommendations to the Board on director compensation. Veritas has been retained for advice on 2021 executive compensation.

Veritas was directly accountable to the Organization and Compensation Committee. To maintain the independence of their advice, Veritas did not provide any services to us other than those described above. In addition, the Organization and Compensation Committee conducted a conflict of interest assessment, considering the six factors below with respect to Veritas and no conflict of interest was identified:

- ▶ The provision of other services to the Group by Veritas;
- ▶ The amount of fees received from the Group by Veritas, as a percentage of total revenue of Veritas;
- ▶ The policies and procedures of Veritas that are designed to prevent conflicts of interest;
- ▶ Any business or personal relationship between the consultants at Veritas with whom the Group work and any members of the Organization and Compensation Committee;

- ▶ Any of our stock owned by the Veritas consultants; and
- ▶ Any business or personal relationship of Veritas or the Veritas consultants with any of the Group’s executive officers.

For a description of the processes and procedures used by the Organization and Compensation Committee for the consideration and determination of executive compensation, see “Compensation Discussion and Analysis” on page 41 in this Proxy Statement.

### **FINANCE AND CAPITAL INVESTMENT COMMITTEE**

| FINANCE AND CAPITAL INVESTMENT COMMITTEE   | Primary Responsibilities:   |
|--|---|
| <p>Current Members:</p> <p>Terry P. Bayer, Chair<br/>Richard P. Magnuson<br/>Carol M. Pottenger<br/>Lester A. Snow</p> <p>Committee Meetings Held in 2019: 4</p> | <ul style="list-style-type: none"> <li>▶ Assists the Board of Directors in fulfilling its oversight responsibilities with respect to the monitoring and oversight of our financial resources, including its capital investment management and rate recovery and resolution planning and processes</li> <li>▶ Assists the Board in reviewing our financial policies, strategies, and capital structure</li> <li>▶ Reviews and make recommendations to the Board for approval, where authority to do so has been delegated by the Board, regarding:               <ul style="list-style-type: none"> <li>○ long-term financial objectives and policies</li> <li>○ financing requirements and financing plans</li> <li>○ the annual dividend plan</li> <li>○ oversight of the annual operating budgets</li> <li>○ oversight of the annual capital investment plans including periodic updates on the progress over the annual construction and capital investment programs efforts to increase stockholder value</li> <li>○ reports received from the employee benefit finance committee</li> <li>○ other finance matters as appropriate</li> </ul> </li> </ul> <p>In addition, the Committee will discuss with management the policies and procedures concerning the major risk exposures and the steps management has taken and/or proposes to take to monitor, mitigate, and control such exposures within the capital investment process.</p> <p>All members are independent as defined in the listing standards of the New York Stock Exchange.</p> |

## NOMINATING/CORPORATE GOVERNANCE COMMITTEE

| NOMINATING/CORPORATE GOVERNANCE COMMITTEE   | Primary Responsibilities:  |
|---|--|
| <p>Current Members:</p> <p>Richard P. Magnuson, Chair<br/>           Shelly M. Esque<br/>           Thomas M. Krummel, M.D.<br/>           Carol M. Pottenger<br/>           Patricia K. Wagner</p> <p>Committee Meetings Held in 2019: 4</p> | <ul style="list-style-type: none"> <li>▶ Oversees director succession planning and identifies individuals qualified to become Board members</li> <li>▶ Oversees risks related to matters of corporate governance, including director independence and Board performance</li> <li>▶ Recommends to the Board the size, structure, composition, and functioning of the Board and its committees</li> <li>▶ Reviews the compensation of directors for service on the Board and its committees and recommends changes to the Board as appropriate</li> <li>▶ Reviews the Corporate Governance Guidelines annually and recommends changes to the Board</li> <li>▶ Oversees the Company's Code of Business Conduct and Ethics for Directors and compliance with the code</li> <li>▶ Provides oversight of and reviews the Company's strategy, policies, practices, risks, and disclosures with respect to ESG matters, and makes recommendations to management as appropriate</li> <li>▶ Assists management in overseeing internal and external communications with employees, investors, and other stakeholders regarding the Company's position on or approach to ESG matters</li> </ul> <p>All members are independent as defined in the listing standards of the New York Stock Exchange.</p> |

**ENTERPRISE RISK MANAGEMENT, SAFETY AND SECURITY COMMITTEE**

| <b>ENTERPRISE RISK MANAGEMENT, SAFETY AND SECURITY COMMITTEE</b>   | <b>Primary Responsibilities:</b>  |
|--|---|
| <p>Current Members:</p> <p>Lester A. Snow, Chair<br/>                     Carol M. Pottenger, Vice Chair<br/>                     Gregory E. Aliff<br/>                     Shelly M. Esque<br/>                     Scott L. Morris</p> <p>Committee Meetings Held in 2019: 2</p> | <ul style="list-style-type: none"> <li>▶ Assists the Board in reviewing our enterprise risk management, safety, and security programs, including physical and cyber security</li> <li>▶ Reviews with management our principal risks and the effectiveness of the processes used by management to both identify and analyze major risk, as well as the effectiveness of the programs to manage and mitigate risks</li> <li>▶ Reviews with management our risk assessments, the steps management has taken or would consider taking to minimize such risks or exposures, safeguarding assets, and our underlying policies with respect to risk assessment, risk management, and asset protection</li> <li>▶ Discusses with management current and emerging applicable matters that may affect the business, operations, performance, or public image of the organization or are otherwise pertinent to us and our stakeholders</li> <li>▶ Reviews our Emergency Preparedness program, including emergency response and coordination with authorities</li> <li>▶ Reviews our security programs, including physical and cybersecurity to ensure preventive detection and remedial controls and processes are in place</li> <li>▶ Oversees our compliance with Defense Finance and Accounting Services (DFAS), the National Institute of Standards and Technology (NIST) Cybersecurity framework, and other applicable standards</li> <li>▶ Makes recommendations to the Board and to our senior management with respect to any of the above matters as the Committee deems necessary or appropriate</li> </ul> <p>All members are independent as defined in the listing standards of the New York Stock Exchange.</p> |

Proxy

**Other Governance Best Practices**

We adopted other practices we believe reflects our commitment to good corporate governance including:

***Policies Prohibiting Hedging and Pledging***

In accordance with our Insider Trading Policy, our directors and executives are prohibited from (i) hedging their ownership of Group stock, including trading in options, puts, calls, or other derivative instruments related to Group stock or debt; and (ii) pledging their ownership of Group stock.

***Executive Compensation Recovery (“Clawback”) Policy***

Our Board has adopted an executive compensation recovery, or “clawback,” policy requiring the reimbursement of excess incentive-based compensation provided to the executives in the event of

certain restatements of our financial statements. A more detailed description of the Executive Compensation Recovery Policy appears in the “Compensation Discussion and Analysis” section of this Proxy Statement.

### ***Stock Ownership Requirements***

Our Board has adopted stock ownership requirements for directors and executives. These stock ownership requirements were adopted to promote a long-term perspective of the organization and to help align the interests of our stockholders, directors, and executives. As of March 31, 2020, 17 of our non-employee directors and executives have met or exceeded their ownership requirements. New directors have five years to meet the requirements and executives must retain 50% of the net after-tax shares from equity awards until the relevant ownership requirement is achieved. A complete description of the stock ownership requirements for directors and executives appears in the “Compensation Discussion and Analysis” section of this Proxy Statement.



# PROPOSAL NO. 1 – ELECTION OF DIRECTORS

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Upon the recommendation of the Nominating/Corporate Governance Committee, our Board has nominated for election at the 2020 Annual Meeting of Stockholders a slate of eleven director nominees. All of the nominees, except Mr. Morris and Ms. Wagner, have served as directors since the last Annual Meeting. Mr. Morris and Ms. Wagner were recommended to the Nominating/Corporate Governance Committee by a third-party search firm and elected to our Board effective November 27, 2019. All directors are elected annually to serve until the next Annual Meeting or until their respective successors are elected.

## Nominee Qualifications

When an incumbent director is up for re-election, the Nominating/Corporate Governance Committee reviews the performance, skills, and characteristics of such incumbent director before making a determination to recommend the Board nominate him or her for re-election.


The Nominating/Corporate Governance Committee believes that all of the following eleven director nominees listed are highly qualified and have the skills and experience required for membership on our Board. A description of the specific experience, qualifications, attributes and skills that led our Board to conclude that each of the nominees should serve as a director follows the biographical information of each nominee.

## Vote Required

Each director must be elected by the affirmative vote of a majority of the votes cast. A majority of the votes cast means that the number of votes cast "FOR" a director nominee exceeds the number of votes cast "AGAINST" that nominee for director.

## Recommendation of the Board

Our Board of Directors unanimously recommends that you vote "FOR" the election of each of the following nominees:

| Gregory E. Aliff   |  |
|--|--|
|   | <p><b>Retired</b></p> <p><i>Mr. Aliff</i> is a retired Vice Chairman and Senior Partner, US Energy and Resources, at Deloitte LLP. From 2012 to his retirement in 2015, Mr. Aliff led Deloitte's US Sustainability Services, which focused on industrial and commercial water and energy management. From 2002 to 2012, he led Deloitte's US Energy and Resources practice, where he oversaw all professional services to the sector. Mr. Aliff earned his Bachelor of Science in Accounting and his Master of Business Administration from Virginia Tech. He is a Certified Public Accountant and is a designated Board Leadership Fellow of the National Association of Corporate Directors (NACD). He also holds a CERT Certificate in Cybersecurity Oversight from NACD.</p> <p>Mr. Aliff brings extensive accounting, auditing, and financial reporting experience to the Board, with specific expertise in both the public utility and energy and resources industries. He has in-depth experience in strategy, enterprise risk management, and regulatory affairs from his many years providing professional services to numerous major utilities. Mr. Aliff's deep understanding of public utility markets and the breadth of experience he has gained from working with public companies make him a valuable resource to the Board.</p> |
| <p>Independent<br/>Age: 66<br/>Director Since 2015</p>   |  |
| <p><b>Committees:</b></p> <ul style="list-style-type: none"><li>▶ Chair, Audit</li><li>▶ Enterprise Risk Management, Safety and Security</li></ul>                                     |  |
| <p><b>Previous Board Directorships:</b></p> <ul style="list-style-type: none"><li>▶ SCANA Corporation</li><li>▶ Grid Alternatives</li><li>▶ United States Energy Association</li></ul> |  |
| <p><b>Current Board Directorship:</b></p> <ul style="list-style-type: none"><li>▶ New Jersey Resources Corp</li></ul>  |  |



Independent  
Age: 69  
Director Since 2014

**Committees:**

- ▶ Chair, Finance and Capital Investment
- ▶ Organization & Compensation
- ▶ Audit

**Previous Board Directorship:**

- ▶ Apria Healthcare Group, Inc.

**Retired**

*Ms. Bayer* is the former Chief Operating Officer (COO) for Molina Healthcare, Inc., a managed care company that provides solutions to meet the healthcare needs of low-income individuals and families who participate in government programs, including Medicaid, Medicare, and Marketplace. She held that position from 2005 until her retirement in February 2018. She was previously Executive Vice President of Health Plan Operations and also held management positions at Family Health Plan (FHP), Maxicare, Matria Healthcare, and AccentCare, Inc. She holds a Juris Doctor Degree from Stanford University, a master's degree in Public Health from the University of California, Berkeley, and a bachelor's degree in Communication from Northwestern University.

Ms. Bayer brings senior leadership, financial, operational, and public health expertise to the Board from her service as the COO of Molina Healthcare, Inc., a public company. She has many years of experience as an operating executive with a strong focus on government program compliance, public health and administration, as well as customer service. Ms. Bayer's significant background and experience in healthcare supports the Board's efforts in overseeing and advising on employee health matters. Her previous experience as a director of Apria Healthcare Group, Inc. and her compliance and compensation committee memberships also allows Ms. Bayer to contribute to the Board.

## Shelly M. Esque



Independent  
Age: 59  
Director Since 2018

### **Committees:**

- ▶ Nominating/Corporate Governance
- ▶ Enterprise Risk Management, Safety and Security

### **Retired**

*Ms. Esque*, prior to her retirement in 2016, served as Vice President and Global Director of Corporate Affairs at Intel Corporation, a leader in the semiconductor industry, overseeing professionals in more than 35 countries responsible for enhancing Intel's reputation as the world's leading technology brand and corporate citizen. She also served as both president and chair of the Intel Foundation. In her capacity as a leader of Intel's corporate social responsibility, community, education, foundation, and government relations worldwide, Ms. Esque represented Intel at numerous events, including the World Economic Forum, World Bank, UNESCO, and forums promoting women in the workplace.

Ms. Esque received the Greater Phoenix Chamber of Commerce 2011 ATHENA Businesswoman of the Year Award for excellence in business and leadership, exemplary community service, and support and mentorship of other women. She was also recognized by AZ Business Magazine as one of the 50 Most Influential Women in Arizona. Ms. Esque is active on many non-profit boards, including Basis Charter Schools, Take the Lead, and the Boyce Thompson Arboretum, among others.

**Martin A. Kropelnicki**



Age: 53  
Director Since 2013

**President & CEO, California Water Service Group**

*Mr. Kropelnicki* is President & CEO of the Group. Mr. Kropelnicki joined the Group as Vice President, Chief Financial Officer (CFO) and Treasurer in 2006 and was named the President and COO in 2012. He then was appointed President & CEO of the Group effective September 1, 2013. He has over 30 years of experience in finance and operations, including 15-plus years as CFO at public listed companies and has held executive positions at PowerLight Corporation, Hall Kinion & Associates, Deloitte & Touche Consulting Group, and Pacific Gas & Electric Company. He serves as a director for the Bay Area Council, and the California Foundation on the Environment & Economy, and is a member of the Silicon Valley Leadership Group. Mr. Kropelnicki is the past President of the National Association of Water Companies and currently serves on their Board of Directors. He holds a Bachelor of Arts Degree and Master of Arts Degree in Business Economics from San Jose State University. In 2016, Mr. Kropelnicki was awarded the United States Navy Memorial Fund's Naval Heritage Award. He is the 12th recipient of this award since its inauguration.

Mr. Kropelnicki is well positioned to lead the Group's management team and give guidance and perspective to the Board. His experience as the former CFO of the Group provides expertise in both corporate leadership and financial management. His 15-plus years as a CFO of publicly listed companies and operations management experience enables him to offer valuable perspectives to our corporate planning, rate making, and budgeting along with operational and financial reporting.

**Thomas M. Krummel, M.D.**



Independent  
Age: 68  
Director Since 2010

**Emile Homan and Chair Emeritus, Department of Surgery, Stanford University**

*Dr. Krummel* is a leader in his field. He has been honored with the Henry J. Kaiser Family Foundation Award for Excellence in Clinical Teaching; the John Austin Collins, M.D. Memorial Award for Outstanding Teaching and Dedication to Resident Training; and the Lucile Packard Children's Hospital Recognition of Service Excellence. He is currently Chair of the Board of Directors at The Fogarty Institute for Innovation and serves as a Director of The Morgridge Institute for Research – University of Wisconsin.

Dr. Krummel brings to the Board experience with professional training and development, as well as expertise with medical, public health, and science issues. He offers the Board unique insight on public health matters, including healthcare policy and legislation, drinking water quality, and employee health.

**Board Committees:**

- ▶ Chair, Organization & Compensation
- ▶ Nominating/Corporate Governance

## Richard P. Magnuson



Independent  
Age: 64  
Director since 1996

### Board Committees:

- ▶ Chair, Nominating/  
Corporate Governance
- ▶ Audit
- ▶ Finance and Capital  
Investment

### Previous Board Directorships:

- ▶ Rogue Wave Software
- ▶ IKOS System, Inc.
- ▶ OrCAD

## Private Venture Capitalist

*Mr. Magnuson* is a private venture capitalist and our Lead Independent Director. Mr. Magnuson holds an undergraduate degree in economics, a law degree and a master's degree in business administration from Stanford University. From 1984 to 1996, he was a general partner of Menlo Ventures, a venture capital firm. In addition to his previous public company experience, Mr. Magnuson has served on the boards of several privately held companies. With his legal and venture capital background, Mr. Magnuson brings valuable financial and business strategy expertise to the Board. His past experience on the boards of other public companies, as well as his insight on financial and operational matters, adds value to the Board. His past and current Board service also provides insight on corporate governance practices.

## Scott L. Morris



Independent  
Age: 62  
Director Since 2019

### Committees:

- ▶ Organization &  
Compensation
- ▶ Enterprise Risk  
Management, Safety and  
Security


### Current Board Directorship:


- ▶ McKinstry


## Chairman, Avista Corporation

*Mr. Morris* has been Chairman of Avista Corporation, a publicly traded electrical and natural gas utility serving customers primarily in the Pacific Northwest, since January 2008. From January 2008 to October 1, 2019, he also served as Avista's CEO. From January 2008 to January 2018 he served as its President. From May 2006 to December 2007, he served as its President and Chief Operating Officer. Mr. Morris joined Avista in 1981 and his experience at the company includes management positions in construction and customer service and general manager of the company's Oregon utility business. He is a graduate of Gonzaga University and received his master's degree from Gonzaga University in organizational leadership. He also attended the Stanford Business School Financial Management Program and the Kidder Peabody School of Financial Management. Mr. Morris serves on the board of McKinstry and on the Board of Trustees of Gonzaga University. He has served on a number of Spokane nonprofit and economic development boards.

Mr. Morris brings to the Board a deep knowledge and understanding of the utility industry, having spent his entire career in the industry. As a former senior executive, he also contributes senior leadership experience and valuable perspectives on strategy, operations and business management.

|   |  |
|---|--|
| <p><b>Peter C. Nelson</b></p>  <p>Age: 72<br/>Director since 1996</p>  | <p><b>Chairman, California Water Service Group</b></p> <p><i>Mr. Nelson</i> is Chairman of the Board of the Group and its subsidiaries. He is a director of the California Chamber of Commerce and a past president of the National Association of Water Companies (NAWC). Mr. Nelson has a strong record of operational and strategic leadership in the public utility business, including his 17-plus years of experience as the former President &amp; CEO of the Group. An engineer by training with a graduate degree in business administration, he gained extensive senior executive experience at Pacific Gas &amp; Electric Company. He has a vast understanding of the water industry from his role as the former President &amp; CEO of the Group and from his leadership roles representing the water profession nationally at NAWC as well as in California at the State Chamber of Commerce.</p>   |
| <p><b>Carol M. Pottenger</b></p>  <p>Independent<br/>Age: 64<br/>Director Since 2017</p> <p><b>Committees:</b></p> <ul style="list-style-type: none"> <li>▶ Vice Chair, Enterprise Risk Management, Safety and Security</li> <li>▶ Finance and Capital Investment</li> <li>▶ Nominating/Corporate Governance</li> </ul> | <p><b>Principal and Owner, CMP Global, LLC</b></p> <p>As principal and owner of CMP Global LLC, <i>Ms. Pottenger's</i> organization, which was founded in 2014, provides consulting services in business development, process improvement, corporate governance, strategic planning, and cyber and information systems. The first female three-star Admiral in American history to lead in a combat branch, Ms. Pottenger commanded two ships, a logistic force of 30 ships, a Japan-based strike-group of 8 ships, and the Expeditionary Force of 40,000 sailors during her 36 years in the U.S. Navy before retiring in 2013. She was also the senior U.S. Flag Officer responsible for military transformation and sensitive military topics such as counterterrorism and cyber security while on assignment with NATO.</p> <p>Ms. Pottenger brings unique experience to the board, ranging from operations to technology to risk management. A graduate of Purdue University in Lafayette, Indiana, she also serves on various private, defense, and non-profit boards, including the U.S. Navy Memorial Foundation in Washington, D.C. and PricewaterhouseCoopers LLP Board of Partners and Principals.</p> |

| Lester A. Snow   |   |
|--|---|
|  <p>Independent<br/>Age: 68<br/>Director Since 2011</p> <p><b>Committees:</b></p> <ul style="list-style-type: none"> <li>▶ Chair, Enterprise Risk Management, Safety and Security</li> <li>▶ Finance and Capital Investment</li> <li>▶ Organization &amp; Compensation</li> </ul> | <p><b>Retired</b></p> <p><i>Mr. Snow</i> has served as Secretary of the California Natural Resources Agency, Director of the California Department of Water Resources, Regional Director of the U.S. Bureau of Reclamation, Executive Director of the CALFED Bay Delta Program, and General Manager of the San Diego County Water Authority. He served as Executive Director of the California Water Foundation, an initiative of the Resources Legacy Fund, and serves on the board of the Klamath River Renewal Corporation. He holds a Master of Science Degree in Water Resources Administration from the University of Arizona and a Bachelor of Science Degree in Earth Sciences from Pennsylvania State University.</p> <p>Mr. Snow brings more than 30 years of water and natural resource management experience to the Board. His distinguished public service career enables him to assist the Board in addressing water and environmental issues as well as regulatory and public policy matters. Mr. Snow's executive experience in the public sector provides the Board with critical insight on a variety of operational and financial matters.</p> |

| Patricia K. Wagner  |  |
|---|--|
|  <p>Independent<br/>Age: 57<br/>Director Since 2019</p> <p><b>Committees:</b></p> <ul style="list-style-type: none"> <li>▶ Audit</li> <li>▶ Nominating/Corporate Governance</li> </ul> <p><b>Previous Board Directorship:</b></p> <ul style="list-style-type: none"> <li>▶ SoCalGas</li> </ul> <p><b>Current Board Directorship:</b></p> <ul style="list-style-type: none"> <li>▶ Apogee Enterprises</li> </ul> | <p><b>Retired</b></p> <p><i>Ms. Wagner</i>, prior to her retirement in 2019, served as Group President, U.S. Utilities for Sempra Energy, an energy-services holding company whose subsidiaries include San Diego Gas &amp; Electric Company (SDG&amp;E) and Southern California Gas Company (SoCalGas), both California regulated utilities, as well as other companies operating in the electric and gas infrastructure business. Prior to her role as Group President, from 2017 to 2018 she served as Chairman and Chief Executive Officer of SoCalGas, one of the largest natural gas utilities in the country. She served as Executive Vice President of Sempra Energy in 2016, and as President and Chief Executive Officer of Sempra U.S. Gas &amp; Power from 2014 to 2016. During her 24-year career in the utility sector, Ms. Wagner held a range of other leadership positions, including: Vice President of Audit Services for Sempra Energy; Vice President of Accounting and Finance for SoCalGas; Vice President of Information Technology for SoCalGas and SDG&amp;E; and Vice President of Operational Excellence for SoCalGas and SDG&amp;E. Ms. Wagner is currently a director of Apogee Enterprises, Inc., a public company that designs and develops commercial glass and metal products. Ms. Wagner earned her Master of Business Administration from Pepperdine University and a bachelor's degree in chemical engineering from California State Polytechnic University, Pomona.</p> <p>Ms. Wagner has immense working knowledge and familiarity with the California regulatory environment and has worked with the California Public Utilities Commission. Her deep understanding of regulatory affairs and experience working for an investor-owned utility make her a valuable asset to the Group. She also brings valuable accounting and finance, senior leadership and operational experience to the Board.</p> |



## Director Compensation

### For Fiscal Year Ended 2019

Our non-employee directors receive retainers comprised of both a cash award and an equity award along with meeting fees for their service. The Nominating/Corporate Governance Committee is responsible for non-employee director compensation and makes recommendations to the Board. For 2019, the Nominating/Corporate Governance retained the services of Veritas for determining non-employee director compensation.

Our 2019 director compensation program is summarized in the table below:

| 2019 Director Compensation Program  |          |
|---|----------|
| <b>Board Retainers:</b>   |          |
| Annual Base Retainer – All Directors  | \$63,600 |
| Chairman of the Board Retainer  | \$60,000 |
| Lead Director Retainer  | \$22,000 |
| <b>Committee Chair Retainers:</b>   |          |
| Audit Committee Chair Retainer  | \$18,000 |
| Organization and Compensation Committee Chair Retainer                        | \$13,500 |
| Nominating/Corporate Governance Committee Chair Retainer                      | \$12,500 |
| Finance and Risk Management Committee Chair Retainer                          | \$10,000 |
| Enterprise Risk Management, Safety and Security Committee Chair Retainer      | \$11,000 |
| Enterprise Risk Management, Safety and Security Committee Vice Chair Retainer | \$ 5,500 |
| <b>Board/Committee Meeting Attendance Fees:</b>                               |          |
| Chairman of the Board – Board Attendance Fee                                  | \$ 4,600 |
| All other Directors – Board Attendance Fee                                    | \$ 2,300 |
| Chairman of the Board – Committee Attendance Fee                              | \$ 1,800 |
| All other Directors – Committee Attendance Fees                               | \$ 1,800 |
| <b>Equity:</b>  |          |
| Annual RSA Equity Grants <sup>(1)</sup>                                       | \$80,000 |

(1) In 2019, non-employee directors received grants of restricted stock valued at \$80,000 as the Board retainer. The restricted stock grants were made on March 5, 2019, and were fully vested on the first anniversary of the grant date.

In September of 2019, Veritas provided assistance to the Nominating/Corporate Governance Committee in the annual review of director compensation, with recommendations based on competitive positioning, both in terms of individual compensation components and total compensation. With consideration for this review, the Nominating/Corporate Governance Committee approved increases to the foregoing amounts, effective January 1, 2020, as follows:

- ▶ Non-employee directors will receive an annual base retainer of \$65,500 (an increase from \$63,600 in 2019) and a grant of restricted stock valued at \$87,500 (an increase from \$80,000 in 2019)
- ▶ Chair retainers for the Audit Committee, the Organization and Compensation Committee, the Nominating/Corporate Governance Committee, Finance and Capital Investment Committee, and the Enterprise Risk Management, Safety and Security Committee will be unchanged, at \$18,000, \$13,500, \$12,500, \$10,000, and \$11,000, respectively
- ▶ The vice chair retainer for the Enterprise Risk Management, Safety and Security Committee will be unchanged at \$5,500
- ▶ Board and committee meeting fees for the chairman and other non-employee directors will remain unchanged for 2020

- ▶ The chairman will receive a Board retainer of \$65,500 and a chairman retainer of \$60,000 for 2020
- ▶ The lead director will receive a \$25,000 retainer (an increase from \$22,000 in 2019) due to continued increased responsibilities, including stockholder engagement

The Board of Directors requires non-employee directors to maintain a certain amount of stock ownership consistent with our stock ownership requirements. Pursuant to the Group's Corporate Governance Guidelines, available on the Group's website at <http://www.calwatergroup.com>, beneficial ownership of an aggregate amount of shares having a value of five times the amount of the annual base retainer is required. Non-employee directors are required to achieve the relevant ownership threshold within five years following adoption of the requirements or five years after commencing service, whichever is later. The Nominating/Corporate Governance Committee will review compliance with these requirements for non-employee directors on an annual basis.

Directors may elect to defer cash compensation payable to them under the Group's deferred compensation plan in the same manner as applicable to the Group's executives as described above. In addition, the Group maintains a Director Retirement Plan for the benefit of its non-employee directors, which was closed to new participants in December 2005. Under the Director Retirement Plan, a director who participates in the plan and retires after serving on the Board for a total of five or more years will receive a retirement benefit equivalent to \$22,000 per year. This benefit will be paid for the number of years the director served on the Board, up to 10 years. Mr. Magnuson was a participant in the plan and thus continued to accrue benefits thereunder. In 2019, under this program, Mr. Magnuson received a lump sum payout of \$119,461, the present value of the accumulated benefits. There are no other active directors entitled to benefits under the plan.

### **Non-Employee Director Compensation**

| <b>Name (a)</b>                            | <b>Fees Earned or Paid in Cash(\$)(b)</b> | <b>Stock Awards (\$)(2)(3)(c)</b> | <b>Change in Pension Value and Non-Qualified Deferred Compensation(\$)(f)</b> | <b>Total(\$)(h)</b> |
|--|---|-----------------------------------|---|---------------------|
| Peter C. Nelson <sup>(1)</sup><br>Chairman | \$190,200                                 | \$82,098                          | \$ —  | \$274,098           |
| Richard P. Magnuson<br>Lead Director       | 142,200                                   | 82,098                            | —   | 242,298             |
| Gregory E. Aliff                           | 122,100                                   | 82,098                            | —   | 204,198             |
| Terry P. Bayer                             | 112,700                                   | 82,098                            | —   | 194,798             |
| Shelly M. Esque                            | 91,500                                    | 82,098                            | —   | 173,598             |
| Thomas M. Krummel, M.D.                    | 114,000                                   | 82,098                            | —   | 196,098             |
| Scott L. Morris                            | 12,900                                    | 13,000                            | —   | 25,900              |
| Carol M. Pottenger                         | 99,683                                    | 82,098                            | —   | 181,781             |
| Lester A. Snow                             | 109,167                                   | 82,098                            | —   | 191,265             |
| Patricia K. Wagner                         | 12,900                                    | 13,000                            | —   | 25,900              |

(1) Mr. Nelson's retainer consists of \$60,000 for his role as Chairman of the Board.

(2) Amounts reflect the full grant date fair value of each RSA granted in 2019 to the non-employee directors, calculated in accordance with FASB ASC Topic 718, disregarding estimates for forfeitures. Assumptions used in the calculation of these amounts are included in footnote 12 of Group's annual report on Form 10-K filed with the Securities and Exchange Commission on February 27, 2020.

(3) At the end of 2019, the aggregate number of RSAs held by each current non-employee director was as follows: Peter C. Nelson, 1,739; Gregory E. Aliff, 9,285; Terry P. Bayer, 12,869; Shelly M. Esque, 2,692; Dr. Thomas M. Krummel, M.D., 23,290; Richard P. Magnuson, 11,750; Scott L. Morris, 254; Carol M. Pottenger, 4,211; Lester A. Snow, 16,620; Patricia K. Wagner, 254.

# STOCK OWNERSHIP OF MANAGEMENT AND CERTAIN BENEFICIAL OWNERS

## Ownership of Directors and Executive Officers

Our Corporate Governance Guidelines, available on the Group's website at <http://www.calwatergroup.com>, include the stock ownership requirements for non-employee directors and executive officers. The requirements were adopted to promote a long-term perspective in managing the Group and to help align the interests of our stockholders, directors, and executive officers. A more complete description of the stock ownership requirements appears in the "Compensation Discussion and Analysis" section of this Proxy Statement.

Directors are required to achieve the relevant ownership threshold within five years following adoption of the requirements or five years after commencing service, whichever is later. Executives must retain 50% of the net after-tax shares from equity awards until the relevant ownership requirement is achieved.

The following table shows the common stock ownership of our directors and executives as of March 31, 2020. All directors and executives have sole voting and investment power over their shares (or share such powers with their spouses).

| Name  | Common Stock Beneficially Owned(*) |
|---|------------------------------------|
| <b>Gregory E. Aliff</b><br>Director   | 11,337                             |
| <b>Terry P. Bayer</b><br>Director   | 14,499                             |
| <b>Shannon C. Dean</b><br>Executive Officer                                 | 13,216                             |
| <b>Shelly M. Esque</b><br>Director  | 4,357                              |
| <b>David B. Healey</b><br>Executive Officer                                 | 16,040                             |
| <b>Martin A. Kropelnicki</b><br>Director and Executive Officer              | 90,211                             |
| <b>Thomas M. Krummel, M.D.</b><br>Director                                  | 27,241                             |
| <b>Robert J. Kuta</b><br>Executive Officer                                  | 10,949                             |
| <b>Michael B. Luu</b><br>Executive Officer                                  | 14,286                             |
| <b>Richard P. Magnuson</b><br>Director                                      | 56,288                             |
| <b>Michael S. Mares, Jr.</b><br>Executive Officer for California Subsidiary | 2,661                              |
| <b>Lynne P. McGhee</b><br>Executive Officer                                 | 24,461                             |
| <b>Greg A. Milleman</b><br>Executive Officer for California Subsidiary      | 2,160                              |
| <b>Scott L. Morris</b><br>Director  | 1,884                              |
| <b>Michelle R. Mortensen</b><br>Executive Officer                           | 6,953                              |
| <b>Peter C. Nelson</b><br>Director and Retired Executive Officer            | 16,098                             |
| <b>Elissa Y. Ouyang</b><br>Executive Officer                                | 4,947                              |
| <b>Todd K. Peters</b><br>Executive Officer for California Subsidiary        | 1,242                              |
| <b>Carol M. Pottenger</b><br>Director                                       | 5,841                              |
| <b>Gerald A. Simon</b><br>Executive Officer                                 | 6,161                              |
| <b>Thomas F. Smegal III</b><br>Executive Officer                            | 41,071                             |
| <b>Lester A. Snow</b><br>Director   | 20,015                             |
| <b>Paul G. Townsley</b><br>Executive Officer                                | 22,651                             |
| <b>Ronald D. Webb</b><br>Executive Officer                                  | 17,605                             |
| <b>Patricia K. Wagner</b><br>Director                                       | 1,884                              |
| <b>All directors and executives as a group</b>                              | <b>434,058</b>                     |

\* To our knowledge, as of March 31, 2020, all directors and executives together beneficially owned an aggregate of approximately 1.0% of outstanding common shares. No one director or executive beneficially owns more than 1.0% of outstanding common shares.

## 2019 Say-on-Pay Vote and Stockholder Outreach

Our Board and management value the views of our stockholders and believe that maintaining an active dialogue with them is important to our commitment to long-term stockholder value. For fiscal year 2019, we received 94% of the votes cast on the Say-on-Pay advisory vote taken at the 2019 Annual Meeting of Stockholders (Say-on-Pay). The Committee recognizes that best practices in executive compensation continue to evolve and we strongly believe in soliciting feedback from stockholders to better understand their perspectives, to receive their input on our business strategy and execution, and to gather feedback regarding other matters of investor interest. Additionally, management engages regularly with investors at conferences and other forums.

Through stockholder feedback, we have observed the following:

- ▶ **Stockholders have shared favorable views of our executive leadership team**, including each of the named executive officers, and the alignment between pay and performance.
- ▶ **Stockholders understand the drivers of the non-cash change in pension**, which represented a large non-cash portion of the reported total compensation for our CEO and did not see the reported amount as a risk factor that influenced their Say-on-Pay vote. Instead, stockholders tended to focus on changes in our CEO's pay excluding the actuarial change in pension value. As such, we have added a column to the right of the Summary Compensation Table to show the total compensation of our named executive officers subtracting out the actuarial changes in pension value from the total compensation figure required to be reported, and we have added additional information in the Compensation Discussion and Analysis to provide context for the change in pension value.
- ▶ **Stockholders expressed that they would generally prefer to see less overlap in the performance metrics used in our short-term and long-term incentive compensation programs.** In response to this feedback we made a number of changes to the performance criteria used for our 2019 incentive compensation programs:
  - The performance-based RSUs granted to all officers in 2019, as part of our long-term incentive program, will vest based upon our achievement with respect to three different performance metrics over a three-year period from 2019 to 2021. These performance metrics are based upon three-year return on equity, three-year cumulative growth in stockholder's equity and a third metric tied to the implementation, by the end of the performance period, of certain customer service-related initiatives.
  - In contrast, our 2019 short-term incentive program will continue to be based upon the achievement of performance criteria related to the following, measured over fiscal year 2019: water quality, earnings per share, utility plant investment, emergency preparedness and workplace safety metrics, and customer service metrics (which are different from the customer service-related initiatives on which the performance-based long-term incentive RSUs are measured).

## Ownership of Largest Stockholders

As of December 31, 2019, our records and other information available from outside sources indicated that the following stockholders were the beneficial owner of more than five percent of the outstanding shares of our common stock.

The information below is as reported in filings made by third parties with the SEC. Based solely on the review of our stockholder records and public filings made by the third parties with the SEC, we are not aware of any other beneficial owners of more than five percent of the common stock.

| Class  | Beneficial Owner  | Number of Shares of Common Stock | Percent of Class |
|--------|---|----------------------------------|------------------|
| Common | BlackRock, Inc. <sup>(1)</sup><br>55 East 52 <sup>nd</sup> Street<br>New York, NY 10055 | 7,681,110                        | 16.0%            |
| Common | The Vanguard Group, Inc. <sup>(2)</sup><br>100 Vanguard Blvd.<br>Malvern, PA 19355      | 5,727,390                        | 11.89%           |
| Common | State Street Corporation <sup>(3)</sup><br>One Lincoln Street<br>Boston, MA 02111       | 3,922,734                        | 8.15%            |

(1) BlackRock, Inc. has sole voting power over 7,539,109 shares and sole investment power over 7,681,110 shares as of December 31, 2019, as filed on SEC Schedule 13G/A.

(2) The Vanguard Group, Inc. has sole voting power over 111,167 shares; sole investment power over 5,615,344 shares; shared voting power over 20,269 shares; and shared investment power over 112,046 shares as of December 31, 2019, as filed on SEC Schedule 13G/A.

(3) State Street Corporation ("State Street") has shared voting power over 3,586,945 shares, shared investment power over all 3,922,734 shares, and no sole voting power or sole investment power over any shares. SSGA Funds Management, Inc., a wholly owned subsidiary of State Street, has shared voting power over 2,470,441 shares, shared investment power over 2,488,014 shares, and no sole voting power or sole investment power over any shares. This information is as of December 31, 2019, as filed on SEC Schedule 13G.

## Delinquent Section 16(a) Reports

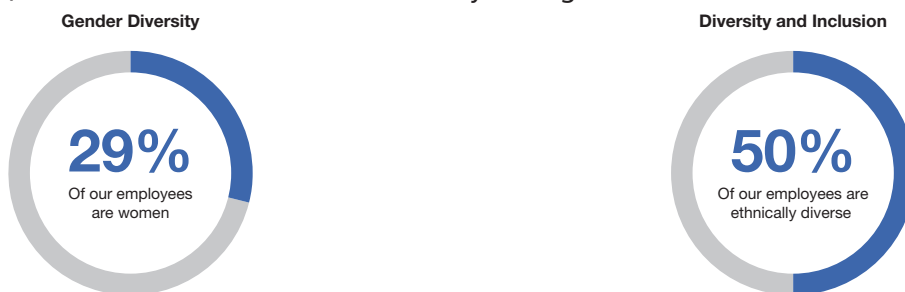
Section 16(a) of the Securities Exchange Act of 1934, requires our directors, executive officers, and holders of more than 10% of our common stock to file with the SEC reports regarding their ownership, and changes in ownership of our securities. Based solely on its review of the copies of forms furnished to the Group, or written representations that no annual forms (SEC Form 5) were required, the Group believes that for fiscal year ended December 31, 2019, our directors and executive officers filed all reports on a timely basis.

# CORPORATE CITIZENSHIP AND ENVIRONMENTAL, SOCIAL AND GOVERNANCE PRACTICES

Since our founding more than 90 years ago, we have been committed to enhancing the quality of life for our customers, communities, employees, and stockholders. Highlights of our corporate citizen, environmental and social programs are summarized below.<sup>(1)</sup>

## Our People

We believe that if we take care of our employees, they can be our best ambassadors. We are committed to attracting and retaining skilled experts in their fields and creating a workplace where employees can continually grow and realize more fulfilling and productive careers. As an employer dedicated to maintaining an inclusive and diverse workforce, we are able to expand the pipeline of technical talent, both for Cal Water and the industry at large.



|   |   |
|---|---|
| <p><b>Employer of Choice</b></p>            | <ul style="list-style-type: none"> <li>▶ Named a Top Workplace in the Bay Area for the eighth consecutive year</li> <li>▶ Named a Great Place to Work for the fourth consecutive year</li> <li>▶ Offer a competitive employee benefits package that includes medical, vision, and dental insurance; flexible spending accounts; generous paid time off; a 401K savings plan with company match; and a defined benefit plan</li> <li>▶ Maintain good relationships with the two unions who represent some of our employees, the Utility Works Union of America, AFL-CIO and the International Federation of Professional and Technical Engineers</li> </ul>  |
| <p><b>Commitment to Employee Safety</b></p> | <ul style="list-style-type: none"> <li>▶ Robust safety training program delivered to all employees on driver safety, first aid, CPR, Occupational Safety and Health Administration best practices, evacuation procedures, and evolving health and safety issues</li> <li>▶ Implemented a comprehensive Injury and Illness Prevention Program for employees at all facilities and operations</li> <li>▶ Monthly review of all injuries and accidents with a focus on root cause by our Executive Health and Safety Committee</li> <li>▶ Partnership with the Utility Works Union of America to further enhance employee safety through peer to peer reviews</li> <li>▶ Vehicle accident reduction program including driver safety training program for all subsidiaries</li> </ul> |
| <p><b>Diversity and Inclusion</b></p>       | <ul style="list-style-type: none"> <li>▶ Committed to being an industry leader in inclusion</li> <li>▶ Hosted a series of History Month Celebrations at our San Jose headquarters for our employees, community-based organizations, and diverse suppliers to advance internal cultural transformation and diversity in our organization</li> <li>▶ Implemented our Ambassador Program comprised of employees who attend outreach events and work directly with diverse suppliers and leadership of community-based organizations</li> <li>▶ Dedicated team focused on supplier diversity and inclusion</li> </ul>   |
| <p><b>Professional Development</b></p>      | <ul style="list-style-type: none"> <li>▶ More than 1,500 industry-specific certifications held by our team members</li> <li>▶ Provide local training opportunities and tuition reimbursement</li> <li>▶ Implemented an incentive program to reward employees who earn multiple certifications</li> </ul>  |

(1) Statistics and metrics included in this “Corporate Citizenship and Environmental, Social and Governance Practices” section are estimates and may be based on assumptions or developing standards. Company goals are aspirational and not guarantees or promises that all goals will be met.

## **Our Environmental Footprint**

We are committed to meeting the needs of our customers now and in the future. By operating in a way that does not compromise our ability to meet the needs of future generations, and applying the same standards to our suppliers, we bring shared value to customers, stockholders, and employees. We provide a life-sustaining, finite natural resource, and as such, have historically operated using sound environmental practices; today, we utilize an Environmental Management System that mirrors ISO 14001, and our efforts are focused on the three areas where we can make the greatest difference while continuing to provide affordable water and wastewater services: water quality and reliability; conservation; and efficient, sustainable operations.

### ***Water Quality and Reliability***

- ▶ We invest diligently in our water system infrastructure, thereby reducing the amount of water lost to leaks and water line failures.
- ▶ We develop 20-year supply plans for each region and regularly assess water supplies.
- ▶ We operate water wells responsibly to avoid negatively impacting groundwater supplies.
- ▶ We work cooperatively with government agencies to operate our large watershed in a way that protects and restores the natural environment for native plants and animals.
- ▶ Where possible, as one of California's largest retailers of recycled water, we supplement our supplies with alternative resources, such as recycled and desalinated water.
- ▶ We strive to meet or exceed all environmental standards that relate to water and wastewater operations.
- ▶ We take an active role in cleaning up aquifers and holding polluters accountable.

### ***Conservation***

- ▶ Our water sales have been decoupled from profits since 2008, allowing us to aggressively pursue conservation programs.
- ▶ Our tiered rates are designed to encourage conservation.
- ▶ We provide rebates, high-efficiency plumbing fixtures, and educational materials to help customers conserve.
- ▶ We provide direct-installation programs (new toilets, showerheads, faucet aerators) to low-income and high-usage customers.
- ▶ We promote conservation through ongoing outreach programs and a variety of channels within the communities we serve, including a partnership with the North American Association for Environmental Education on a conservation-based, classroom competition program called the "Cal Water H2O Challenge."

### ***Efficient Operations***

- ▶ We strive to use energy as efficiently as possible and use alternative energy where it makes sense to operate water facilities, including pumps, generators, and water storage tank mixing systems.
- ▶ We consider "green" vehicles when adding to our fleet.
- ▶ We utilize cost-effective, "green" design and building techniques at our facilities.



- ▶ We use technology to automate business processes and reduce waste streams.
- ▶ We demonstrate native, water-efficient landscaping in our communities.

|   |   |
|---|---|
| <p><b>Distribution Network Efficiency</b></p> | <p>Water main replacements in 2019:</p> <ul style="list-style-type: none"> <li>▶ Replaced 145,881 feet of main, 0.47% of main in California</li> <li>▶ Invested \$274 million</li> </ul> <p>Volume of non-revenue water losses:</p> <ul style="list-style-type: none"> <li>▶ 17,916 thousand cubic meters</li> </ul>  |
| <p><b>Drinking Water Quality</b></p>          | <p>Number of drinking water violations for: (in CA,WA, NM, and HI)</p> <ul style="list-style-type: none"> <li>▶ Acute health-based standards: Zero</li> <li>▶ Non-acute health-based standards : Zero</li> <li>▶ Non-health-based standards : 2 procedural</li> </ul> <p>Strategies to manage drinking water contaminants of emerging concern:</p> <ul style="list-style-type: none"> <li>▶ Closely monitoring changes in the regulatory environment</li> <li>▶ Participating in water industry organizations and work groups</li> <li>▶ Proactive water quality monitoring</li> <li>▶ Data trending</li> <li>▶ Research and pilot testing</li> </ul>   |
| <p><b>Effluent Quality Management</b></p>     | <p>Number of incidents of non-compliance from water effluent quality permits, standards, and regulations:</p> <ul style="list-style-type: none"> <li>▶ Zero</li> </ul> <p>Strategies to manage effluents of emerging concern:</p> <ul style="list-style-type: none"> <li>▶ Environmental and Water Quality departments working closely to identify how maximum contaminant levels for compounds can affect effluent quality</li> <li>▶ Identifying on an industry-wide level the best available treatment options and technology used to mitigate effluent discharges</li> <li>▶ Communicating constituent management strategies (i.e. watershed approaches, advanced wastewater treatment, point-of-use treatment, education) to our suppliers</li> <li>▶ Engaging our regulatory partners early to address any risks of discharging, the cost of compliance, and timeliness for issuance of water discharge permits.</li> <li>▶ Actively training employees on emergency response and spill management</li> </ul>   |
| <p><b>Energy Management</b></p>               | <p>Total energy consumed in 2019:</p> <ul style="list-style-type: none"> <li>▶ 550,570 gigajoules across California, Hawaii, New Mexico, and Washington operations <ul style="list-style-type: none"> <li>• California: 451,856 gigajoules</li> <li>• Hawaii: 93,615 gigajoules</li> <li>• New Mexico: 3,822 gigajoules</li> <li>• Washington: 1,277 gigajoules</li> </ul> </li> <li>▶ Percentage of energy from grid electricity (defined as electricity provided by the default power provider): <ul style="list-style-type: none"> <li>• California: 65.5%</li> <li>• Hawaii: 99.15%</li> <li>• New Mexico: 100%</li> <li>• Washington: 100%</li> </ul> </li> <li>▶ Percentage of energy from renewable sources (excludes renewable energy provided by default power provider):* <ul style="list-style-type: none"> <li>• California: 34.5%</li> <li>• Hawaii: 0.85%</li> <li>• New Mexico: 0%</li> <li>• Washington: 0%</li> </ul> </li> </ul> <p>* In 2019, default power providers estimated 37% renewable generation in California, 37% in Hawaii, 15% in New Mexico, and 9% in Washington</p> |

Proxy

## Water Affordability and Access

This table represents the typical monthly water bill for residential customers with 10 Ccf of water delivered per month, based on 5/8" meter. It does not include surcharges/credits and taxes.

| DISTRICT           | BILL (\$) * |
|--------------------|-------------|
| Bakersfield        | \$36.64     |
| Bay Area Region    | \$82.63     |
| Bear Gulch         | \$93.84     |
| Chico              | \$31.38     |
| Dixon              | \$65.31     |
| Dominguez          | \$52.81     |
| East Los Angeles   | \$58.51     |
| Hermosa-Redondo    | \$57.18     |
| Kern River Valley  | \$104.69    |
| Livermore          | \$57.55     |
| Los Altos          | \$72.82     |
| Los Angeles Region | \$68.17     |
| Marysville         | \$52.05     |
| Monterey Region    | \$51.82     |
| Oroville           | \$60.86     |
| Selma              | \$39.61     |
| Stockton           | \$52.60     |
| Visalia            | \$25.01     |
| Westlake           | \$73.31     |
| Willows            | \$60.76     |

\* Based on tariffs effective as of Dec. 31, 2019

## End-Use Efficiency

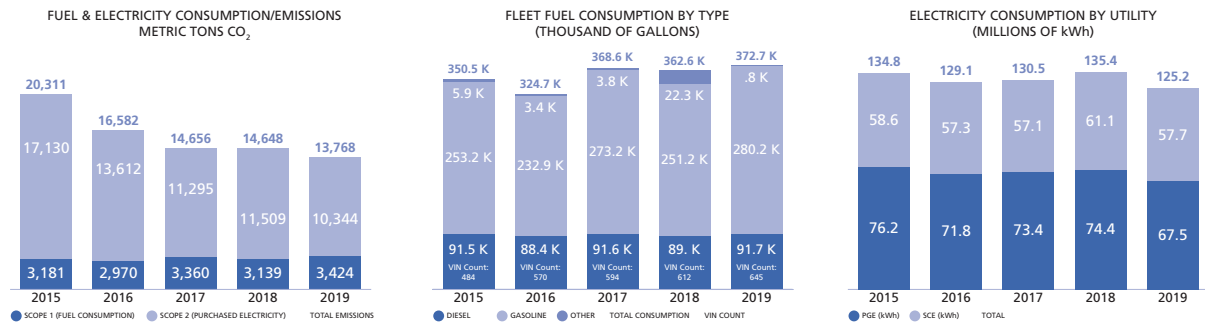
Customer water savings from efficiency measures, by market.

| DISTRICT            | ANNUAL SAVINGS<br>(in cubic meters) | LIFETIME SAVINGS<br>(in cubic meters) |
|---------------------|-------------------------------------|---------------------------------------|
| Antelope Valley     | 814.10                              | 11,903.08                             |
| Bakersfield         | 83,235.23                           | 1,112,142.57                          |
| Bear Gulch          | 29,492.51                           | 417,138.27                            |
| Chico               | 35,721.58                           | 587,494.19                            |
| Dixon               | 2,170.92                            | 26,680.17                             |
| Dominguez           | 58,059.90                           | 856,750.54                            |
| East Los Angeles    | 53,286.34                           | 908,840.40                            |
| Hermosa-Redondo     | 39,890.74                           | 687,332.06                            |
| Kern River Valley   | 2,392.95                            | 26,038.76                             |
| King City           | 2,417.62                            | 41,679.29                             |
| Livermore           | 45,540.08                           | 764,597.25                            |
| Los Altos           | 37,547.13                           | 627,162.91                            |
| Marysville          | 5,044.93                            | 90,537.43                             |
| Mid-Peninsula       | 58,824.66                           | 963,754.93                            |
| Oroville            | 1,603.52                            | 25,323.34                             |
| Palos Verdes        | 58,985.01                           | 808,669.49                            |
| Redwood Valley      | 752.42                              | 12,507.49                             |
| Salinas             | 85,751.53                           | 1,560,845.59                          |
| Selma               | 12,495.15                           | 161,450.20                            |
| South San Francisco | 58,010.56                           | 1,018,336.42                          |
| Stockton            | 52,176.20                           | 781,397.25                            |
| Visalia             | 42,641.40                           | 640,805.19                            |
| Westlake            | 5,427.31                            | 76,068.71                             |
| Willows             | 49.34                               | 629.07                                |
| <b>2019 TOTAL</b>   | <b>772,331.17</b>                   | <b>12,208,084.60</b>                  |

\* Rates for all metered customers, both residential and non-residential, are based on a conservation-oriented rate design. Remaining flat-rate customers will be converted to meters by 2025.

## Carbon Emissions

Our 5-year emissions trend had decreased annually since 2015 from 20,311 to 13,768 metric tons in 2019 resulting in a total emissions reduction of 32%.



### Strategies to Decrease Fuel Emissions:

- ▶ Implemented commuter benefits program, focusing on public transportation and ridesharing
- ▶ Using hybrid, electric, and smaller vehicle models where possible

### Community Choice Aggregators:

- ▶ 12 Cal Water districts use CCAs with a higher percentage of emissions-free power content
- ▶ We utilize: Peninsula Clean Energy (86% emissions-free), Sonoma Clean Power (87% emissions-free), and Silicon Valley Clean Energy

### Strategies to Decrease Electricity Emissions:

- ▶ Increasing use of community choice aggregators
- ▶ Identifying renewable options with energy providers
- ▶ Installing renewable energy infrastructure

## Social Responsibility

We know that the decisions we make affect our customers, communities, employees, and stockholders. In every goal, strategic priority, and business objective we are guided by our commitment to do the right thing and enhance the quality of life for our stakeholders.

The following are a few significant initiatives completed in 2019.

### Management Policies, Systems, and Disclosure

#### California Consumer Privacy Act

Cal Water is in compliance with the provisions of the California Consumer Privacy Act (CCPA), which enhances consumer privacy rights and protections. A few components of this effort include:

- ▶ Identifying customer personal identifiable information (PII) data collected, where it resides, and which suppliers have access to any PII
- ▶ Creating processes to enable customers to manage their PII data online and by phone

- ▶ Updating policies related to data use, data sharing, and privacy, and training employees on CCPA compliance with customers
- ▶ Tracking consent of use through our Customer Care and Billing database

### **Ethical Sourcing/Supply Chain Standards**

#### **Supplier Code of Conduct**

In 2019, Group updated our Supplier Code of Conduct, which explicitly requires vendors doing business with us to operate responsibly and ethically. It includes, in part:

- ▶ Refraining from conflicts of interest
- ▶ Ensuring a safe workplace
- ▶ Managing environmental risks and conserving natural resources
- ▶ Protecting human rights, and encouraging them to interact with employees and communities in a manner consistent with the UN Guiding Principles to Business and Human Rights
- ▶ Prohibiting slave, child, or otherwise forced labor, and encouraging the same throughout their supply chain

#### **Corporate Governance**

We are committed to objective, independent leadership for our Board and each of its committees. In addition, our Board believes the active, objective, and independent oversight of management is central to effective Board governance, and serves the best interests of all stakeholders, including customers, stockholders, regulators, suppliers, associates and the general public. We work hard to ensure we employ best practices, including:

- ▶ A Code of Ethics and insider trading policy published online for the board, management, and employees
- ▶ A business Code of Conduct for all employees published on our web site
- ▶ A separate Code of Supplier Conduct published on our web site for all potential suppliers, which includes, among other subjects, ensuring proper conduct related to child and forced labor and doing business in a way that reduces environmental impacts
- ▶ Clawback and anti-hedging policies for executives
- ▶ A separate Board of Directors committee for risk management
- ▶ An expanded role for our Board's independent lead director
- ▶ An annual "say on pay" stockholder vote on executive compensation
- ▶ Discussions of non-financial targets in our proxy statement, which also includes our executive compensation plan
- ▶ Majority voting for electing new Board directors
- ▶ Corporate Governance Guidelines and Committee charters to promote proper oversight
- ▶ Internal controls to promote complete and accurate financial reporting

- ▶ A formal bonding policy developed in 2017
- ▶ Multiple channels for employees to report concerns, either through management or Human Resources, or through quarterly questionnaires conducted in accordance with the Sarbanes-Oxley Act's Section 302
- ▶ A confidential risk/ethics hotline as another protected avenue for employees to report related concerns

The following are new and changed responsibilities within the committees of the Board of Directors.

***Enterprise Risk Management, Safety, and Security Committee (founded in 2019)***

- ▶ Assesses principal risks arising out of our businesses, including operations and facilities, and guides mitigation and management to reduce exposure and risk
- ▶ Reviews goals, programs, policies, and practices to promote culture of employee and public safety, both in daily activities and emergencies
- ▶ Oversees adequate safeguarding of all company assets, including both physical and cyber security

***Nominating/Corporate Governance Committee Scope***

- ▶ Committee now oversees strategies, policies, and practices related to environmental and social responsibility, and sustainability issues and impacts

# COMPENSATION DISCUSSION AND ANALYSIS

## Executive Compensation

In this section, we describe our executive compensation philosophy and program that supports our strategic objectives and serves the long-term interests of our shareholders. We also discuss how our President & Chief Executive Officer, Chief Financial Officer, and other Named Executive Officers (our NEOs) were compensated in 2019 and describe how their compensation fits within our executive compensation philosophy. For fiscal 2019, our NEOs were:

| Name                  | Title  |
|-----------------------|--|
| Martin A. Kropelnicki | President & CEO  |
| Thomas F. Smegal III  | Vice President, Chief Financial Officer  |
| Paul G. Townsley      | Vice President, Corporate Development and Chief Regulatory Officer                       |
| Robert J. Kuta        | Vice President, Engineering and Chief Water Quality and Environmental Compliance Officer |
| Lynne P. McGhee       | Vice President, General Counsel  |

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## 1 2019 Compensation Overview

### Executive Compensation Philosophy and Framework

Our executive compensation programs are designed to attract, motivate and retain key officers with the ultimate goal of generating strong operating results and creating long-term alignment with our stockholders and customers. We reward for excellent job performance, overall leadership, long-term results, and provide for fair, reasonable, and competitive total compensation.

Our executive compensation programs are built upon the following framework:

- ▶ **Pay for performance** by aligning officer compensation to pre-established, quantifiable performance goals
- ▶ Use performance metrics that are **understandable** and are **tied to key performance indicators**; all of our officers have the **ability to make an impact**
- ▶ Provide **competitive pay** to attract and retain highly-qualified officers
- ▶ **Align management interests with the long-term interests of our customers and stockholders**
- ▶ Establish performance goals that are **aligned with our organizational strategy**
- ▶ Maintain a **one-team approach**, meaning all eligible officers and department heads share the same performance targets and compensation plan

Our officer team's 2019 performance demonstrates our commitment to delivering value to our stockholders and customers, with strong performance on both financial and non-financial measures. This resulted in 136.5% achievement of target for the short-term incentive compensation plan and 143% achievement of target and payout for the long-term performance-based equity grant for performance period 2017 - 2019.

## 2 NEO Compensation Components and Pay Mix

Our officers' total direct compensation is heavily weighted towards performance and appropriately balances officer focus on our short- and long-term priorities with annual and long-term rewards. Consistent with our compensation philosophy, our total compensation program was developed by taking into account competitive market data, as well as a variety of additional factors including individual experience, tenure, performance and leadership, Group performance, and internal equity among the officers. Our compensation decisions for 2019 are outlined below.

### Elements of Compensation

#### Base salary

We believe it is important to drive strong performance with respect to traditional measures of success in the utilities industry. For 2019, as well as 2018, base salaries for NEOs were increased for the cost of living and, in some cases, performance. This is intended to compensate NEOs for job performance and overall leadership while maintaining salaries within the "competitive range" of the market data. This market data is updated annually by our independent compensation consultant retained by the board.

| Name                  | 2018 Base Salary | 2019 Base Salary | Percent Increase | 2020 Base Salary | Percent Increase |
|-----------------------|------------------|------------------|------------------|------------------|------------------|
| Martin A. Kropelnicki | \$958,000        | \$987,000        | 3.0              | \$1,021,545      | 3.5              |
| Thomas F. Smegal III  | 442,000          | 457,500          | 3.5              | 475,800          | 4.0              |
| Paul G. Townsley      | 391,000          | 405,000          | 3.6              | 419,500          | 3.6              |
| Robert J. Kuta        | 334,000          | 347,500          | 4.0              | 360,000          | 3.6              |
| Lynne P. McGhee       | 304,000          | 319,500          | 5.1              | 345,500          | 8.1              |

#### Short-term Performance Incentive Award Opportunity

For 2019, the target opportunity for short-term incentives was 100% of salary (unchanged from 2018) for our President & CEO, and 30% of base salary (from 25% in 2018) for all other officers. The payout ranges from 0% to 200% of target, based on actual performance.

#### Performance and Time-Based Equity Compensation

Grant values for 2019 were unchanged from 2018, 2017, and 2016. For 2019, the Organization & Compensation Committee set the target total value for the equity compensation awards at \$575,000 for our President & CEO, \$150,000 for the Group's vice presidents, and \$90,000 for all other NEOs. Fifty percent of equity compensation awards are in the form of time-based RSAs vesting over three years, and fifty percent are in the form of performance-based RSUs with a three-year performance period and vesting 0% to 200% based on performance of each metric. Each year of the performance period is aggregated to attain the three-year performance period's final achievement.

## 3 Executive Compensation Governance and Process

### Role of the Organization and Compensation Committee

We are committed to the highest standards of compensation governance. We design and administer our executive compensation program to motivate, retain, and focus key officers to drive our strategy, generate strong operating results, and deliver solid, long-term returns to our stockholders and



customers. Our compensation programs are also intended to align the interests of our leadership team with our stockholders and customers and to promote our pay-for-performance culture and philosophy.

Comprised entirely of independent outside directors, the Organization & Compensation Committee (Committee) is responsible for overseeing our compensation programs for officers and officer succession. The Committee recommends to the Board compensation levels and incentive performance objectives for officers for the 12-month period beginning January 1 of each year. These objectives align with stockholder and customer interests and support our long-term growth and health of the Company. The Committee starts its planning and review process in February of each preceding year and generally concludes its process in November. After year-end results are final, the Committee reviews the achieved results for the prior year, certifies the achievement of each goal, approves payment of incentive compensation as certified, and approves the incentive compensation targets for the current year.

The following summary outlines the key features of our officer compensation program:

| WHAT WE DO   | WHAT WE DON'T DO  |
|--|---|
| <ul style="list-style-type: none"> <li>☑ We pay for performance with compensation in the form of annual short-term performance-based incentives, as well as award 50% of long-term equity incentive compensation in the form of restricted stock units (RSUs) subject to performance-based vesting criteria over a three-year period.</li> <li>☑ We retain an independent compensation consultant who reports to the Organization and Compensation Committee.</li> <li>☑ We hold an annual "say-on-pay" advisory vote.</li> <li>☑ We require stock ownership with minimum holding requirements for all directors and officers to promote a long-term perspective in managing the Group and to help align the interests of our stockholders, directors, and officers.</li> <li>☑ We cap individual payouts for short-term performance-based incentive and long-term equity incentive compensation plans.</li> <li>☑ We have an officer compensation recovery ("clawback") policy requiring the reimbursement of excess incentive-based compensation provided to the Group's officers in the event of certain restatements of the Group's financial statements.</li> </ul> | <ul style="list-style-type: none"> <li>⊗ We limit perquisites; the Group does provide officers with only limited perquisites consisting of a company vehicle with related excess liability insurance.</li> <li>⊗ We do not provide tax gross-ups on perquisites or other personal benefits.</li> <li>⊗ We do not provide employment agreements; other than participation in the Executive Severance Plan, none of our officers are party to individual employment or severance agreements.</li> <li>⊗ We do not provide single-trigger change in control benefits; the Group's Executive Severance Plan provides for change in control severance benefits upon a termination of employment following a change in control; the Group's equity incentive plan does not require single-trigger vesting acceleration upon a change in control.</li> <li>⊗ We do not allow hedging and pledging of Group stock; the Group's directors and officers are prohibited from hedging their ownership of Group stock, including trading in options, puts, calls, or other derivative instruments related to Group stock or debt, in accordance with the anti-hedging prohibition in our insider trading policy; directors and officers are also prohibited from pledging their ownership of Group stock in accordance with an anti-pledging provision in our insider trading policy.</li> </ul> |

## Total Compensation Factors

Each year the Organization & Compensation Committee reviews, assesses, and recommends to the full Board all compensation for our officers after determining that the compensation for these individuals is competitive relative to companies of comparable size, complexity, location, and business nature (see below for additional discussion of this comparison). With respect to 2019 compensation decisions, the Committee engaged Veritas Executive Compensation Consultants (Veritas) as its independent executive compensation consultant.

Under the terms of its engagement, Veritas reports directly to the Committee; the Committee has sole authority to retain, terminate, and approve the fees paid to Veritas; and Veritas may not be engaged to provide any other services to us without the approval of the Committee. Other than its engagement by the Committee, Veritas does not perform any other services for the Group. The Committee believes having an independent evaluation of compensation is a beneficial tool for the

Committee, the Group, and stockholders. The Committee retained Veritas for several purposes, including:

- ▶ Constructing and reviewing compensation comparisons from readily available published survey and public filings data
- ▶ Performing a competitive assessment of the compensation programs, practices, and levels for directors and officers
- ▶ Reviewing our compensation plans relative to the plans of our proxy peer group

The Committee made a number of compensation recommendations, including those pertaining to the officers that were based on the competitive assessments provided by and through consultation with Veritas. The Committee's recommendations were made, however, entirely by the Committee, in its sole discretion.

The total compensation level for each officer is based on one or more of the following factors:

- ▶ The individual's duties and responsibilities within the Group
- ▶ The individual's tenure and experience
- ▶ The compensation levels for the individual's peers within the Group
- ▶ Compensation levels for similar positions based on a review of published compensation surveys
- ▶ The levels of compensation necessary to retain, motivate, and recruit officers

In order to determine competitive compensation practices for 2019, the Committee relied, in part, on published survey compensation data, as well as proxy data for individual companies. The individual companies are referred to in this proxy statement as the "Peer Group." The Peer Group includes companies that are generally highly regulated public gas, water, or multi-utility-based organizations with one-half to two times the annual revenue size of the Group. In addition, a portion of the Peer Group is subject to unique California statutes similar to the Group.

On November 20, 2019, the Committee approved the following companies for inclusion in the 2019 Peer Group for determining competitive compensation levels. There were no additions or changes to the Peer Group from 2018.

|                               |                               |
|-------------------------------|-------------------------------|
| Allete, Inc.                  | Northwest Natural Gas Company |
| American States Water Company | NorthWestern Corp.            |
| Aqua America, Inc.            | Otter Tail Corporation        |
| Avista Corporation            | Ormat Technologies            |
| Black Hills Corp.             | PNM Resources                 |
| Chesapeake Utilities Corp.    | Portland General Electric     |
| El Paso Electric              | San Jose Water Company        |
| MGE Energy                    | South Jersey Industries, Inc. |

To properly advise the committee, Veritas utilized data from these sources to compile the competitive pay information comparing each officer's compensation to market levels for his/her executive position.

After consideration of the competitive data, the Committee makes decisions regarding each individual officer's target total compensation opportunities based on the Group and individual performance and the need to attract, motivate, and retain an experienced and effective management team. The Committee examined the relationship of each officer's base salary, long-term equity incentives, short-term incentive awards, and total compensation to the competitive data from several perspectives by reviewing the following:

- ▶ The competitive data without any adjustments
- ▶ Annual incentive or bonus valued at 50% of median of the market competitive data
- ▶ The lower range of 20% below the median of the market competitive data
- ▶ Target total direct compensation reduced by 20% from the median of the market competitive data
- ▶ Actual short-term incentive compensation reduced by 20% from the median of the market competitive data

In making compensation recommendations for the 2019 fiscal year for the officers, the Committee's general objective was to set total compensation within a "competitive range" for each officer's position based on the competitive data. The Committee considers the "competitive range" to mean that compensation levels are within plus or minus 20% of the median compensation levels as determined by reference to the competitive data. Actual compensation decisions for the officers were, however, influenced by a variety of additional factors including considerations of each individual's experience, tenure, performance and leadership, Group's performance, and internal equity among the officers.

The Committee annually reviews Veritas in light of various factors including those factors required by SEC rules and NYSE Listed Company Rules regarding compensation consultant independence and has affirmatively concluded that Veritas is independent from California Water Service Group and has no conflicts of interest relating to its engagement by the Committee. The Committee also reviews the performance of Veritas.

## 4 2019 Performance Goals and Performance

### Pay for Performance

Our executive compensation program is designed to link officer compensation to our overall short-term and long-term performance (as measured by key operational and financial objectives incorporated in both long-term (LTI) and short-term (STI) performance-based compensation programs) as outlined below:

- ▶ We utilize a short-term performance-based compensation program consisting of an annual performance-based short-term incentive that supports our long-term growth objectives of the Group
- ▶ We award 50% of the long-term equity incentive compensation in the form of restricted stock units (RSUs) subject to performance-based vesting criteria, with the remaining 50% awarded in the form of time-based restricted stock awards (RSAs)
- ▶ We use a three-year performance period for the long-term performance-based RSUs with vesting based upon achievement of annual performance targets related to each of the following: water quality, customer service, emergency preparedness and safety, utility plant investment, and earnings per share.

## 2019 Say-on-Pay Vote and Stockholder Outreach

From 2013 thru 2017 our executive compensation program received stockholder support averaging 93% in favor of our annual say-on-pay vote. During that time, we received positive feedback from our stockholders and did not make any material changes in design or execution to our executive compensation program.

For fiscal year 2018, we received 75% of the votes cast on the Say-on-Pay advisory vote taken at the 2018 Annual Meeting of Stockholders (Say-on-Pay). In 2017, the Committee engaged in significant outreach to stockholders to understand the cause of the decline from the prior level of support. As part of our stockholder outreach we also solicited feedback from the stockholders with whom we spoke on the short-term and long-term incentive compensation metrics used in 2017 in our executive compensation program. A number of stockholders (including both stockholders who supported the Say-on-Pay resolution and those who voted against it) expressed that they would generally prefer to see less overlap in the performance metrics used in our short-term and long-term incentive compensation programs. Taking this feedback into account, as well as an extensive review of the compensation plans within our proxy peer group, we made a number of changes to the performance criteria used for our 2019 incentive compensation programs. The performance-based RSUs granted to all officers in 2019, as our long-term incentive program, will vest based upon our achievement with respect to three different performance metrics over a three-year period from 2019 to 2021. These performance metrics are based upon three-year return on equity, three-year cumulative growth in stockholder's equity and a third metric tied to the implementation, by the end of the performance period, of certain customer service-related initiatives. In contrast, our 2019 short-term incentive program will continue to be based upon the achievement of performance criteria related to the following, measured over fiscal year 2019: water quality, earnings per share, utility plant investment, emergency preparedness and workplace safety metrics, and customer service metrics (which are different from the customer service-related initiatives on which the performance-based long-term incentive RSUs are measured).

Our executive compensation program received approximately 94% of the votes cast on the Say-on-Pay advisory vote for fiscal year 2019, taken at the 2019 Annual Meeting of Stockholders, similar to the support we received from 2013 thru 2017. The Committee believes the high level of support was the result of the Committee's significant stockholder outreach made in 2018 and changes made as a result of such outreach to our 2019 incentive compensation programs, along with our commitment to maintaining an executive compensation program focused on pay for performance. These principles continue to be applied although the Committee did not make any changes to the executive compensation program in response to the 2019 Say-on-Pay Vote.

## 2019 Group Achievements

Our NEOs' performance-based pay for 2019 was based on achieving objective, pre-established financial goals.

### *Financial Results Including Capital Investment and Return on Equity*

- ▶ Achieved net income of \$63.1 million and diluted earnings per share of \$1.31 (each determined in accordance with GAAP);
- ▶ Achieved the majority of its operational goals while keeping controllable costs within budget;
- ▶ Invested \$259.0 million of capital in accordance with our infrastructure improvement program;
- ▶ Increased the Group's 2019 annual dividend by four cents, or 5.3%, which represents our 52<sup>nd</sup> consecutive annual dividend increase;
- ▶ Sold \$400 million in first mortgage bonds during the second quarter;

- ▶ Entered a new \$550 million syndicated credit agreement;
- ▶ Maintained the Group's strong credit rating of A+ stable and AA– for first mortgage bonds and "exceptional" liquidity rating from Standard & Poor's (one of the only North American utilities to do so); and
- ▶ Achieved consolidated Group earnings per share in 2019 representing a return on equity (determined in accordance with GAAP) of 8.36% as reported in item 7 of the Group's Form 10-K for the year ended December 31, 2019 as filed with the SEC.

On December 15, 2016, the California Public Utilities Commission (CPUC) approved the Group's largest subsidiary, California Water Service Company's (Cal Water), 2015 General Rate Case (GRC) application. The decision authorizes Cal Water to request annual escalation rate increases for 2019 for those districts that passed the earnings test. In November of 2018, Cal Water requested escalation rate increase in all of its regulated districts in California. The annual adopted gross revenue associated with the November 2018 filing was \$16.2 million, effective January 1, 2019.

### ***Water Quality and Customer Service Accomplishments***

- ▶ Met all state and federal primary and secondary water quality standards in all water systems Group owns;
- ▶ Recognized by the American Society of Civil Engineers for our TCP treatment project;
- ▶ Designed and deployed two regional customer centers, resulting in all-time high performance in call handling; and
- ▶ Met or exceeded all customer service standards as set by the CPUC.

### ***Safety Achievement***

- ▶ Conducted significant planning and execution around the CPUC Public Safety Power Shutoff (PSPS) including the purchase and staging of equipment, development of operational procedures, and conducting of extensive training;
- ▶ During PSPS shutoffs, Cal Water customers maintained water service through the activation of the company's Emergency Response Centers and deployment of operational, engineering, water quality, and other experts and resources statewide, including portable generators, booster pumps, and emergency trailers;
- ▶ Conducted Emergency Operations Center (EOC) training in all subsidiaries, including eight community EOC joint exercises with local police, fire, and city authorities;
- ▶ Conducted three Critical Incident Response Management Team training sessions throughout Cal Water;
- ▶ Developed a partnership with the Utility Workers of America that will further enhance employee safety; and
- ▶ Conducted an accident reduction program and reduced preventable vehicle accident rate by 9% over 2018 rates and 48% over the last five years.

### ***CEO Pay Overview***

Martin A. Kropelnicki, our CEO since September 1, 2013, made significant contributions managing our 2019 performance. Based on our annual performance objectives for 2019, the Committee granted Mr. Kropelnicki an equity incentive award of \$575,000 for 2019, consisting of \$287,500 in the form of time-based RSAs vesting over three years, and \$287,500 in the form of performance-based RSUs with

a three-year performance period. Mr. Kropelnicki also has the opportunity to earn up to 200% of the target performance-based RSU award based on achievement with respect to Committee approved objectives.

With a 2019 base salary of \$987,000 and \$1,347,255 annual performance-based short-term incentive compensation (representing a payout of 136.5% of target and reflecting superior performance during the year as described in more detail below), Mr. Kropelnicki's total direct compensation was \$2,923,035 (comprised of salary, annual performance based short-term incentive compensation bonus, long-term performance-based restricted stock units, and time-based restricted stock awards).

Mr. Kropelnicki is a participant in the tax-qualified defined benefit plan that covers all permanent employees as well as the non-qualified supplemental retirement benefit plan provided to our officers under the SERP. The primary difference between Mr. Kropelnicki's total direct compensation and the amount reported in the 2019 Summary Compensation Table later in this Proxy Statement is the non-cash change in net present value of his pension from 2018 to 2019, a \$10.3 million increase in the actuarial estimate of his future potential pension benefits. The change in pension value represents the present value of future retirement benefits and does not represent any cash payment to Mr. Kropelnicki.

Changes in pension value historically have been impacted significantly by a completely external factor unrelated to Mr. Kropelnicki's compensation – changes in the discount rate used to value the pension benefits. The discount rate, which is consistent with what we use for financial statement reporting purposes, is itself driven in large part by the overall interest rate environment and can cause substantial volatility in the change in pension value. For example, over the last 10 years, Mr. Kropelnicki's change in pension value has ranged from less than \$100,000 (in 2013) to more than \$10 million (in 2019). Close to 50% of the \$10.3 million change in pension value for 2019 was attributable solely to the 100-basis-point decrease in discount rate from 4.2% in 2018 to 3.2% in 2019. Another significant driver of the change in pension value is the fact that Mr. Kropelnicki is one year closer to age 60, which increases the actuarial value of his pension benefits.

**No pension benefit will be paid to Mr. Kropelnicki until after his retirement from the Group.** Changes in actuarial assumptions for the pension costs are included in customer rates through a rate recovery mechanism. The net present value of the pension benefit ultimately received by Mr. Kropelnicki will change based on a number of factors including changes in interest rates, changes in mortality tables, Mr. Kropelnicki's current age, years of service, and age at retirement.

## Total Compensation Philosophy for Executives

Providing compensation that attracts, retains, and motivates talented officers is our committed goal. Our compensation programs reward excellent job performance, identify exceptional leadership, and represent fair, reasonable, and competitive total compensation that aligns officers' interests with the long-term interests of our stockholders and customers.

The Committee believes a balance of fixed and variable compensation components, with short-term and long-term compensation elements, maintains a strong link between the NEOs' compensation and the overall Group's performance while promoting the interests of both customers and stockholders. The Committee annually re-evaluates the mix of fixed and variable compensation, including the proportions of incentive compensation awarded as short-term cash-based and long-term equity-based awards and shareholder feedback. Additionally, the Committee continues to monitor our program on an annual basis to ensure the structure will not incentivize excessive risk-taking.

In addition, our executive compensation program considers the following factors:

- ▶ The overall financial and operating performance of our company;
- ▶ Each officer's performance and contributions to the achievement of short-term and long-term financial goals and operational milestones;

- ▶ Each NEO's job responsibilities, expertise, historical compensation, and years and level of experience;
- ▶ Our overall succession planning and the importance of retaining each NEO and each NEO's potential to assume greater responsibilities in the future; and
- ▶ Peer group benchmarking data and compensation analyses.

We believe our executive compensation program is achieving the intended results. Our compensation programs continue to be competitive in the industry and has resulted in the attraction and retention of talented officers who contribute to the long-term success of the Group. Our compensation programs create a strong linkage between pay and performance through long-term equity and annual performance-based short-term incentive compensation without encouraging imprudent risk taking by our officers.

## Elements of Compensation

The material elements of our officer compensation program for 2019 included:

- ▶ Base Salary;
- ▶ Annual Short-Term Performance-Based Incentive Compensation;
- ▶ Performance and Time-Based Long-Term Equity Compensation;
- ▶ Basic and Supplemental Pension Plan Benefits;
- ▶ Deferred Compensation Plan Benefits; and
- ▶ Limited Perquisites

In determining compensation, the Committee is mindful that as a holding company for a California regulated utility, the Group's financial performance is substantially dependent upon CPUC regulation plus other factors, which to a large extent are beyond the control of officers. Therefore, the Committee's decisions regarding overall compensation are determined largely by evaluation of factors that are within the officers' control and its comparisons with companies in its peer group. As discussed below, the metrics used to determine our officers' annual short-term performance-based incentive compensation and the vesting of long-term performance-based equity compensation awards are appropriate metrics that align officer performance in a manner beneficial to both stockholders and customers and do not encourage imprudent risk-taking.

### Base Salary

The only guaranteed portion of executive total compensation is in the form of fixed base salaries commensurate with the performance of primary roles and responsibilities. The Committee reviews base salaries for our officers annually and determines whether or not to recommend adjustments to salaries based on performance. To assist the Committee in this review, our President & CEO provides an assessment of each officer's performance and contribution towards the key corporate goals. Recommendations regarding base salary adjustments are provided to the Committee for each of our officers other than himself based on the competitive data and the other factors described below under "Determining Executive Compensation."

The Committee has and continues to target fixed base salaries for each officer that are appropriate for the performance, skills, capabilities, tenure, and individual contributions in his/her position. The base salary levels are established by reference to the competitive data described below.

Consistent with established practice, the 2019 base salaries for our officers were compared to the base salaries for similar positions within the competitive data. Similarly, the total target cash

compensation for our officers (taking into account annual short-term incentive compensation targets) was compared to the competitive market data for target total cash compensation. Each officer's 2019 base salary was within the competitive range (defined as plus or minus 20% from the median compensation level, based upon available survey data) of target total cash compensation.

Each year, our officers establish a number of corporate goals and objectives that promote the long-term growth and align the interests of stockholders, customers, and employees. The objectives are communicated internally and monitored quarterly. Changes in base salary levels for our President & CEO and other NEOs are generally based on progress against certain of these key corporate goals and individual officer performance. For 2019, the following corporate goals were used to evaluate 2019 compensation based on performance for our current President & CEO and NEOs:

**1. Group Operations Goal** – Achieve planned operating results as defined in the 2019 Corporate Goals and Objectives.

**Achieved Results for Operations Goal** – For 2019, the Group achieved the following results for the major objective in this category:

- ▶ Operated within the approved 2019 budget;
- ▶ Continued enhancement of the Group's safety organization and programs making safety a top priority;
- ▶ Continued focus on advancing the Group's cyber security intrusion prevention system and incidence response program including continued employee training, and conducting a cyber security table top exercise with representatives of the Department of Homeland Security and Federal Bureau of Investigation;
- ▶ Deployed a new, secured IT network for the SCADA system to comply with National Institute of Standards and Technology (NIST) 800-171 in eleven districts;
- ▶ Entered into an agreement with Rainier View Water Company to acquire its water system assets and provide water utility service to its 18,000 service connections, subject to certain closing conditions including completion of diligence and Washington Utilities and Transportation Commission approval; and
- ▶ Entered into an agreement with Maui Land and Pineapple Company to acquire its Kapalua Water Company water utility assets and Kapalua Waste Treatment Company wastewater utility assets, providing water and wastewater utility service to its approximately 1,000 service connections in the Kapalua Maui resort, subject to certain closing conditions including completion of diligence and Hawaii Public Utilities Commission approval.

**2. Stockholder Value Goal** – Achieve budgeted earnings per share of \$1.31, earn authorized return on equity on invested capital of 9.20%, and company-funded capital expenditures of \$255 million.

**Achieved Results for Stockholder Value** – For 2019, the Group achieved the following results for the major objective in this category:

- ▶ Earnings per share of \$1.31 or 100% of target, which represents a return on equity (as determined in accordance with GAAP) of 8.36% as reported in item 7 of the Group's Form 10-K for the year ended December 31, 2019 as filed with the SEC.
- ▶ Company-funded capital expenditures were \$258.8 million. The Group's 2019 achieved capital expenditures was \$273.9 million as reported in item 7 of the Group's Form 10-K for the year ended December 31, 2019 as filed with the SEC. Excluding developer funded expenditures of \$17.0 million and excluding an increase in accounts payable accrual of \$2.1 million for capital



project spend, the Group spent \$258.8 million on company-funded capital expenditures for the 2019 performance period.

**3. Regulatory Goal** – Conclude the 2018 Cal Water GRC; conclude the Hawaii Water Service Company's (Hawaii Water) GRC for its Kona Water and Wastewater Systems.

**Achieved Results for Regulatory** – On July 2, 2018, Cal Water filed a GRC application with the CPUC proposing \$828.5 million of infrastructure improvements as part of its infrastructure improvement plan. Cal Water has proposed to the CPUC to increase revenues by \$51.0 million, or 7.7%, in 2020; \$29.8 million, or 4.2%, in 2021; and \$31.4 million, or 4.2%, in 2022 as compared to the last authorized revenue. Any changes in customer rates are expected to become effective in 2020. On October 8, 2019, Cal Water jointly filed a formal settlement agreement with the Public Advocates Office of the CPUC covering the majority of open matters in the case, the largest component being the GRC is Cal Water's Infrastructure Improvement Plan for 2019-2021. If the CPUC approves the settlement agreement, Cal Water would be authorized to include in rates \$609 million to \$628 million of new projects throughout the state in 2019 to 2021, along with approximately \$200 million for completion of additional projects begun in 2018 and prior periods. Included in these figures are \$148 million of advice letter authorizations. If the settlement is adopted, Cal Water plans to make capital investments of approximately \$809 to \$828 million in the 2019-2021 period.

On July 1, 2019, Cal Water took ownership of and began operating the Travis Air Force Base (TAFB) water system. Cal Water will provide CPUC-regulated water service to the base including operating, maintaining, and upgrading the water system infrastructure and plans to make initial capital improvements of about \$12.7 million within the first five years, with an expected total capital investment of about \$52 million over the 50-year contract term.

In February of 2019, Hawaii Water filed a GRC application requesting an additional \$0.6 million in annual revenues for its Kona Water and Wastewater systems with the Hawaii Public Utilities Commission. The GRC seeks recovery of capital investments in the Kona water and wastewater systems as well as increases in operational expenses since the previous rate case. If approved, the Company anticipates rates would become effective the first quarter of 2020.

In March 2019, Hawaii Water and Hunt Kalaeloa Water LLC entered into a Membership Interest Purchase Agreement to acquire water and wastewater assets. The Kalaeloa service area is located on the Island of Oahu on the former Barbers Point Naval Air Station. On July 3, 2019, the parties submitted a change of control application to the Hawaii Public Utilities Commission requesting approval for the purchase. If approved, Hawaii Water would be authorized to provide water and wastewater service in the Kalaeloa service area.

**4. Customer Service and Water Quality Goal** – Complete key strategic projects in the areas of customer service and water quality including:

- ▶ Meet or exceed all customer service standards as set by the PUC;
- ▶ Meet or exceed all water quality standards in every state, every day, with no primary or secondary water quality violations in 2019; and
- ▶ Meet or exceed all wastewater discharge standards in every system, every day, in 2019.

**Achieved Results for Customer Service and Water Quality** – During 2019, we completed key strategic objectives in the areas of customer service and water quality. Cal Water successfully exceeded nine CPUC standards which encompass key measurements for telephone responsiveness, service responsiveness, billing accuracy, and general levels of customer complaints. The nine CPUC customer service standards are found in the CPUC's General Order 103-A. Cal Water also met all state and federal primary and secondary water quality standards in all water systems operated by Group.

Additional key objectives include:

- ▶ Renewed the Environmental Laboratory Accreditation Program (ELAP) certification of Cal Water's Quality Laboratory, enabling the conducting of in-house testing of water quality samples collected in service areas statewide (Cal Water has held this certification since 1999, which is administered by the State Water Resources Control Board).
- ▶ Met new Environmental Protection Agency (EPA)/State of California guidance on the revised Lead and Copper Rule; and
- ▶ Maintained an excellent environmental standards record throughout 2019.

**5. Employee Retention and Development Goal** – Implement key strategic projects in the area of employee retention and development.

**Achieved Results for Employee Retention and Development** – During 2019, we completed key strategic objectives in the area of employee retention and development, including:

- ▶ Implemented an employee stock purchase plan with approximately 29% of eligible employees enrolled;
- ▶ Expanded a vehicle accident reduction program including the rollout of our driver training program to all subsidiaries;
- ▶ Continued focus on developing partnerships with local schools and other entities to build interest in individuals wanting a career in the water industry at Cal Water;
- ▶ Received the American Society of Civil Engineers (ASCE) Region 9's "Water Project of the Year" award for Cal Water's TCP treatment and compliance project;
- ▶ Named Corporate Partner of the Year by California Hispanic Chamber of Commerce for 2019;
- ▶ Named a "Top 100 Workplace" in the San Francisco Bay Area for the eighth consecutive year; and
- ▶ Received certification as a Great Place to Work® by the Great Place to Work® Institute for the fourth consecutive year.

Once the Committee assesses the business results for each long-term goal as described above, the Committee then reviews and discusses the overall performance of each officer and the competitive data provided by the independent consultant retained by the Committee. Once reviewed and agreed upon, the Committee recommends to the Board the base salaries for our officers (including the President & CEO).

Any increase to salaries is intended to compensate NEOs for inflationary changes, job performance and overall leadership while being within the "competitive range" of the market data for target total cash compensation for similar positions ("competitive range" is described in more detail above and below) when taking into account the short-term incentive compensation described below.

### **Performance-Based Short-Term Incentive (STI) Compensation**

As strategic goals are long-term in nature, we maintain an annual performance-based short-term incentive compensation program for officers designed to align annual performance and achievement with the long-term strategic goals of the Group. The performance-based short-term incentive compensation is fully at risk with payout dependent upon achievement of certain performance objectives over a one-year performance period.

The Committee considered a number of factors when establishing the 2019 performance metrics including our long-term strategic plan, historical performance, the regulatory environments it operates in, feedback from our independent compensation consultant, stockholder feedback, and management discussions. The performance metrics are intended to foster and enhance cross-functional integration, customer relationships, continuous improvement, and team accountability while focusing on key corporate goals and initiatives. Targets for each of the performance metrics were designed to be challenging but achievable given strong management performance.

In prior years, the performance objectives for the annual short-term incentive compensation were selected to match the performance metrics used for the long-term performance-based RSUs. Through our outreach efforts described in further detail in the section titled “2019 Say-on-Pay Vote and Stockholder Outreach”, stockholders expressed that they would generally prefer to see less overlap in the performance metrics used in our short-term and long-term incentive compensation programs. In response to this feedback a number of changes were made to the performance criteria used for the 2019 incentive compensation programs. The performance-based RSUs granted to all officers in 2019, as our long-term incentive program, will vest based upon our achievement with respect to three different performance metrics over a three-year period from 2019 to 2021. These performance metrics are based upon three-year return on equity, three-year cumulative growth in stockholder’s equity and a third metric tied to the implementation, by the end of the performance period, of certain customer service-related initiatives. In contrast, our 2019 short-term incentive program will continue to be based upon the achievement of performance criteria related to the following, measured over fiscal year 2019: water quality, earnings per share, utility plant investment, emergency preparedness and workplace safety metrics, and customer service metrics (which are different from the customer service-related initiatives on which the performance-based long-term incentive RSUs are measured).

For 2019, the Committee granted the opportunity for our officers (other than our President & CEO) to receive short-term performance incentive awards with a target payout equal to 30% of base salary (up from 25% in 2018) with an actual payout range of 0% to 200% of target, based on performance. For our President & CEO, the Committee granted the opportunity to receive a short-term performance based incentive award in 2019 with a target payout equal to 100% of base salary (unchanged from 2018), with an actual payout range of 0% to 200% of target, based on performance.

Payment of the short-term performance incentive awards is typically made in March, following the Group’s receipt of audited financial statements and the subsequent certification of the Group’s performance by the Committee. See below for additional information regarding the performance goals and resulting payouts under the annual short-term incentive program for 2019.

Revisions to performance metrics were made in 2019 in response to shareholder feedback. As a result, the following section provides a more detailed look at each revised performance metric, along with the maximum, target, and threshold levels for each and the benefits derived by our customers:

- ▶ **Water Quality:** This metric evaluates performance based on number of procedural violations and violations of primary and secondary drinking water standards. The CPUC has authority to set drinking water standards for Cal Water. It has adopted the California State Water Resources Control Board, Division of Drinking Water (DDW) standards, which also incorporate U.S. Environmental Protection Agency (EPA) drinking water standards. Similarly, the Group’s subsidiaries in Washington, Hawaii, and New Mexico are regulated by the EPA and their respective state health regulators. We have continued to include all state operations in the performance metric for primary water quality. The secondary and procedural water quality metrics measure activity in the California subsidiary only, but strong consideration is being given to include all states in secondary and procedural water quality metrics
  - ▶ A primary drinking water standard violation is related to public health, either acute or long-term
  - ▶ A secondary drinking water standard violation is related to taste or aesthetics, such as excessive iron and manganese, and can generate customer complaints
  - ▶ A procedural violation is a missed sample or other non-compliance item that is not a violation of a primary or secondary standard

We make it a priority to meet all water quality standards, every day, in every service area. For this reason, the target performance level was set for no primary water standard violations, two or fewer secondary water standard violations, and no more than four procedural violations.

| Performance Level* | Primary Water Standards Violations (all states) | Secondary Water Standards Violations (California only) | Procedural Violations (California only) | Goal Achieved |
|--------------------|---|--|---|---------------|
| Maximum            | 0   | 0  | 0                                       | 200%          |
| Target             | 0   | 2 or fewer   | Up to 4                                 | 100%          |
| Threshold          | 1 or fewer                                      | 4 or fewer   | Up to 8                                 | 50%           |

\* An additional tier applies between the target and maximum level.

- ▶ **Customer Service:** A combination of nine CPUC standards and one internal Cal Water performance indicator which encompass key measurements for telephone responsiveness, service responsiveness, billing accuracy and timeliness, and general levels of customer complaints comprises this metric. The nine CPUC customer service standards are found in the CPUC's

General Order 103-A. Cal Water has implemented internal measures for customer service that are more aggressive than the CPUC standards. The Customer Service metric is evaluated each quarter for 10 measurements in 20 California service areas for an annual target of 764-771 and a maximum annual metric measurement of 800. For 2019 performance-based short-term incentive compensation and long-term performance-based equity grants, the criteria for each performance level was set above prior year criteria in response to prior year actual results.

| Performance Level* | Criteria                       | Goal Achieved |
|--------------------|--------------------------------|---------------|
| Maximum            | 99.5% of maximum annual metric | 200%          |
| Target             | 95.5% of maximum annual metric | 100%          |
| Threshold          | 92.5% of maximum annual metric | 25%           |

\* Multiple tiers apply between the threshold and target level and between the target and maximum level.

- ▶ **Utility Plant Investment:** The annual Board-approved capital expenditures budget is the target for this metric. Investment in utility plant, property, and equipment is a driver of stockholder return and a key component of providing reliable, high-quality water service to customers. This metric is updated each year to reflect the annual approved capital program and budget for the Group and its subsidiaries and is tied to regulatory approvals. For 2019, the annual Board-approved capital expenditure budget and target performance level was set at \$255 million.

| Performance Level* | 2019 (In Millions) | Goal Achieved |
|--------------------|--------------------|---------------|
| Maximum            | \$275              | 200%          |
| Target             | \$255              | 100%          |
| Threshold          | \$240              | 25%           |

\* Multiple tiers apply between the threshold and target level and between the target and maximum level

- ▶ **Earnings Per Share (EPS):** This metric measures the annual budget-to-actual performance of the Company. Specifically, this measure compares the actual diluted earnings per share to the forecasted diluted earnings per share for the calendar year. The forecasted diluted earnings per share is adopted during the budget process by the Board of Directors each year at its January meeting. By adhering to budgets, management is able to demonstrate to the Board, shareholders

and customers that the Company is effective at managing controllable costs and has the ability to efficiently execute its business plan.

| Performance Level* | EPS Variance from Budget | Goal Achieved |
|--------------------|--------------------------|---------------|
| Maximum            | Over 10%                 | 200%          |
| Target             | - 2.5% to 2.5%           | 100%          |
| Threshold          | - 7.6% to - 10%          | 25%           |

\* Multiple tiers apply between the threshold and target level and between the target and maximum level.

► **Emergency Preparedness and Safety:** This metric is measured annually for Cal Water and is comprised of four safety program components. These four components include Emergency Operations Center (EOC) training, full attendance at Cal Water mandated safety training for all employees (minimum of five training topics annually), Total Case Incident Rate (TCIR) which represents the average number of work-related injuries incurred by 100 workers during a one-year period as measured against California companies, and the number of preventable vehicle accidents. The four safety components are weighted as follows:

- EOC Training measure – 30%
- Training attendance rate measure – 30%
- TCIR measure – 20%
- Preventable vehicle accident measure – 20%

Focused on improving the management of these safety programs, our officers have set this metric to improve performance from current conditions towards industry averages, where applicable, and performance expectations.

| Performance Level* | EOC Training Performance Target                                      | Goal Achieved |
|--------------------|--|---------------|
| Maximum            | 100% of districts, CSS, and subsidiaries + 4 community EOC trainings | 200%          |
| Target             | 100% of districts, CSS and subsidiaries                              | 100%          |
| Threshold          | 85% of districts, CSS and subsidiaries                               | 25%           |

\* Multiple tiers apply between the threshold and target level and between the target and maximum level.

| Performance Level* | Training Rate Measure Performance Target | Goal Achieved |
|--------------------|--|---------------|
| Maximum            | 100% of applicable employees             | 200%          |
| Target             | 85% of applicable employees              | 100%          |
| Threshold          | 70% of applicable employees              | 25%           |

\* Multiple tiers apply between the threshold and target level and between the target and maximum level.

| Performance Level* | TCIR Measure Performance Target            | Numeric Equivalent | Goal Achieved |
|--------------------|--|--------------------|---------------|
| Maximum            | 20% improvement over 2018 achieved results | 2.08               | 200%          |
| Target             | Maintain 2018 achieved results             | 2.60               | 100%          |
| Threshold          | 85% improvement over 2018 achieved results | 2.99               | 25%           |

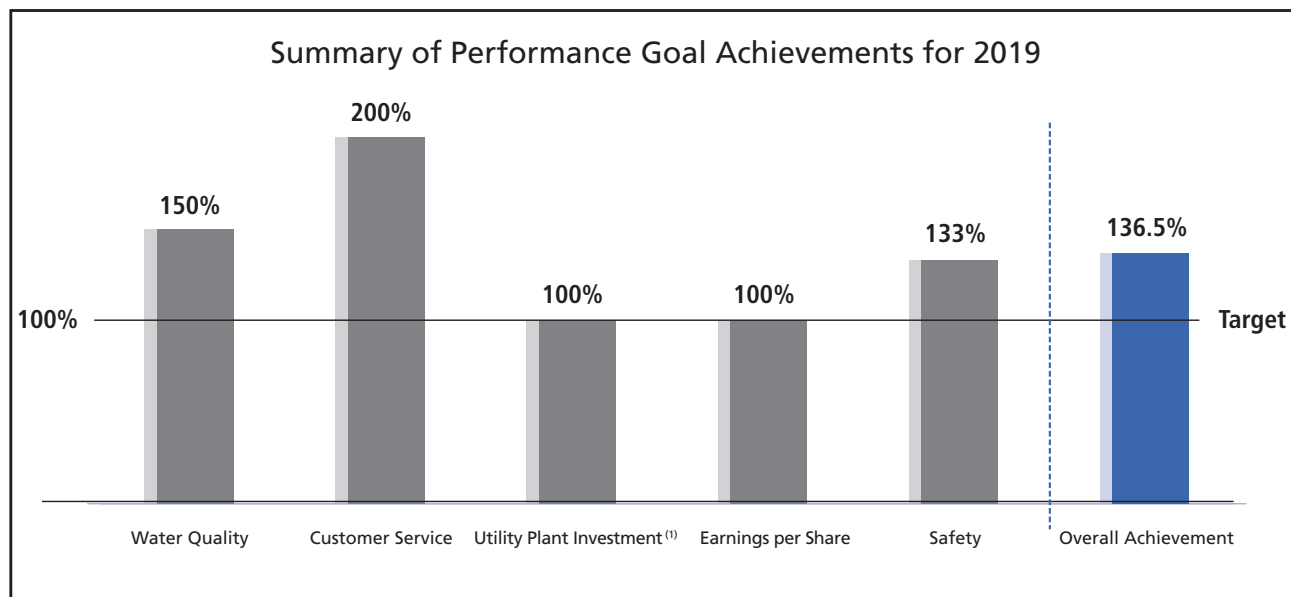
\* Multiple tiers apply between the threshold and target level and between the target and maximum level.

| Performance Level* | Preventable Vehicle Accident Measure Performance Target | Numeric Equivalent | Goal Achieved |
|--------------------|---|--------------------|---------------|
| Maximum            | 25% improvement over 2018 achieved results              | 35                 | 200%          |
| Target             | 5% improvement over 2018 achieved results               | 44                 | 100%          |
| Threshold          | 90% improvement over 2018 achieved results              | 51                 | 25%           |

\* Multiple tiers apply between the threshold and target level and between the target and maximum level.

## Summary of Short-Term Performance Goal Achievements for 2019

The following chart sets forth the performance goals used for short-term incentive based compensation for 2019, and the achievement of each metric as certified by the committee for 2019.



The short-term incentive based compensation component weighting is 20% for each of the five performance metric as follows:

- ▶ Water Quality was above target with no primary or secondary violations and two procedural violations.
- ▶ Customer Service was above target with 799 annual aggregate metrics met.
- ▶ Emergency Preparedness and Safety was above target with 100% of districts, CSS, and subsidiaries completing EOC training plus conducting 12 community EOC trainings, 97% training rate, 3.7 TCIR and 9% reduction in preventable vehicle accidents.
- ▶ Utility Plant Investment was above target with \$259.0 million in company-funded capital expenditures.
- ▶ Earnings per Share was below target at \$1.31.

**2019 short-term incentive award achievement for all officers = 136.5% (award capped at 200%)**

- (1) Company funded capital expenditures were \$258.8 million. The Group's 2019 achieved capital expenditures was \$273.9 million as reported in item 7 of the Group's Form 10 K for the year ended December 31, 2019 as filed with the SEC. Excluding developer funded expenditures of \$17.0 million and excluding an increase in accounts payable accrual of \$2.1 million for capital project spend, the Group spent \$258.8 million on company funded capital expenditures for the 2019 performance period.

The table below summarizes the total performance-based short-term incentive compensation earned by our officers for the fiscal year ended December 31, 2019.

| Name                  | 2019 Short-Term Incentive Award (\$) <sup>(1)</sup> |
|-----------------------|---|
| Martin A. Kropelnicki | \$1,347,255   |
| Thomas F. Smegal      | 187,346   |
| Paul G. Townsley      | 165,848   |
| Robert J. Kuta        | 142,301   |
| Lynne P. McGhee       | 130,835   |

(1) The short-term incentive compensation is paid out annually following certification of the prior year's results by the Committee.

### **2019 Long-term Performance and Time-Based Equity Compensation**

The purpose of our long-term equity incentive compensation is to better align executive compensation with the interests of both stockholders and customers, to create incentives for officer recruiting and retention, to encourage long-term performance by our officers, and to promote stock ownership. Risk is taken into account in determining the aggregate amount of incentive compensation and performance criteria, including assessment of risk management and risk mitigation.

As with target short-term incentive compensation, the Committee reviewed the competitive range of long-term equity compensation and total direct compensation for similar positions within the competitive market in making decisions regarding long-term equity compensation awards for 2019. However, the Committee also believes that, in the interest of strengthening and rewarding teamwork and collaboration within the officer team, the annual equity incentive awards granted to each of our officers (other than our President & CEO) should be based on the same objectives and methodology. The Committee recommended awarding our President & CEO a greater value of equity awards in 2019 than our other officers because of his substantially greater level of responsibility and ability to influence Group's operational results.

Based on the methodology described above, the grant values for 2019 were unchanged from 2018's grant values. For 2019, the Committee set the total value for the equity compensation awards at \$575,000 for our President & CEO, \$150,000 for the Group's vice presidents, and \$90,000 for all other officers, assuming a target level of performance. All equity awards for officers were granted 50% in the form of time-based RSAs vesting over three years and 50% in the form of performance-based RSUs with a three-year performance period and the opportunity to earn up to 200% of the target performance-based RSU award based on achievement with respect to Committee-approved objectives.

The performance-based RSUs awarded to our officers provide for a three-year performance period with vesting based solely upon the achievement of objective performance criteria. For the performance metrics applicable to the 2019 performance-based RSUs, the Committee approved a three-year performance metric and will certify the level of achievement at the end of the three-year performance period. The number of shares awarded at the end of the three-year performance period is based on the extent the performance criteria is met over such time and subject to the officer's continued employment through such date. Revisions to performance metrics were made in 2019 in response to shareholder feedback. For 2019, the performance criteria for our performance-based RSUs consist of three performance measures that are different than the performance metrics applicable to the annual short-term incentive program for 2019. As a result, the following section

provides a more detailed look at each revised performance metric, along with the maximum, target, and threshold levels for each and the benefits derived by our customers:

- ▶ **Return on Equity:** This metric measures return on equity (ROE) as shown in the public financial statements of California Water Service Group. It is defined as net income divided by average common stockholders' equity for the three-year performance period. The final three-year achievement will be certified at the end of the three-year performance period. Stockholders expect the Company to earn its authorized return on equity for its regulated business. For this reason, the metric uses the authorized ROE as the target for 100% performance achievement. The rationale for tiers above and below the authorized ROE is to account for regulatory mechanisms and lag.

| Performance Level* | Annual Return on Common Stockholders' Equity | Goal Achieved |
|--------------------|--|---------------|
| Maximum            | Target plus 50 basis points                  | 200%          |
| Target             | California authorized ROE                    | 100%          |
| Threshold          | Target minus 200 basis points                | 20%           |

\* An additional tier applies between the target and maximum level.

- ▶ **Growth in Stockholders' Equity:** This metric measures growth in stockholders' equity by the accumulation of two factors over the performance period, growth in total stockholders' equity and actual dividends paid in the calendar year. These growth values can be objectively validated using the Company's audited annual financial statements. The metric, in a stock-price neutral way, measures the growth in stockholders' equity created by the Company over the performance period. Investors in water utilities are interested in value creation along with dividend growth.

| Performance Level* | Accumulation of Stockholder Value Over the Performance Period | Goal Achieved |
|--------------------|---|---------------|
| Maximum            | \$400 million   | 200%          |
| Target             | \$300 million   | 100%          |
| Threshold          | \$225 million   | 25%           |

\* Multiple tiers apply between the threshold and target level and between the target and maximum level.

- ▶ **Regional Call Centers Implementation:** The Company recognizes the need to respond to the ever increasing customer expectations to continue to improve and expand upon the customer services provided without increasing cost. Beyond enhancing the customer experience, there is an opportunity to standardize processes across all district call centers and increase affordability with more efficient resources.

| Performance Level* | Performance Target   | Goal Achieved |
|--------------------|--|---------------|
| Maximum            | Implementation of four regional customer centers by year-end 2021, introduce online chat as a new service channel, extend service hours from 8 am to 8 pm, and reduce answering service expense by 75% | 200%          |
| Target             | Implementation of four regional customer centers by year-end 2021, introduce online chat as a new service channel, and reduce answering service expense by 25%   | 100%          |
| Threshold          | Implementation of four regional customer centers by year-end 2021  | 50%           |

Multiple tiers apply between the threshold and target level and between the target and maximum level



## 2017 Performance-Based Equity Compensation Achievement

In 2017, we granted performance-based equity in the form of RSUs to our officers for the three-year performance period ending on December 31, 2019. The component weighting is 20% for each of the five performance metric. The payouts are summarized below:

| Performance Metric   | Annual Threshold Performance   | Annual Target Performance   | Annual Maximum Performance                                  | Percentage Achieved |
|--|--|---|---|---------------------|
| Water Quality  | Up to one primary, up to four secondary, up to eight procedural violations | No primary, up to two secondary, up to four procedural violations | No primary, no secondary, no procedural violations          | 167%                |
| Customer Service   | 92% of maximum annual metric   | 95% of maximum annual metric                                      | 99% of maximum annual metric                                | 167%                |
| Utility Plant  | \$195 million in 2017 and 2018, \$240 million in 2019                      | \$210 million in 2017 and 2018, \$255 million in 2019             | \$230 million in 2017 and 2018, \$275 million in 2019       | 167%                |
| Return on Equity   | 7.46% in 2017, 7.20% in 2018 and 2019                                      | CPUC authorized ROE: 9.43% in 2017, 9.20% in 2018 and 2019        | 9.96% in 2017, 9.70% in 2018 and 2019                       | 113%                |
| Safety   | 10% improvement in DART or TCIR measures over 2016 results                 | 25% improvement in DART and TCIR measures over 2016 results       | 40% improvement in DART and TCIR measures over 2016 results | 100%                |
| <b>Total 2017 Performance-Based Equity Award Achievement</b> |  |   |   | <b>142.7%</b>       |

The table below summarizes the total performance-based equity compensation earned by our officers for the three-year performance period ended December 31, 2019.

| Name                  | 2017 Performance Stock Earned (\$) <sup>(1)</sup> |
|-----------------------|---|
| Martin A. Kropelnicki | \$604,902   |
| Thomas F. Smegal      | 157,825   |
| Paul G. Townsley      | 157,825   |
| Robert J. Kuta        | 157,825   |
| Lynne P. McGhee       | 157,825   |

(1) The shares for the 2017 performance stock award, which is comprised of the years 2017, 2018, and 2019, were awarded following the end of the three-year performance period on February 28, 2020. Certified results for each perspective year of the three-year performance are as follows:

|   |
|---|
| 2017 – 165%                                     |
| 2018 – 146%                                     |
| 2019 – 117%                                     |
| 2017 RSU grant performance achievement – 142.7% |

The shares for the 2018 performance stock award, which is comprised of the years 2018, 2019, and 2020, will be awarded following the end of the three-year performance period in early 2021, subject to continued employment through such time. The shares for the 2019 performance stock award, which is comprised of the years 2019, 2020, and 2021, will be awarded following the end of the three-year performance period, subject to continued employment through such time.

## 2020 Performance-Based Compensation

The Committee increased the target value of the performance-based equity compensation awards from 2019 to 2020 under the annual long-term incentive program. There was no increase to the short-term incentive-based compensation awards.

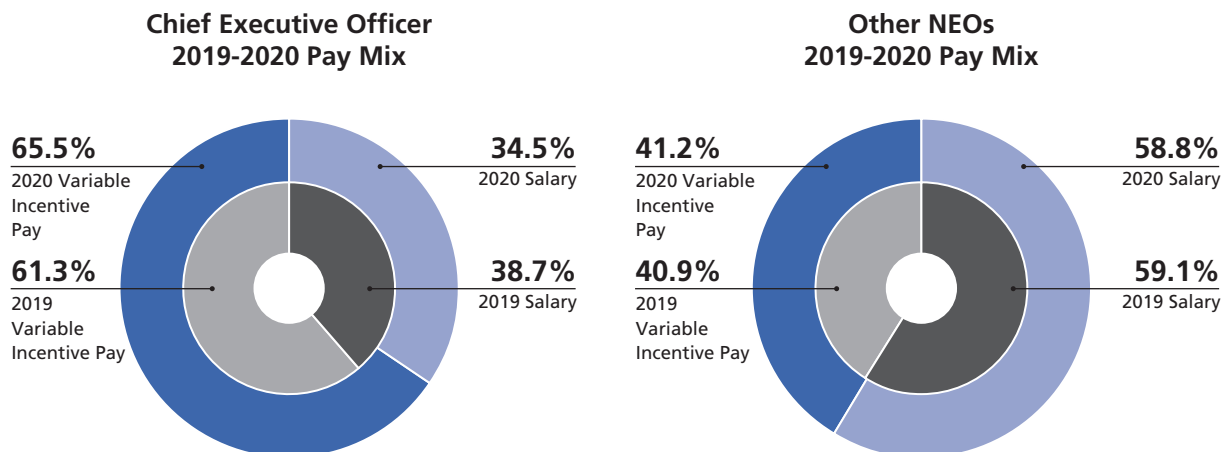
For the CEO, the equity awards vest over three years respectively, with 60% subject to the achievement of long-term performance-based metrics and 40% subject to time-based vesting and continued employment. For all other officers, the equity awards vest over three years respectively, with 53% subject to the achievement of long-term performance-based metrics and 47% subject to time-based vesting and continued employment.

On March 3, 2020, the following awards were granted for the 2020 through 2022 performance period:

- ▶ President & CEO – 6,852 shares of RSAs and 10,278 RSUs;
- ▶ Group’s Vice Presidents – 1,397 shares of RSAs and 1.583 RSUs; and
- ▶ Other officers – 838 shares of RSAs and 931 RSUs.

All RSUs are subject to performance-based vesting.

The following charts illustrate target variable incentive pay as a percentage of compensation for 2019 and 2020:



## Basic and Supplemental Pension Plan Benefits (SERP)

In addition to the tax-qualified defined benefit plan that covers all permanent employees, supplemental retirement benefits are provided to our officers under the SERP. The SERP plan is designed primarily to compensate for limitations imposed by the Internal Revenue Code (Code) on allocations and benefits that may be paid to officers under the Group’s tax-qualified plan. Because the Code restricts benefits under the tax-qualified plan, our officers otherwise would not be eligible to receive the retirement benefits that are proportional to the benefits received by our employees. The benefits under the SERP are obtained by applying the same benefit provisions of the Pension Plan to all compensation included under the Pension Plan, without regard to these limits, reduced by benefits actually accrued under the Pension Plan. The SERP is structured as such that benefits are paid to our officers on a “pay as you go” basis. The SERP is an unfunded, unsecured obligation of the Group and is designed to assist in attracting and retaining key officers while providing a competitive, total compensation program. The annual expenses of the pension and SERP have allowable costs recovered in rates through the regulatory process in California and other states. We believe that pension benefits are an important recruitment and retention tool for our employees and is consistent with practice among most of our peers.

No pension benefits will be paid to any participant until after retirement. Any pension amounts listed in this Proxy Statement are the year-over-year, non-cash, changes in the actuarial present value of the accrued pension liability and do not represent actual cash compensation paid.

### **Deferred Compensation Plan**

The Group maintains a deferred compensation plan for its directors, officers, and qualified managers. The plan is intended to promote retention by providing eligible employees, including the officers, with a long-term savings opportunity on an income tax-deferred basis. This plan is voluntary and funded by the individuals who elect to participate in the program. There are no company or company-matching contributions.

### **401(k) Plan**

All employees satisfying the eligibility requirements are entitled to participate in our 401(k) plan and receive matching contributions from the Group. Pursuant to the plan, all employees, including officers, are entitled to contribute up to the statutory limit set by the Internal Revenue Service (IRS) and the Group matches 75% for each dollar contributed up to eight percent for a maximum company-matching contribution of six percent of employee's eligible earnings.

## **5 Other Compensation Programs and Policies**

### **Limited Perquisites and Other NEO Benefits**

As part of the Group's automobile policy, officers have the use of a company-owned vehicle, including excess liability insurance. The Committee believes the use of a company-owned vehicle allows our officers to work more efficiently because many of the geographic areas served by the Group are most effectively reached by automobile as opposed to other forms of transportation, such as air travel. Any personal mileage incurred by our officers is taxed as additional compensation in accordance with IRS regulations and paid for by the officers. The Group offers its officers a supplemental medical plan providing proactive health protection services including executive physicals and emergency travel assistance. Additionally, the Group also has a relocation program assisting employees required to move on behalf of the Group to remain as productive as possible during the relocation transition. Employees who receive relocation assistance are required to sign a repayment agreement. Other than these benefits, the Committee's general philosophy is not to provide perquisites and other personal benefits of substantial value to the officers.

### **Stock Ownership Requirements**

Officers and members of our Board are required to own shares of Group's stock to further align their interests with those of our stockholders. The requirements were adopted to promote a long-term perspective in managing the Group and to help align the interests of our stockholders, directors, and officers. Each non-employee director and officer must directly own Group stock having a market or intrinsic value (i.e., paper gain for vested, unexercised stock options), whichever is higher, equal to:

| <b>Title</b>           | <b>Equity</b>           |
|------------------------|-------------------------|
| President & CEO        | 3X annual base salary   |
| Group Vice Presidents  | 1.5X annual base salary |
| Other Officers         | 1X annual base salary   |
| Non-Employee Directors | 5X annual base retainer |

Officers must retain 50% of the net after-tax shares from equity awards until the relevant ownership requirement is achieved. Non-employee directors are required to achieve the relevant ownership threshold within five years following adoption of the requirements or five years after commencing service, whichever is later. For officers, the Committee reviews compliance with these requirements

annually. The Nominating/Corporate Governance Committee reviews compliance with these requirements for non-employee directors annually.

### **Transactions Involving Stock – Anti-hedging and No Pledging Policy**

The Board adopted an insider trading policy in 2012 which prohibits our directors and officers from engaging in hedging transactions (such as swaps, puts and calls, collars, and similar financial instruments) that would eliminate or limit the risks and rewards of share ownership. In addition, our directors and officers may not at any time engage in any short selling, buy or sell options, puts or calls, whether exchange-traded or otherwise, or engage in any other transaction in derivative securities that reflects speculation about the price of our stock or that may place their financial interests ahead of the financial interests of the Group.

### **Executive Compensation Recovery – Our Clawback Policy**

The Board also adopted an executive compensation recovery, or “clawback,” policy in 2012 which requires the reimbursement of excess incentive-based compensation provided to our officers in the event of certain restatements of the Group’s financial statements. The policy allows the Group to claw back incentive-based compensation from officers who were actually involved in the fraud or misconduct that triggered the accounting restatement to the extent the compensation was in excess of what would have been paid under the accounting restatement. This policy is applicable to all incentive-based compensation paid after implementation of the policy, and it covers the three-year period preceding the date on which the Group is required to prepare the accounting restatement.

### **Tax and Section 162(m) Implications**

Section 162(m) of the Internal Revenue Code generally places a \$1 million limit on the amount of compensation a company can deduct in any one year for certain officers. While we consider the deductibility of awards as one factor in determining officer compensation, we also look at other factors in making decisions and we retain the flexibility to award compensation that we determines to be consistent with the goals of our officer compensation program even if the awards are not deductible by us for tax purposes.

Historically, our annual cash incentive opportunities and performance-based equity awards granted to our officers were designed in a manner intended to be exempt from the deduction limitation of Section 162(m) because they were paid based on the achievement of pre-determined performance goals established by the Group’s shareholder-approved incentive compensation plans.

Federal legislation signed into law on December 22, 2017, referred to as the Tax Cuts and Jobs Act (the “Tax Act”), repealed the exemption from Section 162(m)’s deduction limit for performance-based compensation, effective for taxable years beginning after December 31, 2017. In addition, the Tax Act expanded the group of covered employees under Section 162(m) to include the chief financial officer and mandated that once an individual is treated as a covered employee for a given year, that individual will be treated as a covered employee for all subsequent years. Accordingly, any compensation paid to our covered officers in excess of \$1 million in any one year, regardless of employment status, will not be deductible unless it qualifies for transition relief applicable to certain arrangements in place as of November 2, 2017.

Despite the our efforts to structure incentive compensation in a manner intended to be exempt from Section 162(m) and therefore not subject to its deduction limits, because of ambiguities and uncertainties as to the application and interpretation of Section 162(m) as revised by the Tax Act, including the uncertain scope of the transition relief applicable to certain outstanding arrangements, no assurance can be given that compensation intended to satisfy the requirements for exemption from Section 162(m) will in fact be exempt.

In designing the executive compensation decisions for 2019, the Committee carefully considered the effect of the changes made to Section 162(m) together with our factors relevant to our business needs, but did not make any changes to the executive compensation program as a result of those changes.

# Summary Compensation Table

The table below summarizes the total compensation paid or earned by our President & CEO, CFO, and the three most highly compensated officer of the Group for the fiscal years ended December 31, 2019, 2018, and 2017.

| Name and Principal Position (a)   | Year (b) | Salary (\$) (c) | Stock Awards (\$) (1) (e) | Non-equity Incentive Plan Compensation (\$) (2) (f) | Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$) (3) (h) | All Other Compensation (\$) (4) (i) | Total (\$) (j) | Total Excluding Change in Pension Value and Nonqualified Deferred Compensation Earnings (5) (k) |
|---|----------|-----------------|---------------------------|---|--|-------------------------------------|----------------|---|
| <b>Martin A. Kropelnicki</b><br>President & CEO                           | 2019     | \$985,775       | \$590,006                 | \$1,347,255   | \$10,339,051   | \$43,358                            | \$13,305,445   | \$2,966,394   |
|   | 2018     | \$946,716       | \$551,478                 | \$1,245,400   | \$3,114,609  | \$45,120                            | \$5,913,608    | \$2,798,999   |
|   | 2017     | \$921,171       | \$590,985                 | \$1,297,313   | \$4,990,347  | \$39,900                            | \$7,839,716    | \$2,849,369   |
| <b>Thomas F. Smegal III</b><br>Vice President,<br>Chief Financial Officer | 2019     | \$456,860       | \$153,946                 | \$187,346   | \$2,103,003  | \$50,445                            | \$2,951,600    | \$848,597   |
|   | 2018     | \$428,053       | \$143,884                 | \$143,650   | \$56,669   | \$48,519                            | \$844,410      | \$787,741   |
|   | 2017     | \$426,180       | \$150,297                 | \$140,910   | \$1,140,173  | \$42,411                            | \$1,899,971    | \$759,798   |
| <b>Paul G. Townsley</b><br>Vice President, Rates &<br>Regulatory Matters  | 2019     | \$404,425       | \$153,946                 | \$165,848   | \$974,213  | \$37,997                            | \$1,736,429    | \$762,216   |
|   | 2018     | \$386,163       | \$143,884                 | \$127,075   | \$368,199  | \$38,495                            | \$1,068,052    | \$699,853   |
|   | 2017     | \$367,131       | \$150,297                 | \$121,440   | \$558,960  | \$29,788                            | \$1,227,616    | \$668,656   |
| <b>Robert J. Kuta</b><br>Vice President,<br>Engineering                   | 2019     | \$346,934       | \$153,946                 | \$142,301   | \$774,941  | \$46,208                            | \$1,464,331    | \$689,390   |
|   | 2018     | \$324,856       | \$143,884                 | \$108,550   | \$290,457  | \$46,237                            | \$923,537      | \$633,080   |
|   | 2017     | \$321,390       | \$145,216                 | \$106,260   | \$356,131  | \$46,358                            | \$975,355      | \$619,224   |
| <b>Lynne P. McGhee</b><br>Vice President,<br>General Counsel              | 2019     | \$319,036       | \$153,946                 | \$130,835   | \$1,510,569  | \$28,625                            | \$2,143,011    | \$632,442   |
|   | 2018     | \$306,967       | \$143,884                 | \$98,800  | \$206,348  | \$30,547                            | \$792,721      | \$586,373   |
|   | 2017     | \$292,340       | \$150,297                 | \$96,690  | \$1,005,958  | \$33,293                            | \$1,578,578    | \$572,620   |

(1) Amounts reflect the full grant date fair value of RSAs and performance-based RSUs granted in the years shown, calculated in accordance with FASB Accounting Standards Codification (ASC) Topic 718, disregarding estimates for forfeitures and assuming target performance. Assumptions used in the calculation of these amounts are included in footnote 12 of Group's annual report on Form 10-K filed with the SEC on February 27, 2020.

For time-based restricted RSAs and performance-based RSUs, the grant date fair value was determined using the closing share price of the Company's common stock on the date of grant. The RSUs reported reflect the grant date fair value of the 2019 portion of the three-year performance periods for the 2017, 2018, and 2019 RSU grants which were calculated based on an estimate of RSUs earned ratably over the three-year performance period assuming 100% achievement of target of the respective pre-established performance metrics. The amounts reported are as follows:

|                 | RSA Grant Date Fair Value | RSU Grant Date Fair Value at Target Achievement | RSU Grant Date Fair Value at Maximum Achievement |
|-----------------|---------------------------|---|--|
| Mr. Kropelnicki | \$295,003                 | \$295,003                                       | \$590,006  |
| Mr. Smegal      | \$76,973                  | \$76,973  | \$153,946  |
| Mr. Townsley    | \$76,973                  | \$76,973  | \$153,946  |
| Mr. Kuta        | \$76,973                  | \$76,973  | \$153,946  |
| Ms. McGhee      | \$76,973                  | \$76,973  | \$153,946  |

(2) Amounts in this column reflect the amount paid to each officer pursuant to the performance-based short-term incentive compensation program for the applicable year.

(3) Amounts in this column are the year-over-year, non-cash, changes in the actuarial present value of the accrued pension liability and do not represent actual cash compensation paid to any of the Named Executive Officers. Pension values are included in customer rates through a rate recovery mechanism and may fluctuate significantly from year-to-year depending on a number of factors including changes in the discount rate, changes in mortality rates, changes in compensation, years of service, and vesting. For example, close to 50% of the change in pension value for Mr. Kropelnicki for 2019 was attributable solely to a decrease in the discount rate. The discount rate and mortality rate assumptions are consistent with those used in the Group's financial statements and include amounts which the officers may not be entitled to receive due to vesting requirements consistent with the plans. For further information, see the "CEO Pay Overview," "Basic and Supplemental Pension Plan Benefits," "Pension Benefits for Fiscal Year Ended 2019" sections of this Proxy Statement. Earnings on the nonqualified deferred compensation plan are noted on the Nonqualified Deferred Compensation table for those officers participating in the plan. Earnings have been excluded from this table since earnings were not at above market or at preferential rates.

(4) All other compensation for 2019 is comprised of 401(k) matching contributions made by the Group on behalf of the officer, the personal use of company-provided vehicles and associated insurance, supplemental medical reimbursement plan, and relocation benefits. The value of the 401(k) matching contributions made by the Group on behalf of the named executives was \$16,800 for all five listed executives. The reported value attributable to personal use of company-provided cars are as follows: Mr. Kropelnicki, \$7,826; Mr. Smegal, \$14,913; Mr. Townsley, \$2,465; Mr. Kuta, \$10,676; and Ms. McGhee, \$5,861. The recorded cost for the supplemental medical plan was \$17,532 for all named executive officers, except Ms. McGhee who was \$5,964.

(5) To show how year-over-year changes in pension value impact total compensation, as determined under SEC rules, we have included this column to show total compensation without pension value changes. The amounts reported in this column differ substantially from, and are not a substitute for, the amounts reported in the "Total" column.

## Grants of Plan-Based Awards for Fiscal Year Ended 2019

The table below sets forth certain information with respect to awards granted during the fiscal year ended December 31, 2019, to each of our NEOs.

| Name<br>(a)                          | Grant Date<br>(b) | Estimated Payouts Under<br>Non-Equity Incentive Plan<br>Awards (\$) <sup>(1)</sup> |                |                 | Estimated Payouts Under<br>Equity Incentive Plan<br>Awards <sup>(2)</sup> |               |                | All<br>Other<br>Stock<br>Awards:<br>Number<br>of<br>Shares of<br>Stock or<br>Units (#)<br>(i) | Grant<br>Date<br>Fair Value<br>of<br>Stock and<br>Options<br>Awards<br>(\$)<br>(l) |
|--------------------------------------|-------------------|--|----------------|-----------------|---|---------------|----------------|---|--|
|                                      |                   | Threshold<br>(\$)  | Target<br>(\$) | Maximum<br>(\$) | Threshold<br>(#)  | Target<br>(#) | Maximum<br>(#) |   |  |
| Martin A. Kropelnicki <sup>(3)</sup> | 03/05/2019        | \$0  | \$987,000      | \$1,974,000     | 0   | 5,584         | 11,168         | 5,584   | \$590,006  |
| Thomas F. Smegal III <sup>(3)</sup>  | 03/05/2019        | 0  | 137,250        | 274,500         | 0   | 1,457         | 2,914          | 1,457   | 153,946  |
| Paul G. Townsley <sup>(3)</sup>      | 03/05/2019        | 0  | 121,500        | 243,000         | 0   | 1,457         | 2,914          | 1,457   | 153,946  |
| Robert J. Kuta <sup>(3)</sup>        | 03/05/2019        | 0  | 104,250        | 208,500         | 0   | 1,457         | 2,914          | 1,457   | 153,946  |
| Lynne P. McGhee <sup>(3)</sup>       | 03/05/2019        | 0  | 95,850         | 191,700         | 0   | 1,457         | 2,914          | 1,457   | 153,946  |

(1) The threshold, target, and maximum values reported are for the performance-based short-term incentive compensation program.

(2) The threshold, target, and maximum units reported are for the full RSU award for the 2019 - 2021 performance period.

(3) The RSAs granted to the officers on March 5, 2019, pursuant to the Incentive Plan vest over three years, with one-third of the RSAs vesting on the first anniversary of the grant date and the remaining RSAs vesting in equal quarterly installments thereafter. The RSUs reported reflect the grant date fair value of the 2019 portion of the award as performance goals are set for each year of the performance period.

## Outstanding Equity Awards at Fiscal Year Ended 2019

| Name<br>(a)           | Stock Awards   |  | Equity Incentive Plan<br>Awards  |  |
|-----------------------|--|--|--|--|
|                       | Number of<br>Shares or<br>Units of<br>Stock That<br>Have Not<br>Vested<br>(#)<br>(g) | Market<br>Value of<br>Shares or<br>Units of<br>Stock<br>That<br>Have Not<br>Vested<br>(\$) <sup>(1)</sup><br>(h) | Number of<br>Unearned,<br>Shares,<br>Units or<br>Other<br>Rights<br>That<br>Have Not<br>Vested<br>(#)<br>(i) | Market<br>Value of<br>Unearned<br>Shares,<br>Units or<br>Other<br>Rights<br>That<br>Have Not<br>Vested<br>(\$) <sup>(1)</sup><br>(j) |
| Martin A. Kropelnicki | 686 <sup>(2)</sup>   | 35,370   | 8,223 <sup>(2)</sup>   | 423,978  |
|                       | 3,122 <sup>(3)</sup>   | 160,970  | 7,489 <sup>(3)</sup>   | 386,133  |
|                       | 5,584 <sup>(4)</sup>   | 287,911  | 5,584 <sup>(4)</sup>   | 287,911  |
| Thomas F. Smegal III  | 179 <sup>(2)</sup>   | 9,229  | 2,145 <sup>(2)</sup>   | 110,596  |
|                       | 815 <sup>(3)</sup>   | 42,021   | 1,954 <sup>(3)</sup>   | 100,748  |
|                       | 1,457 <sup>(4)</sup>   | 75,123   | 1,457 <sup>(4)</sup>   | 75,123   |
| Paul G. Townsley      | 179 <sup>(2)</sup>   | 9,229  | 2,145 <sup>(2)</sup>   | 110,596  |
|                       | 815 <sup>(3)</sup>   | 42,021   | 1,954 <sup>(3)</sup>   | 100,748  |
|                       | 1,457 <sup>(4)</sup>   | 75,123   | 1,457 <sup>(4)</sup>   | 75,123   |
| Robert J. Kuta        | 179 <sup>(2)</sup>   | 9,229  | 2,145 <sup>(2)</sup>   | 110,596  |
|                       | 815 <sup>(3)</sup>   | 42,021   | 1,954 <sup>(3)</sup>   | 100,748  |
|                       | 1,457 <sup>(4)</sup>   | 75,123   | 1,457 <sup>(4)</sup>   | 75,123   |
| Lynne P. McGhee       | 179 <sup>(2)</sup>   | 9,229  | 2,145 <sup>(2)</sup>   | 110,596  |
|                       | 815 <sup>(3)</sup>   | 42,021   | 1,954 <sup>(3)</sup>   | 100,748  |
|                       | 1,457 <sup>(4)</sup>   | 75,123   | 1,457 <sup>(4)</sup>   | 75,123   |

(1) The market value of the stock awards represents the product of the closing price for the Group's common stock on the New York Stock Exchange as of December 31, 2019, which was \$51.56, and the number of shares underlying each such award.

(2) Awards were granted on February 28, 2017, with 33.3% vesting on February 28, 2018, and the remaining 66.7% vesting ratably over 24 months. RSUs are for performance periods 2017, 2018, and 2019 and vest on February 28, 2020.

(3) Awards were granted on March 6, 2018, with 33.3% vesting on March 6, 2019, and the remaining 66.7% vesting ratably over 24 months. RSUs are for performance periods 2018, 2019, and 2020 and vest on March 6, 2021.

(4) Awards were granted on March 5, 2019, with 33.3% vesting on March 5, 2020, and the remaining 66.7% vesting ratably over 24 months. RSUs are for performance periods 2019, 2020, and 2021 and vest on March 5, 2022.

# Option Exercises and Stock Vested for Fiscal Year Ended 2019

| Name<br>(a)           | Option Awards                                       |   | Stock Awards                                       |  |
|-----------------------|---|---|--|--|
|                       | Number of Shares Acquired on Exercise<br>(#)<br>(b) | Value Realized on Exercise<br>(\$)<br>(c) | Number of Shares Acquired on Vesting<br>(#)<br>(d) | Value Realized on Vesting<br>(\$)<br>(e) |
| Martin A. Kropelnicki | —   | —   | 24,732   | 1,297,046                                |
| Thomas F. Smegal III  | —   | —   | 6,454  | 338,475                                  |
| Paul G. Townsley      | —   | —   | 6,454  | 338,475                                  |
| Robert J. Kuta        | —   | —   | 6,454  | 338,475                                  |
| Lynne P. McGhee       | —   | —   | 6,454  | 338,475                                  |

## Pension Benefits for Fiscal Year Ended 2019

The table below shows the present value of accumulated benefits payable to each NEO, including the number of years of service credited to each officer under the California Water Service Pension Plan (“Pension Plan”) and the SERP, each of which is described elsewhere in this Proxy Statement.

| Name<br>(a)   | Plan Name<br>(b)                       | Number of Years Credited Service<br>(#) <sup>(1)</sup><br>(c) | Present Value of Accumulated Benefit<br>(\$) <sup>(2)</sup><br>(d) |
|---|--|---|--|
| Martin A. Kropelnicki<br>President & CEO                                      | California Water Service Pension Plan  | 13.80   | \$ 1,249,604   |
|   | Supplemental Executive Retirement Plan | 13.80   | 23,871,857   |
| Thomas F. Smegal III<br>Vice President, Chief Financial Officer and Treasurer | California Water Service Pension Plan  | 22.67   | 1,715,682  |
|   | Supplemental Executive Retirement Plan | 15.00   | 5,405,588  |
| Paul G. Townsley<br>Vice President, Rates and Regulatory Matters              | California Water Service Pension Plan  | 6.83  | 694,146  |
|   | Supplemental Executive Retirement Plan | 6.83  | 2,404,624  |
| Robert J. Kuta<br>Vice President, Engineering                                 | California Water Service Pension Plan  | 4.71  | 469,688  |
|   | Supplemental Executive Retirement Plan | 4.71  | 1,306,460  |
| Lynne P. McGhee<br>Vice President, General Counsel                            | California Water Service Pension Plan  | 16.56   | 1,439,971  |
|   | Supplemental Executive Retirement Plan | 15.00   | 3,867,986  |

(1) Assumptions used in the calculation of the present value are included in footnote 11 of Group’s annual report on Form 10-K filed with the SEC on February 27, 2020.

(2) Includes amounts the NEOs may not currently be entitled to receive because such amounts are not vested. Pension values may fluctuate significantly from year to year depending on a number of factors including changes in the discount rate, changes in mortality rates, changes in compensation, years of service, and vesting.

The benefits under the SERP are obtained by applying the same benefit provisions of the Pension Plan, a tax-qualified plan, to all compensation included under the Pension Plan, without regard to these limits, reduced by benefits actually accrued under the Pension Plan. Under the SERP, all eligible officers are fully vested after 5 years of service and are eligible for the full benefit after 15 years of service and at age 60. SERP participants are eligible for early retirement starting at age 55 and would receive a reduced benefit of their monthly SERP benefit upon early retirement between the ages of 55 and 60 and further adjusted if service credit is less than 15 years. Under the Pension Plan, all eligible employees, including officers, are fully vested after 35 years of service. The SERP is structured such that benefits are paid to officers on a “pay as you go” basis. **None of our officers received any payments under the Pension Plan or SERP during 2019.**

The combined maximum benefit payout under the SERP and Pension Plan achievable by an officer is 60% of the average, eligible compensation paid over the previous 36 months prior to retirement or 3

highest consecutive years, whichever is higher, excluding any equity compensation. For additional description of the SERP and Pension Plan, see “Basic and Supplemental Pension Plan Benefits (SERP)” on page 62 in this Proxy Statement.

## Nonqualified Deferred Compensation for Fiscal Year Ended 2019

| Name<br>(a)           | Executive Contributions in Last FY (\$) <sup>(1)</sup><br>(b) | Aggregate Earnings in Last FY (\$) <sup>(1)</sup><br>(d) | Aggregate Withdrawals/Distributions (\$)<br>(e) | Aggregate Balance at Last FY (\$) <sup>(2)</sup><br>(f) |
|-----------------------|---|--|---|---|
| Martin A. Kropelnicki | \$262,088   | \$ 348,806   | \$—   | \$1,784,948   |
| Thomas F. Smegal III  | —   | —  | —   | —   |
| Paul G. Townsley      | 40,152  | 43,998   | —   | 309,065   |
| Robert J. Kuta        | —   | 1,531  | —   | 13,159  |
| Lynne P. McGhee       | —   | 5,143  | —   | 26,649  |

(1) All of the amounts reported under “Executive Contributions in Last FY” are included in the Summary Compensation Table for 2019. None of the amounts reported under “Aggregate Earnings in Last FY” are included in the Summary Compensation Table for 2019.

(2) The amounts reported under “Aggregate Balance at Last FY” that are included in the Summary Compensation Table in years prior to 2019 are as follows: Mr. Kropelnicki, \$1,078,503; Mr. Townsley, \$208,885; Mr. Kuta, \$11,282; Ms. McGhee, \$12,500.

The Deferred Compensation Plan provides specified benefits to a select group of management and highly compensated employees who contribute materially to the continued growth, development, and future business success of the Group. The Deferred Compensation Plan permits the Group’s officers and eligible managers to defer up to 50% of their base salary. In addition, officers can defer up to 100% of their short-term incentive compensation. The Group does not make any contributions to the Deferred Compensation Plan. The Deferred Compensation Plan’s investment options are similar, but not identical, to the Group’s tax-qualified 401(k) plan and are funded by a Rabbi trust created for the funding of such benefits. Benefits under the Deferred Compensation Plan are payable by the Group upon separation from service with the Group either in lump sum at separation, in monthly installments over five years following separation, or in lump sum or installments commencing five years following separation.

### Severance Arrangements

None of our officers are party to an individual employment agreement. Additionally, our officers are not provided with single-trigger change in control benefits.

Consistent with the Group’s compensation philosophy, the Committee believes the interests of stockholders are best served if the interests of senior management are aligned with those of our stockholders. To this end, the Group provides change in control severance benefits to our officers under the Group’s Executive Severance Plan to reduce any reluctance of our officers to pursue or support potential change in control transactions that would be beneficial to our stockholders. The Group adopted the plan in 1998, and its purpose is to promote the continued employment and dedication of our officers without distraction in the face of a potential change in control transaction. The Group’s Executive Severance Plan is described in further detail below.

### Executive Severance Plan

The Group adopted the Executive Severance Plan on December 16, 1998. The Executive Severance Plan provides that if within 24 months following a change in control of the Group, the officer’s employment is terminated by the Group for any reason other than good cause or by the officer for good reason, the Group will make a cash payment to the officer in an amount equal to three times the officer’s base salary on the date of the change in control or on the date the officer’s employment terminates, whichever is greater. The payments would be paid in three equal annual installments



commencing on the first of the month following the month in which the officer's employment terminated and payable thereafter on the anniversary of the initial payment date. Each officer will also receive a gross-up payment if the officer is required to pay an excise tax under section 4999 of the Internal Revenue Code. This provision for a tax gross-up has been a part of the Executive Severance Plan since its inception in 1998 and has not been modified since then.

Each officer's entitlement to the severance payment is conditioned upon execution of a release agreement. Additionally, the officer forfeits the right to receive the severance payment if he or she violates the non-solicitation and confidentiality provisions of the Executive Severance Plan.

For purposes of the Executive Severance Plan, the term "change in control" means the occurrence of (i) any merger or consolidation of the Group in which the Group is not the surviving organization, a majority of the capital stock of which is not owned by the stockholders of the Group immediately prior to such merger or consolidation; (ii) a transfer of all or substantially all of the assets of the Group; (iii) any other corporate reorganization in which there is a change in ownership of the outstanding shares of the Group wherein thirty percent (30%) or more of the outstanding shares of the Group are transferred to any person; (iv) the acquisition by or transfer to a person (including all affiliates or associates of such person) of beneficial ownership of capital stock of the Group if after such acquisition or transfer such person (and their affiliates or associates) is entitled to exercise thirty percent (30%) or more of the outstanding voting power of all capital stock of the Group entitled to vote in elections of directors; or (v) the election to the Board of Directors of the Group of candidates who were not recommended for election by the Board of Directors of the Group in office immediately prior to the election, if such candidates constitute a majority of those elected in that particular election.

For purposes of the Executive Severance Plan, "good cause" exists if (i) the applicable officer engages in acts or omissions that result in substantial harm to the business or property of the Group and that constitute dishonesty, intentional breach of fiduciary obligation, or intentional wrongdoing; or (ii) the applicable officer is convicted of a criminal violation involving fraud or dishonesty.

For purposes of the Executive Severance Plan, "good reason" exists if, without the applicable officer's consent, (i) there is a significant change in the nature or the scope of the applicable officer's authority or in his or her overall working environment; (ii) the applicable officer is assigned duties materially inconsistent with his or her present duties, responsibilities and status; (iii) there is a reduction in the applicable officer's rate of base salary or bonus; or (iv) the Group changes by 100 miles or more the principal location in which the applicable officer is required to perform services. Had a change in control occurred during fiscal year 2019 and had their employment been terminated on December 31, 2019, either without good cause or by the officer for good reason, the NEOs would have been eligible to receive the payments set forth in the table below.

In addition to the Executive Severance Plan, each officer is covered by the Group's general severance policy. Under the severance policy, each non-union employee of the Group whose employment is terminated without cause is entitled to severance pay of either one week's pay after completing two years of service or two weeks' pay after completing five or more years of service, provided at least two weeks' notice is given. In addition, all officers are entitled to a payout of six weeks of vacation time upon any termination of employment, to be paid in a lump sum at termination.

Each officer's entitlement to the severance payment is conditional upon execution of a release agreement. Additionally, the officer forfeits the right to receive the severance payment if he or she violates the non-solicitation and confidentiality provisions of the Executive Severance Plan.

### **Potential Payments upon Termination or Change in Control**

The information below describes certain compensation that would have become payable under existing plans and contractual arrangements assuming a termination of employment, or a change in control and termination of employment, had occurred on December 31, 2019, given the officer's compensation and service levels as of such date. In addition to the benefits described below, upon any termination of employment, each of the officers would also be entitled to the benefits as

described in the table of Pension Benefits for Fiscal Year 2019 and the amount shown in the column labeled "Aggregate Balance at Last FY" of the table of Nonqualified Deferred Compensation for Fiscal Year 2019 above.

| Name                  | Change in Control and Termination of Employment Severance Amount (\$) | Termination of Employment without a Change in Control Severance Amount (\$) |
|-----------------------|---|---|
| Martin A. Kropelnicki | \$2,961,000   | \$151,846   |
| Thomas F. Smegal III  | 1,372,500   | 70,385  |
| Paul G. Townsley      | 1,215,000   | 62,308  |
| Robert J. Kuta        | 1,042,500   | 46,779  |
| Lynne P. McGhee       | 958,500   | 49,154  |

## CEO Pay Ratio

| Measurement                  | Under SEC Rules | Excluding Change in Present Value of Pension Benefits |
|------------------------------|-----------------|---|
| CEO Compensation             | \$13,305,444    | \$2,996,393   |
| Median Employee Compensation | \$ 222,016      | \$ 102,893  |
| <b>Ratio</b>                 | <b>1:60</b>     | <b>1:29</b>   |

In accordance with SEC rules, we are providing the ratio of the annual total compensation of our CEO to the annual total compensation of our median associate. In calculating this ratio, SEC rules allow companies to adopt a variety of methodologies, apply certain exclusions, and make reasonable estimates and assumptions reflecting their unique employee populations. Our reported pay ratio may not be comparable to that reported by other companies due to differences in industries, scope of operations, business models and scale, as well as the different estimates, assumptions, and methodologies applied by other companies in calculating their respective pay ratios.

The pay ratio reported below is a reasonable estimate calculated in a manner consistent with SEC rules based on our payroll and employment records and the methodology as described. For these purposes, we identified the median compensated employee by first including full-time, part-time, seasonal, and temporary employees, excluding the President & CEO, for a total of 1,202 employees in the median compensation pool. We used actual salary and compensation paid in 2019, as reflected in our payroll records, excluding equity awards and bonus payments as these are not broadly distributed, to determine the median employee. We then calculated the median employee's total compensation in accordance with SEC rules to determine the pay ratio. We did not annualize the compensation for any employee who did not work for the entire year. We identified our employee population as of December 31, 2019 based on our payroll records.

The 2019 annual total compensation of the median compensated of all our employees who were employed on December 31, 2019, other than our President & CEO, was \$156,138, inclusive of \$54,058 of estimated non-cash present value pension changes. Mr. Kropelnicki's 2019 annual total compensation was \$13,305,445 inclusive of \$10,339,051 which as previously disclosed represents the estimated non-cash present value changes in the actuarial projections of his future potential pension benefits under the Group's authorized retirement plans and does not represent actual compensation paid to the CEO; the ratio of these amounts was 1-to-85. Actual pension benefits earned are contingent upon a number of factors including years of service, age at retirement, expected life mortality tables, interest rates, and service level vesting requirements. Excluding the estimated change in present value of the actuarially projected pension benefits for both Mr. Kropelnicki and our median compensated employee, close to 50% of which was attributable to a change in the discount rate used to value the benefits, 2019 annual compensation of \$2,966,394 and \$102,893, respectively, resulting in a pay ratio of 1-to-29.

# REPORT OF THE ORGANIZATION AND COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS ON EXECUTIVE COMPENSATION

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The Organization and Compensation Committee of the Group's Board of Directors has submitted the following report for inclusion in this Proxy Statement:

The Organization and Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis contained in this Proxy Statement with management. Based on our review of and the discussions with management with respect to the Compensation Discussion and Analysis, the Organization and Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement and in the Group's annual report on Form 10-K for the fiscal year ended December 31, 2019, for filing with the SEC.

The foregoing report is provided by the following directors, who constitute the Organization and Compensation Committee:

## *ORGANIZATION AND COMPENSATION COMMITTEE*

Thomas M. Krummel, M.D., Committee Chair

Terry P. Bayer

Scott L. Morris

Lester A. Snow

## ORGANIZATION AND COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

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The following directors were members of the Organization and Compensation Committee during the 2019 fiscal year: Thomas M. Krummel, M.D., Committee Chair, Terry P. Bayer, Edwin A. Guiles (who served on the board in 2019 until he passed away), Scott L. Morris, and Lester A. Snow. No member of the Organization and Compensation Committee was an officer or employee of the Group or any of its subsidiaries during 2019, nor was any such member previously an officer of the Group or any of its subsidiaries. No member of the Organization and Compensation Committee had any material interest in a transaction of the Group or a business relationship with, in each case that would require disclosure under "Procedures for Approval of Related Person Transactions" included elsewhere in this Proxy Statement.

None of the officers of the Group have served on the Board of Directors or on the Compensation Committee of any other entity, any of whose officers served either on the Board of Directors or on the Organization and Compensation Committee of the Group.

## PROCEDURES FOR APPROVAL OF RELATED PERSON TRANSACTIONS

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Transactions involving related persons are reviewed on a case-by-case basis and approved as appropriate. The Board's Nominating/Corporate Governance Committee is responsible for review, approval, or ratification of "related person transactions" involving the Group or its subsidiaries and related persons. Under SEC rules, a related person is a director, executive officer, nominee for director, or a greater than 5% stockholder of the Group since the beginning of the previous fiscal year. Potential related person transactions are brought to the attention of management and the Board in a number of ways. Each of our directors and executive officers is instructed and periodically reminded to inform the Corporate Secretary of any potential related person transactions. In addition, each director and officer completes a questionnaire on an annual basis designed to elicit information about any potential related person transactions.

Since the beginning of 2019, there were no related person transactions under the relevant standards.

## PROPOSAL NO. 2 – ADVISORY VOTE TO APPROVE EXECUTIVE COMPENSATION

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We are asking our shareholders to approve, on a non-binding, advisory basis, under Section 14A of the Exchange Act, the compensation of our NEOs as disclosed in this proxy statement. We have held a similar shareholder vote every year since 2014 and expect to hold a similar vote at the 2020 Annual Shareholders' Meeting.

As described in the CD&A, our executive compensation program is designed with an emphasis on performance and is intended to closely align the interests of our NEOs with the interests of our stockholders and customers. We regularly review our executive compensation program to ensure compensation is closely tied to aspects of our company's performance that our NEOs can impact and that are likely to have an impact on shareholder value.

Our compensation program is also designed to balance long-term performance with shorter-term performance and to mitigate any risk that an officer would be incentivized to pursue good results with respect to a single performance measure, company segment, or area of responsibility to the detriment of our company as a whole.

In the CD&A, we also discuss why we believe the compensation of our NEOs for fiscal 2019 was appropriately aligned with our company's performance during fiscal 2019. The CD&A also describes feedback we received regarding our executive compensation program during our shareholder outreach efforts, and is intended to provide additional clarity and transparency regarding the rationale for and philosophy behind our executive compensation program and practices. We urge you to carefully read the CD&A, the compensation tables, and the related narrative discussion in this proxy statement when deciding how to vote on this proposal.

The vote on this proposal is advisory, which means the vote will not be binding on us, the Organization and Compensation Committee, or the Board. However, we value our shareholders' opinions, and we will consider the results of the vote on this proposal when making future decisions regarding executive compensation and when establishing our NEOs' compensation opportunities.

The Group is asking stockholders to support the named executive officer compensation as described in this Proxy Statement. The Organization and Compensation Committee and the Board believes the policies and procedures articulated in the "Compensation Discussion and Analysis" are effective in achieving the Group's goals and the compensation of the Group's named executive officers reported in this Proxy Statement has supported and contributed to the Group's success. Accordingly, the Group asks stockholders to vote "FOR" the following resolution at the 2019 Annual Meeting:

"RESOLVED, that the stockholders of California Water Service Group approve, on an advisory basis, the compensation paid to California Water Service Group's named executive officers, as disclosed in this Proxy Statement pursuant to the SEC's compensation disclosure rules, including the Compensation Discussion and Analysis, the compensation tables and related narrative discussion."

This advisory resolution, commonly referred to as a "Say-on-Pay" resolution, is not binding upon the Group, the Organization and Compensation Committee, or the Board. However, the Board and the Organization and Compensation Committee, which is responsible for designing and administering the Group's executive compensation programs, value the opinions expressed by stockholders in their vote on this proposal and will consider the outcome of the vote when making future compensation decisions for named executive officers. After consideration of the vote of stockholders at the 2019 Annual Meeting of Stockholders and other factors, the Board decided to hold advisory votes on the approval of executive compensation annually until the next advisory vote on frequency occurs. Unless the Board modifies its policy on the frequency of future advisory votes, the advisory vote to approve the 2020 executive compensation will be held at the 2021 Annual Meeting.

## **Vote Required**

Approval of Proposal No. 2 requires the affirmative vote of a majority of the shares present in person or represented by proxy and entitled to vote at the Annual Meeting.

## **Recommendation of the Board**

Our Board of Directors unanimously recommends that you vote “FOR” this proposal.

# REPORT OF THE AUDIT COMMITTEE

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The Audit Committee oversees the Group's financial reporting process on behalf of the Board of Directors. The Audit Committee's purpose and responsibilities are set forth in the Audit Committee charter. The current charter is available on the Group's website at <http://www.calwatergroup.com>. The Audit Committee consists of four members, each of whom meet the New York Stock Exchange standards for independence and the Sarbanes-Oxley Act independence standards for Audit Committee membership, and three of the Audit Committee's four members meet the requirements of an Audit Committee financial expert. During 2019, the Audit Committee met four times.

The Group's management has primary responsibility for preparing the Group's financial statements and the overall reporting process, including the Group's system of internal controls. Deloitte & Touche LLP, the Group's independent registered public accounting firm, audited the financial statements prepared by the Group and expressed their opinion that the financial statements fairly present the Group's financial position, results of operations, and cash flows in conformity with generally accepted accounting principles. Deloitte & Touche LLP also determined that the Group maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019.

In connection with the December 31, 2019 financial statements, the Audit Committee:

- (1) Reviewed and discussed the audited financial statements with management and Deloitte & Touche LLP;
- (2) Discussed with Deloitte & Touche LLP the matters required to be discussed under applicable rules of the Public Company Accounting Oversight Board;
- (3) Received from Deloitte & Touche LLP the written disclosures and the letter required by applicable rules of the Public Company Accounting Oversight Board regarding the firm's communications with the Audit Committee concerning independence, and also discussed with Deloitte & Touche LLP the firm's independence, and considered whether the firm's provision of non-audit services and the fees and costs billed for those services are compatible with Deloitte & Touche LLP's independence; and
- (4) Met privately with Deloitte & Touche LLP and the Group's internal auditor, each of whom has unrestricted access to the Audit Committee, without management present, and discussed their evaluations of the Group's internal controls and overall quality of the Group's financial reporting and accounting principles used in preparation of the financial statements. The Committee also met privately with the Group's President & CEO, the CFO, the Controller, and the General Counsel to discuss the same issues.

Based upon these reviews and discussions, the Audit Committee recommended to the Board that the audited financial statements be included in the annual report on Form 10-K to be filed with the Securities and Exchange Commission.

## *AUDIT COMMITTEE*

Gregory E. Aliff, Committee Chair  
Terry P. Bayer  
Richard P. Magnuson  
Patricia K. Wagner

## RELATIONSHIP WITH THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee is directly responsible for the appointment, compensation, retention, and oversight of the Group's independent registered public accounting firm. The Audit Committee evaluates the selection of the independent registered accounting firm each year. In addition, the Audit Committee considers the independence of the independent registered public accounting firm each year and periodically considers whether there should be a regular rotation of the independent registered public auditing firm. The Audit Committee also is involved in considering the selection of Deloitte & Touche LLP's lead engagement partner when rotation is required.

Deloitte & Touche LLP has served as the Group's independent auditor since fiscal 2008. After careful consideration of a number of factors, including the length of time the firm has served in this role, the firm's past performance, and an assessment of the firm's qualifications and resources, the Audit Committee has selected Deloitte & Touche LLP to serve as the Group's independent registered public accounting firm for the year ending December 31, 2020. The Committee's selection of Deloitte & Touche LLP as the Group's independent registered public accounting firm is being submitted for ratification by vote of the stockholders at this Annual Meeting.

The following fees relate to services provided by Deloitte & Touche LLP, the Group's independent registered public accounting firm for fiscal years 2018 and 2019.

| Category of Services              | 2018               | 2019               |
|-----------------------------------|--------------------|--------------------|
| Audit Fees <sup>(1)</sup>         | \$1,508,950        | \$1,601,200        |
| Audit-Related Fees <sup>(2)</sup> | 65,000             | 411,610            |
| Tax Fees                          | 11,240             | 0                  |
| All Other Fees <sup>(3)</sup>     | 0                  | 60,050             |
| <b>Total</b>                      | <b>\$1,585,190</b> | <b>\$2,072,860</b> |

(1) The audit services included audits of the Group's annual financial statements for the years ended December 31, 2018 and 2019, and quarterly reviews of the Group's interim financial statements. Included also are fees related to the audit of the effectiveness of internal control over financial reporting.

(2) Audit related fees for the year ended December 31, 2019 included accounting due diligence services for Group's business development efforts and comfort letter fees associated with Group's at-the-market equity program.

(3) The services comprising the fees disclosed under "All Other Fees" included non-tax advisory and consulting supply chain strategy services.

Fees reported in the above table are those billed or expected to be billed for audit services related to that fiscal year and for other services rendered during that fiscal year.

The Audit Committee is responsible for overseeing audit fee negotiations associated with the retention of Deloitte & Touche LLP for the audit of the Group. Additionally, it is the policy of the Audit Committee, as set forth in its charter, to approve in advance all audit and permissible non-audit services to be provided by the independent registered public accounting firm, as well as related fees. Under applicable law, the Audit Committee may delegate preapproval authority to one or more of its members, and any fees preapproved in this manner must be reported to the Audit Committee at its next scheduled meeting.

# PROPOSAL NO. 3 – RATIFICATION OF SELECTION OF DELOITTE & TOUCHE LLP AS INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2019

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After consideration, and as a matter of good corporate governance, the Board is requesting stockholder ratification of Deloitte & Touche LLP as the independent registered public accounting firm, to audit the Group's books, records, and accounts for the year ending December 31, 2020. The members of the Audit Committee and the Board believe that the continued retention of Deloitte & Touche LLP to serve as the Group's independent registered public accounting firm is in the best interests of the Group and its stockholders. Following the recommendation of the Audit Committee, the Board recommends a vote "FOR" the adoption of this proposal. Representatives of Deloitte & Touche LLP will be present at the meeting to answer questions and will have an opportunity to make a statement if they desire to do so. If the stockholders do not ratify this appointment, the Audit Committee will reconsider the selection of the independent registered public accounting firm.

## Vote Required

Ratification of the selection of the independent registered public accounting firm for 2020 requires the affirmative vote of a majority of the shares present in person or represented by proxy and entitled to vote at the Annual Meeting.

## Recommendation of the Board

Our Board of Directors unanimously recommends that you vote "FOR" this proposal.

## OTHER MATTERS

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### Adjournment

Notice of adjournment need not be given if the date, time, and place thereof are announced at the Annual Meeting at which the adjournment is taken. However, if the adjournment is for more than 30 days, or if a new record date is fixed for the adjourned Annual Meeting, a notice of the adjourned Annual Meeting will be given to each stockholder entitled to vote at the Annual Meeting. At adjourned annual meetings, any business may be transacted that might have been transacted at the original Annual Meeting.

### Cost of Proxy Solicitation

The Group will bear the entire cost of preparing, assembling, printing, and mailing this Proxy Statement, the proxies, and any additional materials which may be furnished by the Board to stockholders. The solicitation of proxies will be made by the use of the U.S. Postal Service and also may be made by telephone, or personally, by directors, officers, and regular employees of the Group, who will receive no extra compensation for such services. Morrow Sodali, LLC, 470 West Avenue, Stamford, CT 06902 was hired to assist in the distribution of proxy materials and solicitation of votes for a \$9,000 fee, plus distribution expenses. The Group will reimburse brokerage houses and other custodians, nominees, and fiduciaries for their reasonable out-of-pocket expenses for forwarding proxy and solicitation materials to stockholders.

### Other Matters

The Board is not aware of any other matters to come before the Annual Meeting. If any other matters should be brought before the Annual Meeting or any adjournment or postponement thereof, upon which a vote properly may be taken, the proxy holders will vote in their



discretion unless otherwise provided in the proxies. The report of the Organization and Compensation Committee, and the report of the Audit Committee, are not to be considered as incorporated by reference into any other filings that the Group makes with the SEC under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended. These portions of this Proxy Statement are not a part of any of those filings unless otherwise stated in those filings.

## Code of Ethics

The Group has adopted written codes of ethics for all directors, officers, and employees. The codes are posted on the Group's website at <http://www.calwatergroup.com>. The codes are also available in written form upon request to the Corporate Secretary, California Water Service Group, 1720 North First Street, San Jose, California 95112-4508.

## Stockholders Sharing an Address

The SEC allows the Group to deliver a single proxy statement and annual report to an address shared by two or more of our stockholders. This delivery method, referred to as "householding," can result in significant cost savings for the Group. In order to take advantage of this opportunity, banks and brokerage firms that hold shares for stockholders who are the beneficial owners, but not the record holders, of the Group's shares, have delivered only one proxy statement and annual report to multiple stockholders who share an address, unless one or more of the stockholders has provided contrary instructions. For stockholders who are the record holders of the Group's shares, the Group may follow a similar process absent contrary instructions. The Group will deliver promptly, upon written or oral request, a separate copy of the proxy statement and annual report to a stockholder at a shared address to which a single copy of the documents was delivered. A stockholder who wishes to receive a separate copy of the proxy statement and annual report, now or in the future, may obtain one, without charge, by addressing a request to the Corporate Secretary, California Water Service Group, 1720 North First Street, San Jose, California 95112-4508 or calling (408) 367-8200. Stockholders of record sharing an address who are receiving multiple copies of proxy materials and annual reports and wish to receive a single copy of such materials in the future should submit their request by contacting the Group in the same manner. If you are the beneficial owner, but not the record holder, of the Group's shares and wish to receive only one copy of the proxy statement and annual report in the future, you will need to contact your broker, bank, or other nominee to request that only a single copy of each document be mailed to all stockholders at the shared address in the future.

## Copies of Annual Report on Form 10-K

**The Group, upon written request, will furnish to record and beneficial holders of its common stock, free of charge, a copy of its Annual Report on Form 10-K (including financial statements and schedules but without exhibits) for fiscal year 2019. Copies of exhibits to Form 10-K also will be furnished upon request for a payment of a fee of \$0.50 per page. All requests should be directed to the Corporate Secretary, California Water Service Group, 1720 North First Street, San Jose, California 95112-4508.**

Electronic copies of the Group's Form 10-K, including exhibits and this Proxy Statement will be available on the Group's website at <http://www.calwatergroup.com>.

## Disclaimer Regarding Website

The information contained on the Group's website is not to be deemed included or incorporated by reference into this Proxy Statement.

# QUESTIONS AND ANSWERS ABOUT THE PROXY MATERIALS AND THE ANNUAL MEETING

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## What am I voting on?

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- ▶ Election of the eleven directors named in the Proxy Statement to serve until the 2021 Annual Meeting;
- ▶ An advisory vote to approve executive compensation; and
- ▶ Ratification of the selection of Deloitte & Touche LLP as the Group's independent registered public accounting firm for 2020.

## Who may attend the Annual Meeting?

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Any stockholders of the Group may attend.

## How can I attend the Annual Meeting?

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This year, we plan to hold the Annual Meeting online through an audio webcast. This format will enable stockholders to attend the meeting and participate from any location, at no cost.

You will be able to attend the Annual Meeting online at [www.virtualshareholdermeeting.com/CWT2020](http://www.virtualshareholdermeeting.com/CWT2020). You will also be able to vote your shares online at the Annual Meeting (see below).

To participate in the Annual Meeting, you will need the control number included on your proxy card, or voting instruction card (if your shares are held through a stockbroker or another nominee).

We encourage you to access the Annual Meeting prior to the start time and allow ample time to log in to the meeting webcast and test your computer audio system.

## How can I ask questions at the Annual Meeting?

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Stockholders may submit questions live during the Annual Meeting at [www.virtualshareholdermeeting.com/CWT2020](http://www.virtualshareholdermeeting.com/CWT2020).

The Group is committed to transparency. All questions received during the Annual Meeting, and the Group's responses, will be posted to our Investor Relations website at <http://ir.calwatergroup.com/> promptly after the Annual Meeting. Personal details may be omitted for data protection purposes. If we receive substantially similar questions, we may group these questions together and provide a single response to avoid repetition.

## What if during the check-in time or during the meeting I have technical difficulties or trouble accessing the meeting website?

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The technical support telephone number will be posted on the Virtual Shareholder Meeting login page, [www.virtualshareholdermeeting.com/CWT2020](http://www.virtualshareholdermeeting.com/CWT2020). If you encounter any difficulties, please call the number and speak to a technical support representative.

## Who is entitled to vote?

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Stockholders of record on the record date are entitled to vote. The Board has fixed the close of business on March 31, 2020 as the record date (Record Date) for the determination of stockholders entitled to notice of, and to vote at, the Annual Meeting.

## How many votes do I get?

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Each share of common stock is entitled to one vote.

## What constitutes a quorum?

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A majority of the outstanding shares – present at the Annual Meeting or represented by persons holding valid proxies – constitutes a quorum. If you submit a valid proxy card, your shares will be considered in determining whether a quorum is present.

Without a quorum, no business may be transacted at the Annual Meeting. However, whether or not a quorum exists, a majority of the voting power of those present at the Annual Meeting may adjourn the Annual Meeting to another date, time, and place.

At the Record Date, there were 1,908 stockholders of record. There were 48,713,549 shares of our common stock outstanding and entitled to vote at the Annual Meeting.

## How are the directors elected?

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Our bylaws provide for a majority voting standard for the election of directors in uncontested elections. Under this majority voting standard, each director must be elected by the affirmative vote of a majority of the votes cast with respect to the director. A majority of the votes cast means that the number of votes cast “FOR” a nominee for director exceeds the number of votes cast “AGAINST” that nominee for director. As a result, abstentions will not be counted in determining which nominees receive a majority of votes cast since abstentions do not represent votes cast for or against a nominee. If you hold your shares through a stockbroker (or other nominee), the stockbroker does not have authority to vote your shares in the election of directors without instructions from you. Shares that your stockbroker does not vote (“broker non-votes”) are not considered votes cast for or against a nominee, and they will not be counted in determining which nominees receive a majority of votes cast. In accordance with our director resignation policy, the Nominating/Corporate Governance Committee has established procedures that require an incumbent nominee for director who does not receive the required votes for re-election to tender his or her resignation offer to the Nominating/Corporate Governance Committee. The Nominating/Corporate Governance Committee will recommend to the Board whether to accept or reject the offer, or whether other action should be taken. The Board will act on the Nominating/Corporate Governance Committee’s recommendation within 90 days after certification of the election results. We will promptly publicly disclose the Board’s decision regarding the resignation offer, including the rationale for rejecting the resignation offer, if applicable.

## Who are the Board’s nominees?

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The nominees are Gregory E. Aliff, Terry P. Bayer, Shelly M. Esque, Martin A. Kropelnicki, Thomas M. Krummel, M.D., Richard P. Magnuson, Scott L. Morris, Peter C. Nelson, Carol M. Pottenger, Lester A. Snow, and Patricia K. Wagner. All of the nominees are current Board members. See “Proposal No. 1 – Election of Directors” for biographical information and qualifications.

## What are the Board’s voting recommendations?

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- ▶ “FOR” each of the nominees to the Board (Proposal No. 1);
- ▶ “FOR” the proposal regarding an advisory vote to approve executive compensation (Proposal No. 2); and
- ▶ “FOR” the ratification of the selection of Deloitte & Touche LLP as the Group’s independent registered public accounting firm for 2020 (Proposal No. 3).

## How do I vote?

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You may vote your shares without participating in the Annual Meeting, or online during the meeting if you choose to attend.

If you are a stockholder of record (that is, you hold your shares in your own name), you may vote by Internet, by telephone, by mail, or online during the Annual Meeting. Different rules apply if your stockbroker or another nominee holds your shares for you (see below).

| <br><b>You may vote by Internet.</b>   | <br><b>You may vote by telephone.</b>   | <br><b>You may vote by mail.</b>   |
|---|--|---|
| <p>You do this by following the “Vote by Internet” instructions on the proxy card. If you vote by Internet, you do not have to mail in your proxy card.</p> <p>Even if you plan to attend the Annual Meeting online, we recommend that you vote your shares prior to the meeting so that your vote will be counted if you later decide not to attend.</p> | <p>You do this by following the “Vote by Phone” instructions on the proxy card. If you vote by telephone, you do not have to mail in your proxy card. You must have a touch-tone phone to vote by telephone.</p> | <p>You do this by signing the proxy card and mailing it in the enclosed, prepaid, and addressed envelope. If you mark your voting instructions on the proxy card, your shares will be voted as you instruct.</p> <p>If you return a signed card but do not provide voting instructions, your shares will be voted:</p> <ul style="list-style-type: none"><li>▶ For the eleven named director nominees;</li><li>▶ For the advisory vote to approve executive compensation; and</li><li>▶ For the ratification of the selection of Deloitte &amp; Touche LLP as the Group’s independent registered public accounting firm for 2020.</li></ul> |

## What if I change my mind after I return my proxy?

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You may revoke your proxy and/or change your vote at any time before the polls close at the Annual Meeting. You may do this by:

- ▶ Signing another proxy with a later date;
- ▶ Voting by Internet or by telephone (your latest Internet or telephone proxy is counted);
- ▶ Voting online during the Annual Meeting; or
- ▶ Notifying the Corporate Secretary, in writing, that you wish to revoke your previous proxy. We must receive your notice prior to the vote at the Annual Meeting.

## Will my shares be voted if I do not return my proxy?

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If you are a stockholder of record, and you do not return your proxy, your shares will not be voted unless you attend the Annual Meeting and vote online during the meeting.

## What happens if my shares are held by my stockbroker (or other nominee)?

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If your shares are held by a stockbroker (or other nominee), you may vote your shares without participating in the Annual Meeting, or online during the Annual Meeting if you choose not to attend.

You will receive a voting instruction card with information about how to instruct your stockbroker on how to vote your shares. If you do not provide instructions, then your stockbroker, under certain circumstances, may vote your shares.

Specifically, stockbrokers have authority under exchange regulations to vote your uninstructed shares on certain “routine” matters. For “non-routine” matters, no votes will be cast on your behalf if you do not instruct your stockbroker on how to vote. If you wish to change the voting instructions that you gave to your stockbroker, you must ask your stockbroker how to do so.

If you do not give your stockbroker voting instructions, your stockbroker may either:

- ▶ Proceed to vote your shares on routine matters and refrain from voting on non-routine matters; or
- ▶ Leave your shares entirely unvoted.

Shares that your stockbroker does not vote (“broker non-votes”) will count towards the quorum only. We encourage you to provide your voting instructions to your stockbroker. This ensures that your shares will be voted at the Annual Meeting.

**As to my stockbroker voting, which proposals are considered “routine” or “non-routine”?**

The ratification of the selection of Deloitte & Touche LLP as the Group’s independent registered public accounting firm for 2020 (Proposal No. 3) is routine. A stockbroker may generally vote on routine matters if the stockbroker has not received voting instructions from you with respect to such matters.

The election of directors (Proposal No. 1) and the advisory vote to approve executive compensation (Proposal No. 2) are matters considered “non-routine” under applicable rules. A stockbroker cannot vote without your instructions on non-routine matters.

**What is the voting requirement to approve each of the proposals?**

| Proposal   | Vote Required   |
|--|---|
| Proposal No. 1 – Election of eleven directors  | Majority of Votes Cast  |
| Proposal No. 2 – Advisory vote to approve executive compensation   | Majority of Shares Present in Person or Represented by Proxy and Entitled to Vote |
| Proposal No. 3 – Ratify the selection of Deloitte & Touche LLP as the Group’s independent registered public accounting firm for 2020 | Majority of Shares Present in Person or Represented by Proxy and Entitled to Vote |

**How are broker non-votes and abstentions treated?**

Broker non-votes and abstentions are counted for purposes of determining whether a quorum is present. Only “FOR” and “AGAINST” votes are counted for purposes of determining the votes received in connection with the proposal relating to the election of directors (Proposal No. 1), and therefore broker non-votes and abstentions have no effect on that proposal. Stockbrokers may not vote your shares on Proposal No. 1 without instructions from you. The affirmative vote of the majority of the shares present in person or represented by proxy and entitled to vote at the Annual Meeting is required to approve Proposal No. 2 and Proposal No. 3. Proposal No. 2 is advisory, meaning that it is not binding on the Board, although the Board will consider the outcome of the vote on this proposal. Abstentions have the effect of a vote “AGAINST” Proposal No. 2 and Proposal No. 3. Stockbrokers may vote your shares on Proposal No. 3 (but not on Proposal No. 2) without instructions from you. Shares resulting in broker non-votes, if any, are not entitled to vote and will have no effect on the outcome of these proposals.

## Who will count the vote?

---

Representatives of Broadridge Financial Services, Proxy Services, will serve as the inspector of elections and count the votes.

## What does it mean if I receive more than one proxy card?

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It means that you have multiple accounts at the transfer agent and/or with stockbrokers. Please sign and return all proxy cards to ensure that all your shares are voted.

## What percentage of stock do the directors and executive officers own?

---

Together, directors and executive officers own approximately 1.0% of our common stock. See "Stock Ownership of Management and Certain Beneficial Owners" for more details elsewhere in this Proxy Statement.

## Who are the largest common stockholders?

---

As of December 31, 2019, the largest stockholders were:

- ▶ BlackRock, Inc. beneficially owned 7,681,110 shares of common stock, representing 16.0% of our aggregate outstanding stock as of such date;
- ▶ The Vanguard Group, Inc. beneficially owned 5,727,390 shares of common stock, representing 11.89% of our aggregate outstanding stock as of such date; and
- ▶ State Street Corporation, beneficially owned 3,922,734 shares of common stock, representing 8.15% of our aggregate outstanding stock as of such date.

\* To the best of our knowledge, no other stockholders held more than 5% of our common shares as of such date.

## Where can I access a list of stockholders?

---

The Group's list of stockholders as of March 31, 2020, the Record Date, will be available for inspection for ten days prior to the Annual Meeting, in accordance with applicable law. The list of stockholders will also be available during the Annual Meeting through the meeting website for those stockholders who choose to attend.

## What is the deadline for submitting stockholder proposals for the Group's proxy materials for next year's Annual Meeting?

---

Any proposals that stockholders intend to submit for inclusion in next year's Group proxy materials must be received by the Corporate Secretary of the Group by December 16, 2020. A proposal, together with any supporting statement, may not exceed 500 words and must comply with other requirements of Rule 14a-8 under the Securities Exchange Act of 1934. Please submit the proposal to the Corporate Secretary, California Water Service Group, 1720 North First Street, San Jose, California 95112-4508.

## How can a stockholder propose a nominee for the Board or other business for consideration at a stockholders' meeting?

---

Stockholders who are entitled to vote at a stockholders' meeting may propose a nominee for the Board or other business for consideration at a meeting without seeking to have the matter included in the proxy materials for the Annual Meeting pursuant to Rule 14a-8. The bylaws contain the

requirements for doing so. The bylaws are posted on the Group's website at <http://www.calwatergroup.com>. Physical copies of these documents are also available upon request to the Corporate Secretary, California Water Service Group, 1720 North First Street, San Jose, CA 95112-4508. Briefly, a stockholder must give timely prior notice of the matter to the Group. The notice must be received by the Corporate Secretary at the Group's principal place of business by the 150th day before the first anniversary of the prior year's Annual Meeting. For the 2021 Annual Meeting, to be timely, notice must be received by the Corporate Secretary not later than the close of business on December 28, 2020. If we change the date of the Annual Meeting by more than thirty days before or more than sixty days after the date of the previous meeting, notice is due not later than the close of business on the later of the 150th day before the Annual Meeting or the 10th day after we publicly announce the holding of the Annual Meeting. If the Group's Corporate Secretary receives notice of a matter after the applicable deadline, the notice will be considered untimely. In that case, or where notice is timely but the stockholder fails to satisfy the requirements of Rule 14a-4 under the Securities Exchange of 1934, the persons named as proxies may exercise their discretion in voting with respect to the matter when and if it is raised at the Annual Meeting.

The bylaws specify what the notice must contain. Stockholders must comply with applicable law with respect to matters submitted in accordance with the bylaws. The bylaws do not affect any stockholder's right to request inclusion of proposals in the Group's Proxy Statement under Rule 14a-8.

### **How can a stockholder or other interested parties contact the independent directors, the director who chairs the Board's executive sessions, or the full Board?**

---

Stockholders or other interested parties may address inquiries to any of the Group's directors, to the lead director (who chairs the Board's executive sessions), or to the full Board, by email to [stockholdercommunication@calwater.com](mailto:stockholdercommunication@calwater.com) or by writing to them in care of the Corporate Secretary, California Water Service Group, 1720 North First Street, San Jose, California 95112-4508. All such communications are sent directly to the intended recipient(s).

### **Where and when will I be able to find the results of the voting?**

---

Preliminary results will be announced at the Annual Meeting. We will publish the final results in a current report on Form 8-K to be filed with the Securities and Exchange Commission ("SEC") within four business days of the Annual Meeting.

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**Form 10-K**

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

For the fiscal year ended December 31, 2019

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file No. 1-13883

**CALIFORNIA WATER SERVICE GROUP**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or Other Jurisdiction of  
Incorporation or Organization)

**1720 North First Street  
San Jose, California**  
(Address of Principal Executive Offices)

**77-0448994**

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

**95112**  
(Zip Code)

**(408) 367-8200**

(Registrant's Telephone Number, including Area Code)

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

| Title of Each Class:                     | Trading Symbol(s) | Name of Each Exchange on Which Registered: |
|--|-------------------|--|
| Common Stock, \$0.01 par value per share | CWT               | 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. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232,405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

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

Large accelerated Filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant was \$2,437 million on June 28, 2019, the last business day of the registrant's most recently completed second fiscal quarter. The valuation is based on the closing price of the registrant's common stock as traded on the New York Stock Exchange.

The Common stock outstanding at February 10, 2020 was 48,536,524 shares.

**DOCUMENTS INCORPORATED BY REFERENCE**

Certain information required to be disclosed in Part III of this report is incorporated by reference from the registrant's definitive Proxy Statement for its Annual Meeting of Stockholders to be held on or about May 27, 2020. The proxy statement is expected to be filed no later than 120 days after the end of the fiscal year covered by this report.

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## PART I

### Item 1. *Business.*

#### Forward-Looking Statements

This annual report, including all documents incorporated by reference, contains forward-looking statements within the meaning established by the Private Securities Litigation Reform Act of 1995. Forward-looking statements in this annual 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," "targets," "forecasts," "should," "could," "seeks," or variations of these words or similar 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:

- ability to invest or apply the proceeds from the issuance of common stock in an accretive manner;
- governmental and regulatory commissions' decisions, including decisions on proper disposition of property;
- consequences of eminent domain actions relating to our water systems;
- changes in regulatory commissions' policies and procedures;
- the timeliness of regulatory commissions' actions concerning rate relief and other actions;
- increased risk of inverse condemnation losses as a result of climate conditions;
- inability to renew leases to operate water systems owned by others on beneficial terms;
- changes in California State Water Resources Control Board water quality standards;
- changes in environmental compliance and water quality requirements;
- electric power interruptions, especially as a result of Public Safety Power Shutoff (PSPS) programs;
- housing and customer growth;
- the impact of opposition to rate increases;
- our ability to recover costs;
- availability of water supplies;
- issues with the implementation, maintenance or security of our information technology systems;
- civil disturbances or terrorist threats or acts;
- the adequacy of our efforts to mitigate physical and cyber security risks and threats;

- the ability of our enterprise risk management processes to identify or address risks adequately;
- labor relations matters as we negotiate with the unions;
- changes in customer water use patterns and the effects of conservation;
- the impact of weather, climate, natural disasters, and epidemic or pandemic diseases on our operations, water quality, water availability, water sales and operating results and the adequacy of our emergency preparedness; and
- the risks set forth in “Risk Factors” included elsewhere in this annual report.

In light of these risks, uncertainties and assumptions, investors are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of this annual report or as of the date of any document incorporated by reference in this annual report, as applicable. When considering forward-looking statements, investors should keep in mind the cautionary statements in this annual 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.

## Overview

California Water Service Group is a holding company incorporated in Delaware in 1999 with six operating subsidiaries: California Water Service Company (Cal Water), New Mexico Water Service Company (New Mexico Water), Washington Water Service Company (Washington Water), Hawaii Water Service Company, Inc. (Hawaii Water), and CWS Utility Services and HWS Utility Services LLC (CWS Utility Services and HWS Utility Services LLC being referred to collectively in this annual report as Utility Services). Cal Water, New Mexico Water, Washington Water, and Hawaii Water are regulated public utilities. The regulated utility entities also provide some non-regulated services. Utility Services holds non-utility property and provides non-regulated services to private companies and municipalities outside of California. Cal Water was the original operating company and began operations in 1926.

Our business is conducted through our operating subsidiaries and we provide utility services to approximately two million people. The bulk of the business consists of the production, purchase, storage, treatment, testing, distribution and sale of water for domestic, industrial, public and irrigation uses, and for fire protection. In some areas, we provide wastewater collections and treatment services, including treatment which allows water recycling. We also provide non-regulated water-related services under agreements with municipalities and other private companies. The non-regulated services include full water system operation, billing and meter reading services. Non-regulated operations also include the lease of communication antenna sites, lab services and promotion of other non-regulated services.

During the year ended December 31, 2019, there were no significant changes in the kind of products produced or services rendered by our operating subsidiaries, or in the markets or methods of distribution.

Our mailing address and contact information is:

California Water Service Group  
 1720 North First Street  
 San Jose, California 95112-4598  
 telephone number: 408-367-8200  
[www.calwatergroup.com](http://www.calwatergroup.com)

Annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports are available free of charge through our website at [www.calwatergroup.com](http://www.calwatergroup.com). The reports are available on our website as soon as reasonably practicable after such reports are filed with the SEC.

The content on any website referred to in this annual report is not incorporated by reference in this annual report unless expressly noted.

## **Regulated Business**

California water operations are conducted by Cal Water, which provides service to approximately 489,600 customer connections in approximately 100 California communities through 21 separate districts, which are subject to regulation by the California Public Utilities Commission (CPUC). Cal Water operates two leased water systems, the City of Hawthorne and the City of Commerce, which are governed through their respective city councils and are outside of the CPUC's jurisdiction. California water operations accounted for approximately 94.0% of our total customer connections and 93.8% of our total consolidated operating revenue.

Hawaii Water provides service to approximately 5,000 water and wastewater customer connections on the islands of Maui and Hawaii, including several large resorts and condominium complexes. Hawaii Water's regulated customer connections are subject to the jurisdiction of the Hawaii Public Utilities Commission (HPUC). Hawaii Water accounts for 1.0% of our total customer connections and approximately 3.8% of our total consolidated operating revenue.

Washington Water provides domestic water service to approximately 17,700 customer connections in the Tacoma and Olympia areas. Washington Water's utility operations are regulated by the Washington Utilities and Transportation Commission. Washington Water accounts for approximately 3.4% of our total customer connections and approximately 1.8% of our total consolidated operating revenue.

New Mexico Water provides service to approximately 8,300 water and wastewater customer connections in the Belen, Los Lunas, Indian Hills, and Elephant Butte areas in New Mexico. New Mexico's regulated operations are subject to the jurisdiction of the New Mexico Public Regulation Commission. New Mexico Water accounts for approximately 1.6% of our total customer connections and 0.6% of our total consolidated operating revenue.

The state regulatory bodies governing our regulated operations are referred to as the Commissions in this annual report. Rates and operations for regulated customers are subject to the jurisdiction of the respective state's regulatory Commission. The Commissions require that water and wastewater rates for each regulated district be independently determined based on the cost of service, except in Washington, which has a statewide tariff. The Commissions are expected to authorize rates sufficient to recover normal operating expenses and allow the utility to earn a fair and reasonable return on invested capital.

We distribute and treat water and treat wastewater in accordance with accepted water utility methods. Where applicable, we hold franchises and permits in the cities and communities where we operate. The franchises and permits allow us to operate and maintain facilities in public streets and right-of-ways as necessary.

We operate the City of Hawthorne and the City of Commerce water systems under lease agreements. In accordance with the lease agreements, we receive all revenues from operating the systems and are responsible for paying the operating costs. The City of Hawthorne and the City of Commerce lease revenues are governed through their respective city councils and are considered non-regulated because they are outside of the CPUC's jurisdiction. We report revenue and expenses for the City of Hawthorne and City of Commerce leases in operating revenue and operating

expenses because we are entitled to retain all customer billings and are responsible for all operating expenses. These leases are considered “nontariffed products and services” (NTPS) by the CPUC and require a 10% revenue sharing with regulated customers.

In October of 2011, an agreement was negotiated with the City of Hawthorne to lease and operate its water system. The system, which is located near the Hermosa Redondo district, serves about half of Hawthorne’s population. The capital lease agreement required an up-front \$8.1 million lease deposit to the city that is being amortized over the lease term. Additionally, annual lease payments will be adjusted based on changes in rates charged to customers. Under the lease, we are responsible for all aspects of system operation and capital improvements, although title to the system and system improvements reside with the city. Capital improvements are recorded as depreciable plant and equipment and depreciated per the asset lives set forth in the agreement. In exchange, we receive all revenue from the water system, which was \$9.5 million, \$10.1 million and \$10.0 million in 2019, 2018, and 2017, respectively. At the end of the lease, the city is required to reimburse us for the unamortized value of capital improvements made during the term of the lease. The City of Hawthorne capital lease is a 15-year lease and expires in 2026.

In April of 2018, a renewal agreement was negotiated with the City of Commerce for us to continue to lease and to operate its water system for 15 years. Under the agreement, the operating lease requires us to pay \$0.8 million per year in monthly installments. We have operated the City of Commerce water system since 1985 and are responsible for all operations, maintenance, water quality assurance, customer service programs, and financing capital improvements to provide a reliable supply of water that meets federal and state standards to customers served by the City of Commerce system. The City of Commerce will retain title to the system and system improvements and remain responsible for setting its customers’ water rates. We bear the risks of operation and collection of amounts billed to customers. In exchange, we receive all revenue from the water system, which was \$2.9 million, \$3.0 million, and \$3.4 million in 2019, 2018, and 2017, respectively. The agreement allows us to request a rate change annually in order to recover costs.

### **Non-Regulated Activities**

Fees for non-regulated activities are based on contracts negotiated between the parties. Under our non-regulated contract arrangements, we operate municipally owned water systems, privately owned water and recycled water distribution systems, but are not responsible for all operating costs. Non-regulated revenue received from water system operations is generally determined on a fee-per-customer basis.

Non-regulated revenue and expenses consist primarily of the operation of water systems that are owned by other entities under lease agreements, leasing of communication antenna sites on our properties, billing of optional third-party insurance programs to our residential customers, and unrealized gains or losses on benefit plan investments.

Effective June 30, 2011, the CPUC adopted new rules related to the provision of non-regulated services using utility assets and employees. As a result, nearly all California non-regulated activities are now considered NTPS. The prescribed accounting for these NTPS is incremental cost allocation plus revenue sharing with regulated customers. Non-regulated services determined to be “active activities” require a 10% revenue sharing, and “passive activities” require a 30% revenue sharing. The amount of non-regulated revenues subject to revenue sharing is the total billed revenues less any authorized pass-through costs. Some examples of CPUC authorized pass-through costs are purchased water, purchased power, and pump taxes. All of our non-regulated services, except for leasing communication antenna sites on our properties, are “active activities” subject to a 10% revenue sharing. Leasing communication antenna sites on our properties are “passive activities” subject to a 30% revenue sharing. Cal Water’s annual revenue sharing with regulated customers was \$2.7 million, \$2.6 million, and \$2.2 million in 2019, 2018, and 2017, respectively.

**Operating Segment**

We operate in one reportable segment, the supply and distribution of water and providing water-related utility services. For information about revenue from external customers, net income and total assets, see “Item 8. Financial Statements and Supplementary Data.”

**Growth**

We intend to continue exploring opportunities to expand our regulated and non-regulated water and wastewater activities, particularly in the western United States. The opportunities could include system acquisitions, lease arrangements similar to the City of Hawthorne and City of Commerce contracts, full service system operation and maintenance agreements, meter reading, billing contracts and other utility-related services.



## Geographical Service Areas and Number of Customer Connections at Year-end

Our principal markets are users of water within our service areas. The approximate number of customer connections served in each regulated district, the City of Hawthorne and the City of Commerce, at December 31 is as follows:

| <b>(rounded to the nearest hundred)</b>  | <b>2019</b>           | <b>2018</b>           |
|--|-----------------------|-----------------------|
| <b>SAN FRANCISCO BAY AREA/NORTH COAST</b>  |                       |                       |
| Bay Area Region (serving South San Francisco, Colma, Broadmoor, San Mateo, San Carlos, Lucerne, Duncans Mills, Guerneville, Dillon Beach, Noel Heights and portions of Santa Rosa) . . . . . | 55,900                | 55,800                |
| Bear Gulch (serving portions of Menlo Park, Atherton, Woodside and Portola Valley) . . . . .   | 18,900                | 18,900                |
| Los Altos (including portions of Cupertino, Los Altos Hills, Mountain View and Sunnyvale) . . . . .  | 19,000                | 19,000                |
| Livermore . . . . .  | 18,900                | 18,800                |
|  | <u>112,700</u>        | <u>112,500</u>        |
| <b>SACRAMENTO VALLEY</b>   |                       |                       |
| Chico (including Hamilton City) . . . . .  | 30,500                | 30,100                |
| Oroville . . . . .   | 3,600                 | 3,600                 |
| Marysville . . . . .   | 3,800                 | 3,800                 |
| Dixon . . . . .  | 3,000                 | 3,000                 |
| Willows . . . . .  | 2,400                 | 2,400                 |
|  | <u>43,300</u>         | <u>42,900</u>         |
| <b>SALINAS VALLEY</b>  |                       |                       |
| Monterey Region (including Salinas and King City) . . . . .  | 31,500                | 31,400                |
|  | <u>31,500</u>         | <u>31,400</u>         |
| <b>SAN JOAQUIN VALLEY</b>  |                       |                       |
| Bakersfield . . . . .  | 72,700                | 71,900                |
| Stockton . . . . .   | 44,400                | 44,200                |
| Visalia . . . . .  | 46,000                | 45,300                |
| Selma . . . . .  | 6,500                 | 6,500                 |
| Kern River Valley . . . . .  | 4,000                 | 3,900                 |
|  | <u>173,600</u>        | <u>171,800</u>        |
| <b>LOS ANGELES AREA</b>  |                       |                       |
| East Los Angeles . . . . .   | 26,800                | 26,800                |
| Hermosa Redondo (serving Hermosa Beach, Redondo Beach and a portion of Torrance) . . . . .   | 27,100                | 27,000                |
| Dominguez (Carson and portions of Compton, Harbor City, Long Beach, Los Angeles and Torrance) . . . . .  | 34,200                | 34,200                |
| Los Angeles County Region (including Palos Verdes Estates, Rancho Palos Verdes, Rolling Hills Estates, Rolling Hills, Fremont Valley, Lake Hughes, Lancaster and Leona Valley) . . . . .     | 25,700                | 25,600                |
| Westlake (a portion of Thousand Oaks) . . . . .  | 7,100                 | 7,100                 |
| Hawthorne and Commerce (leased municipal systems) . . . . .  | 7,600                 | 7,600                 |
|  | <u>128,500</u>        | <u>128,300</u>        |
| <b>CALIFORNIA TOTAL</b> . . . . .  | <b>489,600</b>        | <b>486,900</b>        |
| <b>HAWAII</b> . . . . .  | <b>5,000</b>          | <b>4,800</b>          |
| <b>NEW MEXICO</b> . . . . .  | <b>8,300</b>          | <b>8,200</b>          |
| <b>WASHINGTON</b> . . . . .  | <b>17,700</b>         | <b>17,600</b>         |
| <b>COMPANY TOTAL</b> . . . . .   | <b><u>520,600</u></b> | <b><u>517,500</u></b> |

## Rates and Regulation

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

The CPUC follows a rate case plan which requires Cal Water to file a GRC for each of its 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. The CPUC is generally required to issue its GRC decision prior to the first day of the test year or authorize interim rates. In accordance with the rate case plan, Cal Water filed its most recent GRC application in July of 2018 requesting rate changes effective January 1, 2020. As discussed in greater detail below, Cal Water's 2018 GRC decision has been delayed and Cal Water has been granted interim rate relief beginning January 1, 2020.

Between GRC filings, Cal Water may file escalation rate increases, which allow Cal Water to recover cost increases, primarily from inflation and incremental investments, during the second and third years of the rate case cycle. However, escalation rate increases are district specific and subject to an earnings test. The CPUC may reduce a district's escalation rate increase if, in the most recent 13-month period, the earnings test reflects earnings in excess of what was authorized for that district.

In addition, California water utilities are entitled to make offset requests via advice letter. Offsets may be requested to adjust revenues for construction projects authorized in GRCs when those capital projects go into service (these filings are referred to as "rate base offsets"), or for rate changes charged to Cal Water for purchased water, purchased power, and pump taxes (which are referred to as "expense offsets"). Rate changes approved in offset requests remain in effect until the next GRC is approved.

In pursuit of the State of California's water conservation goals, the CPUC decoupled Cal Water's revenue requirement from customer consumption levels in 2008 by authorizing a Water Revenue Adjustment Mechanism (WRAM) and Modified Cost Balancing Account (MCBA) for each district. The WRAM and MCBA ensure that Cal Water recovers revenues authorized by the CPUC regardless of customer consumption. This has removed the historical disincentive against promoting lower water usage among customers. Through an annual advice letter filing, Cal Water recovers any under-collected metered revenue amounts authorized, or refunds over-collected quantity revenues, via surcharges and surcredits. The advice letters are filed between February and April of each year and address the net WRAM and MCBA balances recorded for the previous calendar year. The majority of WRAM and MCBA balances are collected or refunded through surcharges/surcredits over 12 and 18 months. The WRAM and MCBA amounts are cumulative, so if they are not amortized in a given calendar year, the balance is carried forward and included with the following year balance. Cal Water has had a Sales Reconciliation Mechanism (SRM) in place for 2018 and 2019 (the second and third years of its 2015 GRC) that had allowed the company to adjust its adopted sales forecast if actual sales vary from adopted sales by more than 5.0% in the prior year. The SRM moderates the growth of the net WRAM and MCBA balances until the next GRC.

## **Regulatory Activity—California**

### 2015 GRC Filing

On December 15, 2016, the CPUC voted to approve Cal Water's 2015 GRC settlement agreement. The approved decision, which was proposed by the presiding Administrative Law Judge in November of 2016, authorized Cal Water to increase gross revenue by approximately \$45.0 million starting on January 1, 2017, up to \$17.2 million in 2018, up to \$16.3 million in 2019, and up to \$30.0 million upon completion and approval of the Company's advice letter projects. The 2018 and 2019 revenue increases were subject to the CPUC's earning test protocol.

The CPUC's decision also authorized Cal Water to invest \$658.8 million in water system improvements throughout California over the three-year period of 2016-2018 in order to continue to provide safe and reliable water to its customers. This figure included \$197.3 million of water system infrastructure improvements that was subject to the CPUC's advice letter procedure.

### 2018 GRC Filing

On July 2, 2018, Cal Water filed a GRC requesting new water infrastructure investments of \$828.5 million in accordance with the rate case plan for all of its regulated operating districts for the years 2019, 2020, and 2021. The CPUC will evaluate the new water infrastructure improvement investments along with operating budgets to establish water rates that reflect the actual cost of service. The required filing began an approximately 18-month review process, with any changes in customer rates scheduled to become effective on January 1, 2020.

On October 8, 2019, Cal Water jointly filed a formal settlement agreement for its 2018 GRC with the Public Advocates Office of the CPUC covering the majority of open matters in the case. The following issues are being litigated and were not included in the settlement: continuation of the WRAM and SRM, balancing accounts for pension and health care expenses, depreciation rates, working capital, allowance for funds used during construction (AFUDC), and capital projects related to advanced metering. We can give no assurance that these litigated issues will be decided in our favor. The largest component of the GRC is Cal Water's Infrastructure Improvement Plan for 2019-2021. The settlement details investment plans that Cal Water and the Public Advocates Office agree should be made to Cal Water's water infrastructure to continue providing safe, reliable water service to Cal Water customers and communities. The CPUC will consider, but is not required to adopt, the settlement agreement. If the CPUC approves the settlement agreement, Cal Water would be authorized to include in rates \$609.0 million to \$628.0 million of new projects throughout the state in 2019 to 2021, along with approximately \$200.0 million for completion of additional projects begun in 2018 and prior periods. Included in these figures are \$148.0 million of advice letter authorizations, which would not be included in rates until related projects are completed. Cal Water anticipates that if the settlement were adopted, it would plan to make capital investments of approximately \$809.0 million to \$828.0 million in the 2019-2021 period. The settlement proposes, in part, an average water main replacement rate of 0.76% annually company-wide by 2021, with higher replacement rates in some areas. A final decision on the case had been expected in late 2019, with new rates going into effect on January 1, 2020. If the settlement is not approved or is approved on terms less favorable to us, or the litigated issues described above are not decided in our favor, this could have a material adverse impact on our revenue, operating results and earnings per share. Even if the settlement is approved on its terms, but the case is materially delayed, it could have a material adverse impact on our revenue, operating results, and earnings per share on an interim basis but would be reversed at the time of a final decision through recognition of interim rate recovery.

The assigned Administrative Law Judge granted Cal Water's request that final approved rates be treated as effective on January 1, 2020 in the event a delay in the final decision were to preclude

implementation of new rates on January 1, 2020. On December 19, 2019, the CPUC extended its statutory deadline to complete the proceeding by six months, to July 1, 2020. On December 31, 2019, Cal Water requested a memorandum account that was approved by the CPUC to record the difference between the current rates that would continue to be billed starting January 1, 2020 (considered to be interim rates), and the rates that will eventually be approved in the case (final rates). After a GRC decision is adopted and final rates are implemented, the balance in the memorandum account will be reviewed, and customer bills will be adjusted to account for the difference between interim rates and final rates back to January 1, 2020. If the litigated issues described above are not resolved during the first quarter of 2020, then the delay in the resolution could significantly impact operating results for the first quarter of 2020.

#### City of Hawthorne GRC filing

Cal Water operates the City of Hawthorne's water system under a lease agreement that was originally entered into on August 9, 2011. As part of the agreement, Cal Water can request rate increases but requires city council approval for any rate request to take effect. Cal Water has not increased rates since 2017 and Cal Water has seen significant increases in costs since then. Cal Water requested rate increases of 11.7% in 2020, 11.6% in 2021, and 11.6% in 2022. On August 27, 2019, the rate increases were approved via resolution 8123. The first rate increase became effective on January 1, 2020.

#### 2017 Cost of Capital Application

In April of 2017, Cal Water, along with three other water utilities, filed an application to adopt a new cost of capital and capital structure for 2018. On March 22, 2018, the CPUC adopted a revised decision in the cost of capital proceeding for Cal Water and three other water utilities for the years 2018, 2019, and 2020, establishing for Cal Water a 9.20% return on equity and a 5.51% cost of debt, with a capital structure of 46.60% long-term debt and 53.40% common equity, and an authorized return on rate base of 7.48%, compared with Cal Water's prior return on equity of 9.43%, cost of debt of 6.24%, and authorized return on rate base of 7.94%. The adopted capital structure did not change. The adopted returns on debt and equity reduced Cal Water's 2018 adopted revenue by approximately \$6.9 million. The CPUC also authorized continuation of the water cost of capital adjustment mechanism, which provides for an adjustment in the return on equity if the cost of long-term debt as defined by an index of utility debt rates varies from the most recent index by 100 basis points or more in 2019 and 2020.

On March 30, 2018, Cal Water submitted an advice letter that established the Cost of Capital Memorandum Account (CoC MA) to track the difference between current rates and rates based upon the new cost of capital adopted by the CPUC as if the new cost of capital had been in effect beginning January 1, 2018.

In May of 2018, Cal Water submitted an advice letter to adopt the new cost of capital and capital structure for 2018 in customer rates. The annual adopted gross revenue reduction associated with the May 2018 filing was \$6.9 million. The new rates became effective on July 1, 2018.

In 2018, Cal Water recorded a \$3.0 million regulatory liability due to the CoC MA. The regulatory liability was for the revenue reduction that Cal Water recorded for the first six months of 2018 during which the new cost of capital and capital structure were yet to be adopted in customer rates. In April of 2019, Cal Water submitted an advice letter to refund the full balance of the cost of capital memorandum account of \$3.0 million. The new rates became effective April 15, 2019.

### 2020 Cost of Capital Application

By order of the CPUC in its rate case plan for water utilities, Cal Water and three other large water companies are required to request a review of their cost of capital for 2021 through 2023 by May 1, 2020. On January 22, 2020, Cal Water and the three other scheduled companies requested that the CPUC allow a one-year extension to file their Cost of Capital applications by May 1, 2021, rather than May 1, 2020. As part of the request, the companies proposed that there be no changes to their respective costs of capital during the one-year extension. This condition mirrors the condition included in the CPUC's previous approvals of the water companies' requests for cost of capital extensions. The companies indicated that postponing the filing one year will alleviate administrative processing costs and provide relief for both CPUC and company resources already strained by numerous CPUC proceedings. As of February 27, 2020, there has been no response or order from the CPUC in response to the request.

### 2018 Tax Accounting Memorandum Account (TAMA)

On December 22, 2017, the CPUC sent a letter to All Class A and B Water and Sewer Utilities on the subject of "Changes in Federal Tax Rates for 2018." The CPUC required Cal Water to establish a memorandum account to track the impact of the TCJA on Cal Water. The TAMA will track the revenue requirement impact of the TCJA not otherwise reflected in rates from January 1, 2018 until current rates are modified to reflect all impacts of the TCJA. The Hawaii Water, Washington Water, and New Mexico Water Commissions have similar requirements to track the impact of the changes to the federal tax law. In 2018, the Company recorded a \$5.4 million regulatory liability due to the changes required by the TCJA. The regulatory liability was for the revenue reduction that the Company recorded for the first six months of 2018 during which the new federal corporate income tax rate was yet to be adopted in customer rates.

In May of 2018, Cal Water submitted an advice letter to adopt the new federal corporate income tax rate in customer rates. The annual adopted gross revenue reduction associated with the May 2018 filing was \$11.1 million. The new rates became effective on July 1, 2018.

In April of 2019, Cal Water submitted an advice letter to refund \$5.0 million of the tax accounting memorandum account's balance associated with the decrease in the federal corporate income tax rate for Cal Water for the first six months of 2018. The new rates became effective April 15, 2019. The memorandum account remains open to allow the Commissions to review other changes to Cal Water's revenue requirements such as property taxes and excess deferred income taxes.

### Escalation Increase Requests

As a part of the decision on the 2015 GRC, Cal Water was authorized to request annual escalation rate increases for 2018 and 2019 for those districts that passed the earnings test. In November of 2018, Cal Water requested escalation rate increases for 2019 in all of its regulated districts. The annual adopted gross revenue associated with the November 2018 filing was \$16.2 million. The new rates became effective on January 1, 2019.

### Expense Offset Requests

Expense offsets are dollar-for-dollar increases in revenue to match increased expenses, and therefore do not affect net operating income. In November of 2018, Cal Water submitted advice letters to request offsets for increases in purchased water costs in five of its regulated districts totaling \$2.0 million. The new rates became effective on January 1, 2019.

In June and July of 2019, Cal Water submitted advice letters to request offsets for increases in purchased water costs and pump taxes in five of its regulated districts totaling \$3.9 million. The new rates became effective on July 15, 2019.

In December of 2019, Cal Water submitted advice letters to request offsets for increases in purchased water costs in six of its regulated districts totaling \$2.5 million. The new rates became effective on February 1, 2020.

#### Rate Base Offset Requests

For construction projects authorized in GRCs as advice letter projects, Cal Water is allowed to request rate base offsets to increase revenues after the project goes into service. In November of 2018, Cal Water submitted advice letters to recover \$0.2 million of annual revenue increases for rate base offsets in four of its regulated districts. The new rates became effective on April 15, 2019.

In August of 2019, Cal Water submitted an advice letter to recover \$0.4 million of annual revenue increase for a rate base offset in one of its regulated districts. The new rates became effective on November 1, 2019.

In the fourth quarter of 2019, Cal Water submitted advice letters to recover \$2.5 million of annual revenue increases for rate base offsets in all of its regulated districts. The new rates became effective on February 1, 2020.

#### WRAM/MCBA Filings

In April of 2019, Cal Water submitted an advice letter to true up the revenue under-collections for the 2018 annual WRAMs/MCBAs of its regulated districts. A net under-collection of \$29.2 million is being recovered from customers in the form of 12, 18, and greater-than-18-month surcharges and 12 month surcredits. The new rates became effective on April 15, 2019. These surcharges/surcredits are in addition to surcharges/surcredits authorized in prior years which have not yet expired.

#### Public Safety Power Shut-off Memorandum Account (PSPS MA)

The recent wildfires in California have focused regulatory efforts to reduce the incidence and severity of these types of devastating events. The increased number of wildfire events are due to a number of factors such as extended drought, climate changes including warmer summer temperatures, increased fuel for fires, and other extreme weather events. In addition, energized power lines can exacerbate wildfire conditions. These lines carry the potential to start or worsen an existing wildfire. Given this, the CPUC has been examining issues related to wildfires and other emergencies in several proceedings. One of the proceedings, Rulemaking 18-12-005, is focused on proactively shutting off electric power in order to protect public safety through the PSPS program, or de-energization. During a PSPS event, power will be cut off to electric lines that may fail in certain weather conditions in order to reduce the likelihood that electric utility infrastructure could cause or contribute to a wildfire.

The CPUC's rulemaking is divided into two phases. In Phase 1, the CPUC examined and adopted PSPS guidelines, focusing primarily on notification, communication and outreach. In Phase 2, the CPUC will address issues that were outside of the scope of Phase 1 and will revisit some Phase 1 issues for further refinement. In Phase 2, which has been divided into two tracks, the CPUC will take a more comprehensive look at de-energization practices, including mitigation, additional coordination across agencies, further refinements to findings in Phase 1, re-energization practices, and other matters. The first track will cover issues that may need to be addressed to inform PSPS events as soon as possible. The second track will cover issues that require an in depth analysis.

Electric utilities are expected to declare PSPS events during periods of high fire danger and where there is specific risk of electrical facilities causing a fire. As a public safety partner, Cal Water receives priority notification of such events. According to communications with Cal Water's main electric providers, Southern California Edison and Pacific Gas and Electric, PPS events may last up to 5 days which could significantly impact facilities within Cal Water's water systems. Additionally, power loss events can occur in major earthquakes, non-electric utility caused wildfires, tsunami, or other natural and man-made disasters. Cal Water must be ready and equipped to maintain water service to the extent possible during these events. In response, Cal Water has performed a draft risk assessment which outlines recommended improvements necessary to prepare its water systems for power loss events. The PPS program requires either an increase in backup power generation or the development of an alternate means of providing reliable supply within Cal Water's water distribution systems. Depending upon the course of action, this can increase the need for generator fuel commensurate with the expected duration of power shutoffs. In most cases where a generator was not already installed, Cal Water leased generators for the most critical facilities to prepare for the 2019 wildfire season, in anticipation of installing more permanent facilities in the long term. There was also a necessary increase in generator and electrical equipment maintenance activities to improve reliability of the auxiliary power sources for a power loss event. To this end, Cal Water requested a memorandum account from the CPUC to track the incremental costs associated with the preparation and installation of facilities to address public safety needs in the event of power losses. For 2019, the PPS MA incremental costs were \$1.6 million of which \$0.1 million was spent on capital.

#### *Drought Memorandum Account*

In March of 2018, Cal Water submitted an advice letter to request recovery of 2016 and 2017 incremental drought expenses of \$3.3 million. On January 10, 2019, the CPUC approved Cal Water's request for recovery of the \$3.3 million of incremental expenses; subsequently, Cal Water submitted an advice letter on January 15, 2019 to implement a surcharge to recover the incremental expenses from customers. The new rates became effective on April 15, 2019.

#### *Travis Air Force Base (TAFB)*

On September 29, 2016, Cal Water entered into a 50-year agreement with the U.S. Department of Defense to acquire the water distribution assets of and distribute water to most of TAFB beginning in 2018. On May 31, 2017, Cal Water submitted an application to the CPUC seeking approval to distribute water service to most of the base and to establish rates for its service. On December 13, 2018, the CPUC conditionally approved Cal Water's request to own and operate the TAFB water system as a regulated water utility district. The decision enables Cal Water to acquire the water distribution assets of TAFB from the U.S. Department of Defense and provide water utility service to the base for a term of 50 years. Approval was conditioned upon modifying the contract between Cal Water and the Department of Defense to more clearly assert the CPUC's jurisdiction over a new Travis District. On January 17, 2019, Cal Water fulfilled the condition with the submission of a contract amendment that was approved by the CPUC.

On January 18, 2019, the Public Advocates Office filed an application for rehearing of the decision approving Cal Water's application, and a motion to stay the decision pending resolution of the rehearing application. Cal Water submitted responses opposing both filings. The CPUC has not ruled on either the application for rehearing or the motion to stay the decision.

In the meantime, subject to the terms of the contract with the Department of Defense and the CPUC decision, Cal Water began serving TAFB's more than 15,000 active and reserve personnel and civilians on July 1, 2019. The rates for TAFB are scheduled to be updated in 2020 with the CPUC's resolution of the 2018 GRC.

### 1,2,3 Trichloropropane (TCP) Memorandum Account

Established in December 2009, the TCP memorandum account tracks the costs incurred and proceeds received and applied with respect to litigation against manufacturers and distributors referred to as potentially responsible parties (PRPs) that manufactured and distributed products that contained TCP in California. Cal Water incurred incremental internal and external costs to support its litigation effort. The TCP memorandum account also tracks litigation awards and settlement proceeds. Finally, the TCP memorandum account will track the application of funds received towards remediation costs, including TCP water treatment expenses and the costs of investments in replacement and treatment property.

On December 20, 2017, Cal Water entered into an \$85.0 million settlement agreement and release of claims with the PRPs, in *California Water Service Company and City of Bakersfield v. The Dow Chemical Company, et al., Civil Case No. CIV-470999* (TCP Action). The TCP Action seeks damages and other relief related to the PRPs' alleged contamination of drinking water supply and water wells with the chemical TCP.

The proceeds from the settlement, after payment of the legal fees, was \$56.0 million and will be used to reimburse a portion of the capital costs associated with Cal Water's remediation efforts related to such alleged TCP contamination. As of December 31, 2019, Cal Water has used \$47.6 million of the proceeds on remediation efforts related to the alleged TCP contamination. Under the terms of the Agreement, the PRPs are released from all claims regarding 47 of the 57 total claimed wells, and Cal Water agrees to file a dismissal with prejudice of the TCP Action. The PRPs are also released from future claims regarding TCP contamination of any other wells, unless and until Cal Water has installed granular activated carbon filtration systems or other then-approved State treatment technology for TCP on, or replaced, 36 wells due to TCP contamination.

### Lead Service Line Memorandum Account (LSL MA)

On September 27, 2016, the Governor signed Senate Bill No. 1398 (SB 1398) which added Section 116885 to the Health and Safety Code. The new section stipulates that water systems compile an inventory of known lead service lines used in their distribution systems and identify areas that may have lead service lines used in its distribution system by July 1, 2018. After completing the inventory, the bill also requires water systems provide a timeline for replacement of those known lead service lines to the State Water Resources Control Board (SWRCB). For those that may have lead service lines, the bill requires water systems to either determine the existence or absence thereof by July 1, 2020, and provide that information to the SWRCB or provide a replacement timeline for those service lines whose lead content cannot be determined. Approval of the timeline rests with the SWRCB. Cal Water met the July 1, 2018 reporting deadline where it described 52% of its service lines were identified as not containing lead and the remaining 48% unknown. In order to meet the July 1, 2020 deadline, Cal Water needs to determine if the remaining 48% of service lines contain lead. If the absence of lead cannot be determined, plans must be made to replace the line pursuant to the requirements in SB 1398. A significant amount of field research is needed to meet the 2020 reporting deadline. To that end, in December of 2018, Cal Water submitted an advice letter that established the LSL MA, which gives Cal Water the opportunity to recover costs associated with this effort. Granted by the CPUC in January of 2019, the LSL MA will track all incremental expenses associated with studying and potentially replacing lead service lines for the benefit of Cal Water's customers. As of December 31, 2019, Cal Water has tracked \$0.5 million of expenses for this memorandum account.



## **Regulatory Activity—Other States**

### 2019 Kona (Hawaii Water) GRC Filing

In February of 2019, Hawaii Water filed a GRC application requesting an additional \$0.6 million in annual revenues for its Kona Water and Wastewater systems with the Hawaii Public Utilities Commission. The GRC seeks recovery of capital investments in the Kona water and wastewater systems as well as increases in operational expenses since the previous rate case. If approved, the Company anticipates rates would become effective in the first quarter of 2020.

### 2017 Waikoloa (Hawaii Water) GRC Filings

In December of 2017, Hawaii Water filed GRC applications requesting an additional \$3.8 million in annual revenues for its Waikoloa Village and Resort Systems with the Hawaii Public Utilities Commission. The GRCs seek recovery of capital investments in the Waikoloa Village and Waikoloa Resort Systems as well as increases in operating expenses since the previous rate case. On January 1, 2019, the HPUC authorized Waikoloa Village rate increases of \$0.8 million for 2019 and \$0.1 million for 2020. On January 7, 2019, the HPUC authorized Waikoloa Resort rate increases of \$0.8 million for 2019, \$0.8 million for 2020, and \$0.1 million for 2021.

### Kalaeloa Water Company (Hawaii Water)

In March of 2019, Hawaii Water and Hunt Kalaeloa Water LLC entered into a Membership Interest Purchase Agreement to acquire water and wastewater assets. The Kalaeloa service area is located on the Island of Oahu on the former Barbers Point Naval Air Station. On July 3, 2019, the parties submitted a change of control application to the Hawaii Public Utilities Commission requesting approval for the purchase. If approved, Hawaii Water would be authorized to provide water and wastewater service in the Kalaeloa service area.

### Kapalua Water Company, LTD and Kapalua Waste Treatment Company, LTD. (Hawaii Water)

In December of 2019, Hawaii Water and Maui Land and Pineapple Company, Inc. entered into an asset purchase agreement to acquire water and wastewater assets. The Kapalua service area is on the Island of Maui. The transaction is subject to certain conditions including due diligence and approval by the Hawaii Public Utilities Commission.

### Rainier View Water Company (Washington Water)

On November 6, 2019, Washington Water entered into an agreement with Rainier View Water Company to acquire its water system assets and to provide water utility service to its 18,000 service connections, subject to certain closing conditions including completion of diligence and Washington Utilities and Transportation Commission (WUTC) approval. On February 6, 2020, the companies jointly filed a change of control application with the WUTC.

Rainier View Water Company owns and operates 27 water systems that serve about 35,000 people in parts of Graham, Spanaway, Puyallup, Gig Harbor, and other nearby areas. Washington Water plans to retain Rainier View Water Company's current employees and continue to provide its customers with a reliable supply of safe, high-quality water.

## **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.

Historically, approximately half of our annual water supply is pumped from wells. State groundwater management agencies operate differently in each state. Some of our wells extract ground water from water basins under state ordinances. These are adjudicated groundwater basins, in which a court has settled the dispute between landowners or other parties over how much annual groundwater can be extracted by each party. All of our adjudicated groundwater basins are located in the State of California. Our annual groundwater extraction from adjudicated groundwater basins approximates 6.4 billion gallons or 13.5% of our total annual water supply pumped from wells. Historically, we have extracted less than 100% of our annual adjudicated groundwater rights and have the right to carry forward up to 20% of the unused amount to the next annual period. All of our remaining wells extract ground water from managed or unmanaged water basins. There are no set limits for the ground water extracted from these water basins. Our annual groundwater extraction from managed groundwater basins approximates 28.1 billion gallons or 59.2% of our total annual water supply pumped from wells. Our annual groundwater extraction from unmanaged groundwater basins approximates 12.9 billion gallons or 27.3% of our total annual water supply pumped from wells. Most of the managed groundwater basins we extract water from have groundwater recharge facilities. We are required to pay well pump taxes to financially support these groundwater recharge facilities. Our well pump taxes for 2019, 2018, and 2017 were \$11.5 million, \$14.7 million, and \$13.9 million, respectively. In 2014, the State of California enacted the Sustainable Groundwater Management Act of 2014. The law and its implementing regulations require most basins to select a sustainability agency by 2017, develop a sustainability plan by 2022, and show progress toward sustainability by 2027. We expect that after the act's provisions are fully implemented, substantially all the Company's California groundwater will be produced from sustainably managed and adjudicated basins.

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 in California replenish underground water aquifers and fill reservoirs, providing the water supply for subsequent delivery to customers. As of December 31, 2019, the State of California snowpack water content during the 2019-2020 water year is 81% of long-term averages (per the California Department of Water Resources, Northern Sierra Precipitation Accumulation report). The northern Sierra region is the most important for the state's urban water supplies. The central and southern portions of the Sierras have recorded 94% and 109%, respectively, of long-term averages. Management believes that supply pumped from underground aquifers and purchased from wholesale suppliers will be adequate to meet customer demand during 2020 and beyond. 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.

On May 31, 2018, California's Governor Brown signed two bills (Assembly Bill 1668 and Senate Bill 606) into law that will establish long-term standards for water use efficiency. The bills revise and expand the existing urban water management plan requirements to include five year drought risk assessments, water shortage contingency plans, and annual water supply/demand assessments. By June 30, 2022, the California State Water Resources Control Board, in conjunction with the California Department of Water Resources, will establish long-term water use standards for indoor residential use, outdoor residential use, water losses and other uses. Cal Water will also be required

to calculate and report on urban water use target by November 1, 2023 and each November 1 thereafter that compares actual urban water use to the target. Management believes that Cal Water is well-positioned to comply with all regulations required of utilities.

The following table shows the estimated quantity of water purchased and the percentage of purchased water to total water production in each California operating district that purchased water in 2019. Other than noted below, all other districts receive 100% of their water supply from wells.

| <b>District</b>                            | <b>Water Purchased (MG)</b> | <b>Percentage of Total Water Production</b> | <b>Source of Purchased Supply</b>   |
|--|-----------------------------|---|---|
| <b>SAN FRANCISCO BAY AREA/ NORTH COAST</b> |                             |   |   |
| Bay Area Region* . . . . .                 | 6,896                       | 99%   | San Francisco Public Utilities Commission and Yolo County Flood Control & Water Conservation District |
| Bear Gulch . . . . .                       | 3,562                       | 93%   | San Francisco Public Utilities Commission   |
| Los Altos . . . . .                        | 3,135                       | 80%   | Santa Clara Valley Water District   |
| Livermore . . . . .                        | 2,689                       | 89%   | Alameda County Flood Control and Water Conservation District, Zone 7                                  |
| <b>SACRAMENTO VALLEY</b>                   |                             |   |   |
| Oroville . . . . .                         | 710                         | 94%   | Pacific Gas and Electric Co. and County of Butte  |
| <b>SAN JOAQUIN VALLEY</b>                  |                             |   |   |
| Bakersfield . . . . .                      | 10,539                      | 54%   | Kern County Water Agency and City of Bakersfield  |
| Stockton . . . . .                         | 7,321                       | 96%   | Stockton East Water District  |
| <b>LOS ANGELES AREA</b>                    |                             |   |   |
| East Los Angeles . . . . .                 | 1,495                       | 33%   | Central Basin Municipal Water District  |
| Dominguez . . . . .                        | 9,411                       | 84%   | West Basin Municipal Water District and City of Torrance  |
| City of Commerce . . . . .                 | 103                         | 16%   | Central Basin Municipal Water District  |
| City of Hawthorne . . . . .                | 1,031                       | 80%   | West Basin Municipal Water District   |
| Hermosa Redondo . . . . .                  | 3,477                       | 100%  | West Basin Municipal Water District   |
| Los Angeles County Region** . . . . .      | 5,493                       | 97%   | West Basin Municipal Water District and Antelope Valley-East Kern Water Agency                        |
| Westlake . . . . .                         | 2,243                       | 100%  | Calleguas Municipal Water District and Triunfo Water and Sanitation District                          |
| Kern River Valley . . . . .                | 50                          | 21%   | City of Bakersfield   |

MG = million gallons

\* Bay Area Region includes Bayshore and Redwood Valley

\*\* Los Angeles County Region includes Palos Verdes and Antelope Valley

The Bear Gulch district obtains a portion of its water supply from surface runoff from the local watershed. The Oroville district in the Sacramento Valley, the Bakersfield district in the San Joaquin Valley, and the Kern River Valley district in the Los Angeles Area purchase water from a surface supply. Surface sources are processed through our water treatment plants before being delivered to the distribution system. The Bakersfield district also purchases treated water as a component of its water supply.

Form 10-K

The Chico, Marysville, Dixon, and Willows districts in the Sacramento Valley, the Monterey Region district in the Salinas Valley, the Selma and Visalia districts in the San Joaquin Valley, and the TAFB in Solano County obtain their entire supply from wells.

Purchases for the Los Altos, Livermore, Oroville, Redwood Valley, Stockton, and Bakersfield districts are pursuant to long-term contracts expiring on various dates after 2019. The water supplies purchased for the Dominguez, East Los Angeles, Hermosa Redondo, Palos Verdes, and Westlake districts as well as the Hawthorne and Commerce systems are provided by public agencies pursuant to a statutory obligation of continued non-preferential service to purveyors within the agencies' boundaries. Purchases for the Bayshore and Bear Gulch districts are in accordance with long-term contracts with the San Francisco Public Utilities Commission (SFPUC) until June 30, 2034.

Management anticipates water supply contracts will be renewed as they expire though the price of wholesale water purchases is anticipated to increase in the future.

Shown below are wholesaler price rates and increases that became effective in 2019 and estimated wholesaler price rates and percent changes for 2020. In 2019, several districts experienced purchased water rate increases, resulting in the filing of several purchased water offsets.

| District                  | Effective Month | 2019               |        | Percent Change | Effective Month    | 2020      |                |
|---------------------------|-----------------|--------------------|--------|----------------|--------------------|-----------|----------------|
|                           |                 | Unit Cost          |        |                |                    | Unit Cost | Percent Change |
| Antelope . . . . .        | January         | \$ 602.00 /af      | 7.5%   | January        | \$ 648.00 /af      | 7.6%      |                |
| Bakersfield(1) . . . . .  | July            | \$ 173.00 /af      | 2.4%   | July           | \$ 173.00 /af      | —         |                |
| Bear Gulch . . . . .      | July            | \$ 4.10 /ccf       | —      | July           | \$ 4.10 /ccf       | —         |                |
| Commerce(2) . . . . .     | July            | \$ 1,240.00 /af    | 7.8%   | January        | \$ 1,268.00 /af    | 2.3%      |                |
| Dominguez(2) . . . . .    | July            | \$ 1,385.00 /af    | 2.3%   | January        | \$ 1,405.00 /af    | 1.4%      |                |
| East Los Angeles(2) . . . | July            | \$ 1,240.00 /af    | 7.8%   | January        | \$ 1,268.00 /af    | 2.3%      |                |
| Hawthorne(2) . . . . .    | July            | \$ 1,385.00 /af    | 2.3%   | January        | \$ 1,405.00 /af    | 1.4%      |                |
| Hermosa Redondo(2) . .    | July            | \$ 1,385.00 /af    | 2.3%   | January        | \$ 1,405.00 /af    | 1.4%      |                |
| Livermore . . . . .       | January         | \$ 2.01 /ccf       | (1.5)% | January        | \$ 2.10 /ccf       | 4.5%      |                |
| Los Altos . . . . .       | July            | \$ 1,474.00 /af    | 6.1%   | July           | \$ 1,474.00 /af    | —         |                |
| Oroville(2) . . . . .     | April           | \$ 181,547.04 /yr  | 1.5%   | April          | \$ 181,547.04 /yr  | —         |                |
| Palos Verdes(2) . . . . . | July            | \$ 1,385.00 /af    | 2.3%   | January        | \$ 1,405.00 /af    | 1.4%      |                |
| Mid-Peninsula . . . . .   | July            | \$ 4.10 /ccf       | —      | July           | \$ 4.10 /ccf       | —         |                |
| Redwood Valley . . . . .  | April           | \$ 65.94 /af       | —      | April          | \$ 65.94 /af       | —         |                |
| South San Francisco . . . | July            | \$ 4.10 /ccf       | —      | July           | \$ 4.10 /ccf       | —         |                |
| Stockton . . . . .        | April           | \$1,040,943.22 /mo | (0.7)% | April          | \$1,040,943.22 /mo | —         |                |
| Westlake . . . . .        | January         | \$ 1,423.00 /af    | 3.5%   | January        | \$ 1,472.00 /af    | 3.4%      |                |

af = acre foot;

ccf = hundred cubic feet;

yr = fixed annual cost;

mo = fixed monthly cost

(1) untreated water

(2) wholesaler price changes occur every six months

We work with all local suppliers and agencies responsible for water supply to insure adequate, long-term supply for each system.

See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Water Supply" for more information on adequacy of supplies.

## Seasonal Fluctuations

In California, our customers' consumption pattern of water varies with the weather, in terms of rainfall and temperature. In the WRAM and MCBA design, the CPUC considers the historical pattern in determining the adopted sales and production costs. With a majority of our sales being subject to the WRAM and production costs being covered by the MCBA, fluctuations in financial results have been minimized. However, cash flows from operations and short-term borrowings on our credit facilities can be significantly impacted by seasonal fluctuations including recovery of the WRAM and MCBA.

Our water business is seasonal in nature. Weather conditions can have a material effect on customer usage. Customer demand for water generally is lower during the cooler and rainy winter months. Demand increases in the spring when warmer weather returns and the rains end, and customers use more water for outdoor purposes such as landscape irrigation. Warm temperatures during the generally dry summer months result in increased demand. Water usage declines during the late fall as temperatures decrease and the rainy season begins. During years in which precipitation is especially heavy or extends beyond the spring into the early summer, customer demand can decrease from historic normal levels, generally due to reduced outdoor water usage. Likewise, an early start to the rainy season during the fall can cause a decline in customer usage. As a result, seasonality of water usage has a significant impact on our cash flows from operations and borrowing on our short-term facilities.

## Utility Plant Construction

We have continually extended, enlarged, and replaced our facilities as required to meet increasing demands and to maintain the water systems. We obtain construction financing using funds from operations, short-term bank borrowings, long-term financing, advances for construction and contributions in aid of construction that are funded by developers. Advances for construction are cash deposits from developers for construction of water facilities or water facilities deeded from developers. These advances are generally refundable without interest over a period of 40 years in equal annual payment amounts and developer installed facilities are exempt from corporate income taxes. Contributions in aid of construction consist of nonrefundable cash deposits or facilities transferred from developers, primarily for fire protection and relocation projects. We cannot control the amounts received from developers. This amount fluctuates from year-to-year as the level of construction activity carried on by developers varies. This activity is impacted by the demand for housing, commercial development, and general business conditions, including interest rates.

See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources" for additional information.

## Energy Reliability

We continue to use power efficiently to minimize the power expenses passed on to our customers, and maintain backup power systems to continue water service to our customers if the power companies' supplies are interrupted. Many of our well sites are equipped with emergency electric generators designed to produce electricity to keep the wells operating during power outages. Storage tanks also provide customers with water during blackout periods.

During 2019, we leased additional emergency generators to respond to potential PSPSs, a new electric utility operating paradigm approved by the CPUC.

## **Impact of Climate Change Legislation and Regulation**

Our operations depend on power provided by other public utilities and, in emergencies, power generated by our portable and fixed generators. If future legislation limits emissions from the power generation process, our cost of power may increase. Any increase in the cost of power will be passed along to our California customers through the MCBA or included in our cost of service paid by our customers as requested in our GRC filings.

We maintain a fleet of vehicles to provide service to our customers, including a number of heavy duty diesel vehicles that were retrofitted to meet California emission standards. If future legislation further impacts the cost to operate the fleet or the fleet acquisition cost in order to meet certain emission standards, it will increase our cost of service and our rate base. Any increase in fleet operating costs associated with meeting emission standards will be included in our cost of service paid by our customers as requested in our GRC filings. While recovery of these costs is not guaranteed, we would expect recovery in the regulatory process.

Under the California Environmental Quality Act (CEQA), all capital projects of a certain type (primarily wells, tanks, major pipelines and treatment facilities) require mitigation of greenhouse gas emissions. The cost to prepare the CEQA documentation and permit will be included in our capital cost and added to our rate base, which will be requested to be paid for by our customers. Any increase in the operating cost of the facilities will also be included in our cost of service paid by our customers as requested in our GRC filings. While recovery of these costs is not guaranteed, we would expect recovery in the regulatory process.

Cap and trade regulations were implemented in 2012 with the goal of reducing emissions to 1990 levels by the year 2020. These regulations have not impacted water utilities at this time. In the future, if we are required to comply with these regulations, any increase in operating costs associated with meeting these standards will be included in our cost of service paid by our customers as requested in our GRC filings. While recovery of these costs is not guaranteed, we would expect recovery in the regulatory process.

## **Security at Company Facilities**

Due to terrorism and other risks, we have heightened security at our facilities and have taken added precautions to protect our employees and the water delivered to customers. In 2002, federal legislation was enacted that resulted in new regulations concerning security of water facilities, including submitting vulnerability assessment studies to the federal government. We have complied with regulations issued by the U.S. Environmental Protection Agency (EPA) pursuant to federal legislation concerning vulnerability assessments and have made filings to the EPA as required. In addition, communication plans have been developed as a component of our procedures. While we do not make public comments on our security programs, we have been in contact with federal, state, and local law enforcement agencies to coordinate and improve our water delivery systems' security.

On October 23, 2018, America's Water Infrastructure Act (AWIA) became law. We must now conduct additional risk and resilience assessments and develop emergency response plans for each of our water systems. These assessments and plans include natural hazards as well as malevolent acts. The first such assessments are due in 2020. They will be reviewed and resubmitted every five years.

While we do not make public comments on our security programs, we have been in contact with federal, state, and local law enforcement agencies to coordinate and improve our water delivery systems' security.

## Quality of Water Supply

Our operating practices are designed to produce potable water in accordance with accepted water utility practices. Water entering the distribution systems from surface sources is treated in compliance with federal and state Safe Drinking Water Act (SDWA) standards. Most well supplies are chlorinated or chloraminated for disinfection. Water samples from each water system are analyzed on a regular, scheduled basis in compliance with regulatory requirements. We operate a state-certified water quality laboratory at the San Jose Customer Support Services Office that provides testing for most of our California operations. Certain tests in California are contracted with independent certified labs qualified under the Environmental Laboratory Accreditation Program. Local independent state certified labs provide water sample testing for the Washington, New Mexico and Hawaii operations.

In recent years, federal and state water quality regulations have resulted in increased water sampling requirements. The SDWA continues to be used to monitor and regulate additional potential contaminants to address public health concerns. The State of California has continued to adopt new water quality regulations which may be in addition to those adopted by the EPA. We monitor water quality standard changes and upgrade our treatment capabilities to maintain compliance with the various regulations.

## Competition and Condemnation

Our principal operations are regulated by the Commission of each state. Under state laws, no privately owned public utility may compete within any service territory that we already serve without first obtaining a certificate of public convenience and necessity from the applicable Commission. Issuance of such a certificate would only be made upon finding that our service is deficient. To management's knowledge, no application to provide service to an area served by us has been made.

State law provides that whenever a public agency constructs facilities to extend a utility system into the service area of a privately owned public utility, such an act constitutes the taking of property and requires reimbursement to the utility for its loss. State statutes allow municipalities, water districts and other public agencies to own and operate water systems. These agencies are empowered to condemn properties already operated by privately owned public utilities. The agencies are also authorized to issue bonds, including revenue bonds, for the purpose of acquiring or constructing water systems. However, if a public agency were to acquire utility property by eminent domain action, the utility would be entitled to just compensation for its loss. In Washington, annexation was approved in February 2008 for property served by us on Orcas Island; however, we continue to serve the customers in the annexed area and do not expect the annexation to impact our operations. To management's knowledge, other than the Orcas Island property, no municipality, water district, or other public agency is contemplating or has any action pending to acquire or condemn any of our systems.

## Environmental Matters

Our operations are subject to environmental regulation by various governmental authorities. Environmental health and safety programs have been designed to provide compliance with water discharge regulations, underground and aboveground fuel storage tank regulations, hazardous materials management plans, hazardous waste regulations, air quality permitting requirements, wastewater discharge limitations and employee safety issues related to hazardous materials. Also, we actively investigate alternative technologies for meeting environmental regulations and continue the traditional practices of meeting environmental regulations.

For a description of the material effects that compliance with environmental regulations may have on us, see Item 1A. “Risk Factors—Risks Related to Our Regulatory Environment.” We expect environmental regulation to increase, resulting in higher operating costs in the future, and there can be no assurance that the Commissions would approve rate increases to enable us to recover these additional compliance costs.

## **Employees**

At December 31, 2019, we had 1,207 employees, including 53 at Washington Water, 46 at Hawaii Water, and 15 at New Mexico Water. In California, most non-supervisory employees are represented by the Utility Workers Union of America, AFL-CIO, except certain engineering and laboratory employees who are represented by the International Federation of Professional and Technical Engineers, AFL-CIO.

At December 31, 2019, we had 768 union employees. In January 2015, the Company negotiated a six-year contract. Wage increases for both unions in 2015, 2016, and 2017 was 3.25%, 2.75%, and 2.75%, respectively. For 2018, 2019, and 2020, union wage changes were tied to the changes in the Consumer Price Index (CPI) for Los Angeles, Riverside, and Orange County. In the event an annual wage increase is determined to be greater than 3.25% or less than 2.0%, either party may request to re-open negotiations for wages only. Such notice must be served on the other party no later than 60 days after the publication of such CPI data. In 2018, the applicable CPI was 3.1%. Union wages were increased 3.1% for all union employees. The applicable CPI published in October of 2018 was 3.9%. The union requested to re-open wage negotiations due to increases in the 2018 CPI index above 3.25%. The Company and both unions negotiated an agreement for the 2019 and 2020 wage increases whereby the base pay for all employees was increased by 3.4% (the CPI for the Western US) effective January 1, 2019. In addition, the agreement established three regions for pay purposes (Region 1, Region 2, and Region 3). Employees in Region 2 will receive the 3.4% increase in base pay, plus a regional differential of 0.5% added to their pay (based on the CPI for the Los Angeles area) Employees in Region 3 will receive the 3.4% increase in base pay, plus a 0.9% regional differential (based on the CPI for the San Francisco area). For 2020, we will follow this same methodology to determine the base pay increase for all union positions (i.e. Region 1), plus the applicable regional differential for Region 2 and Region 3. The current agreement with the unions is effective through 2020. Management believes that it maintains good relationships with the unions.

Employees at Hawaii Water, Washington Water and New Mexico Water are not represented by unions.



## Information About Our Executive Officers

| Name                     | Positions and Offices with California Water Service Group  | Age |
|--------------------------|--|-----|
| Martin A. Kropelnicki(1) | President and Chief Executive Officer since September 1, 2013. Formerly, President and Chief Operating Officer (2012-2013), Chief Financial Officer and Treasurer (2006-2012), served as Chief Financial Officer of Power Light Corporation (2005-2006), Chief Financial Officer and Executive Vice President of Corporate Services of Hall Kinion and Associates (1997-2004), Deloitte & Touche Consulting (1996-1997), held various positions with Pacific Gas & Electric (1989-1996).   | 53  |
| Thomas F. Smegal III(2)  | Vice President, Chief Financial Officer and Treasurer since October 1, 2012. Formerly, Vice President, Regulatory Matters and Corporate Relations (2008-2012), Manager of Rates (2002-2008), Regulatory Analyst (1997-2002), served as Utilities Engineer at the California Public Utilities Commission (1990-1997).   | 52  |
| Paul G. Townsley(2)      | Vice President of Corporate Development and Chief Regulatory Matters Officer effective January 1, 2019. Formerly Vice President of Rates and Regulatory Matters (2013-2018), Divisional Vice President, Operations and Engineering for EPCOR Water USA (2012-2013), served as President of American Water Works Company subsidiaries in Arizona, New Mexico, and Hawaii (2007-2012), served as American Water Works Company's President, Western Region (2002-2007), held various other positions with Citizens Utilities Company (1982-2002).   | 62  |
| Robert J. Kuta(2)        | Vice President of Engineering and Chief Water Quality and Environmental Compliance Officer effective January 1, 2019. Formerly Vice President of Engineering (2015-2018), Senior Vice President of Operations Management Services, Water, Environmental and Nuclear markets for CH2M Hill (2006 to 2015), served as Western Region Vice President of Service Delivery and President of Arizona American Water Company (2001 to 2005), and held various management positions at Citizens Water Resource Company, Chaparral City Water Company, and Spring Creek Utilities (1993 to 2001). | 55  |

| <u>Name</u>                  | <u>Positions and Offices with California Water Service Group</u>   | <u>Age</u> |
|------------------------------|--|------------|
| Michael B. Luu(2) . . . . .  | Vice President of Customer Service and Chief Information Officer since January 1, 2017. Formerly Vice President of Customer Service and Information Technology (2013-2016), Acting California Water Service Company District Manager, Los Altos (2012-2013), Director of Information Technology (2008-2012), CIS Development Manager (2005-2008), held various other positions with California Water Service Company since 1999. | 40         |
| Ronald D. Webb(2) . . . . .  | Vice President of Human Resources since August 11, 2014. Formerly Managing Director, Human Resources Partner for United Airlines (2006-2014), served as Vice President of Human Resources for Black & Decker Corporation (1995-2005), Human Resource Manager for General Electric Company (1990-1994), and held various labor relations positions for National Steel and Shipbuilding Company (1982-1989).                       | 63         |
| Lynne P. McGhee(2) . . . . . | Vice President and General Counsel since January 1, 2015. Formerly Corporate Secretary (2007-2014), Associate Corporate Counsel (2003-2014), and served as a Commissioner legal advisor and staff counsel at the California Public Utilities Commission (1998-2003).   | 55         |
| David B. Healey(2) . . . . . | Vice President, Corporate Controller and Assistant Treasurer since January 1, 2015. Formerly Corporate Controller and Assistant Treasurer (2012-2014), Director of Financial Reporting (2009-2012), served as Subsidiary Controller for SunPower Corporation (2005-2009), Corporate Controller for Hall, Kinion & Associates, Inc. (1997-2005), held various other positions with Pacific Gas & Electric Company (1985-1997).    | 63         |
| Shannon C. Dean(2) . . . . . | Vice President of Corporate Communications & Community Affairs since January 1, 2015. Formerly Director of Corporate Communications (2000-2014), held various corporate communications, government and community relations for Dominguez Water Company (1991-1999).  | 52         |

| Name                               | Positions and Offices with California Water Service Group  | Age |
|------------------------------------|--|-----|
| Gerald A. Simon(2) . . . . .       | Vice President, Chief Safety, Security, and Emergency Preparedness Officer effective January 1, 2019. Formerly Chief Safety and Emergency Preparedness Officer (2016-2018), Director of Safety and Emergency Services (2015), Emergency Services Manager (2014), Emergency Services Coordinator (2013), served as Fire Chief for Oakland, CA (2008-2011) and (1999-2004), Fire Chief for Fort Lauderdale, FL (2006-2007), Fire Chief for Union City, CA (2005-2006), Fire Chief for Santa Clara, CA (1993-1999) held various other positions at Santa Clara Fire Department (1976-1999), and Fire Services Consultant (1985-2015). | 65  |
| Michelle R. Mortensen(2) . . . . . | Corporate Secretary since January 1, 2015. Formerly Assistant Corporate Secretary (2014), Treasury Manager (2012-2013), Assistant to the Chief Financial Officer (2011), Regulatory Accounting Manager (2008-2010), held various accounting positions at Piller Data Systems (2006-2007), Hitachi Global Storage (2005), Abbot Laboratories (1998-2004), and Symantec (1998-2001).   | 45  |
| Elissa Y. Ouyang(2) . . . . .      | Chief Procurement and Lead Continuous Improvement Officer since March 1, 2016. Formerly, Interim Procurement Director (2013-2016), Acting District Manager—Los Altos (2013), Interim Vice President of Information Technology (2012-2013), Director of Information Technology—Architecture and Security (2008-2012), Business Application Manager (2003-2007), Project Lead/Senior Developer (2001-2003), held various business consulting positions at KPMG Consulting/BearingPoint (1998-2001), and RR Donnelley (1996-1998).  | 51  |

- (1) Holds the same position with California Water Service Company, CWS Utility Services, Hawaii Water Service Company, Inc., and New Mexico Water Service Company; Chief Executive Officer of Washington Water Service Company.
- (2) Holds the same position with California Water Service Company, CWS Utility Services, Hawaii Water Service Company, Inc., New Mexico Water Service Company, and Washington Water Service Company.

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## **Item 1A. Risk Factors.**

If any of the following risks actually occur, our financial condition and results of operations could be materially and adversely affected.

### **Risks Related to Our Regulatory Environment**

***Our business is heavily regulated by state and federal regulatory agencies and our financial viability depends upon our ability to recover costs from our customers through rates that must be approved by state public utility commissions.***

California Water Service Company, New Mexico Water Service Company, Washington Water Service Company and Hawaii Water Service Company, Inc., are regulated public utilities which provide water and water-related service to our customers. The rates that we charge our water customers are subject to the jurisdiction of the regulatory commissions in the states in which we operate. These Commissions may set water and water-related rates for each operating district independently because the systems are not interconnected. The Commissions authorize us to charge rates that they consider to be sufficient to recover normal operating expenses, to provide funds for adding new or replacing water infrastructure, and to allow us to earn what the Commissions consider to be a fair and reasonable return on invested capital.

Our revenues and consequently our ability to meet our financial objectives are dependent upon the rates we are authorized to charge our customers by the Commissions and our ability to recover our costs in these rates. Our management uses forecasts, models and estimates in order to set rates that will provide a fair and reasonable return on our invested capital. While our rates must be approved by the Commissions, no assurance can be given that our forecasts, models and estimates will be correct or that the Commissions will agree with our forecasts, models and estimates. If our rates are set too low, our revenues may be insufficient to cover our operating expenses, capital expenditure requirements and desired dividend levels.

We periodically file rate increase applications with the Commissions. The ensuing administrative and hearing process may be lengthy and costly. The decisions of the Commissions are beyond our control and we can provide no assurances that our rate increase requests will be granted by the Commissions. Even if approved, there is no guarantee that approval will be given in a timely manner or at a sufficient level to cover our expenses and provide a reasonable return on our investment. If the rate increase decisions are delayed, our earnings may be adversely affected.

Specifically, the formal settlement agreement filed for our 2018 GRC with the Public Advocates Office of the CPUC is still pending, and the following issues are being litigated and were not included in the settlement: continuation of the WRAM and SRM, balancing accounts for pension and health care expenses, depreciation rates, working capital, AFUDC, and capital projects related to advanced metering. We can give no assurance that these litigated issues will be decided in our favor. Additionally, the CPUC will consider, but is not required to adopt, the settlement agreement. A final decision on the case had been expected in late 2019, with new rates going into effect on January 1, 2020. On December 19, 2019, the CPUC extended its statutory deadline to complete the proceeding by six months, to July 1, 2020. The CPUC will allow recovery of the difference between current rates and final rates adopted in the proceeding back to January 1, 2020. If the settlement is not approved or is approved on terms less favorable to us, or the litigated issues described above are not decided in our favor, this could have a material adverse impact on our revenue, operating results and earnings per share. Even if the settlement is approved on its terms, but the case is materially delayed, it could have a material adverse impact on our revenue, operating results, and earnings per share on an interim basis but would be reversed at the time of a final decision through recognition of interim rate recovery.

***Our evaluation of the probability of recovery of regulatory assets is subject to adjustment by regulatory agencies and any such adjustment could adversely affect our results of operations and financial condition.***

Regulatory decisions may also impact prospective revenues and earnings, affect the timing of the recognition of revenues and expenses and may overturn past decisions used in determining our revenues and expenses. Our management continually evaluates the anticipated recovery of regulatory assets and revenues subject to refund and provides for allowances and/or reserves as deemed necessary. Current accounting procedures allow us to defer certain costs if we believe it is probable that we will be allowed to recover those costs through future rate increases. If the Commissions determined that a portion of our assets were not recoverable in customer rates, we may suffer an asset impairment which would require a write down in such asset's valuation which would be recorded through operations.

If our assessment as to the probability of recovery through the ratemaking process is incorrect, the associated regulatory asset would be adjusted to reflect the change in our assessment or any regulatory disallowances. A change in our evaluation of the probability of recovery of regulatory assets or a regulatory disallowance of all or a portion of our cost could have a material adverse effect on our financial results.

***Regulatory agencies may disagree with our valuation and characterization of certain of our assets.***

If we determine that assets are no longer used or useful for utility operations, we may remove them from our rate base and subsequently sell those assets with any gain on sales accruing to the stockholders, subject to certain conditions. If the Commissions disagree with our characterization, there is a risk that the Commissions could determine that realized appreciation in property value should be awarded to customers rather than our stockholders.

***Changes in laws, rules and policies of regulatory agencies can significantly affect our business.***

Regulatory agencies may change their rules and policies for various reasons, including changes in the local political environment. Regulators are elected by popular vote or are appointed by elected officials, and the results of elections may change the long-established rules and policies of an agency dramatically. For example, in 2001 regulation regarding recovery of increases in electrical rates changed in California. For over 20 years prior to 2001, the CPUC allowed recovery of electric rate increases under its operating rules. However, in 2003, the CPUC reinstated its policy to allow utilities to adjust their rates for rate changes by the power companies. The original decision by the CPUC to change its policy, as well as its subsequent decision to reinstate that policy, affected our business.

We rely on policies and regulations promulgated by the various state commissions in order to recover capital expenditures, maintain favorable treatment on gains from the sale of real property, offset certain production and operating costs, recover the cost of debt, maintain an optimal equity structure without over-leveraging, and have financial and operational flexibility to engage in non-regulated operations. If any of the Commissions with jurisdiction over us implements policies and regulations that do not allow us to accomplish some or all of the items listed above, our future operating results may be adversely affected.

In addition, legislatures may repeal, relax or tighten existing laws, or enact new laws that impact the regulatory agencies with jurisdiction over our business or affect our business directly. If changes in existing laws or the implementation of new laws limit our ability to accomplish some of our business objectives, our future operating results may be adversely affected.

***We expect environmental health and safety regulation to increase, resulting in higher operating costs in the future.***

Our water and wastewater services are governed by various federal and state environmental protection, health and safety laws and regulations. These provisions establish criteria for drinking water and for discharges of water, wastewater and airborne substances. The EPA, state water quality regulators, and other state regulatory authorities promulgate numerous nationally and locally applicable standards, including maximum contaminant levels (MCLs) for drinking water. We believe we are currently in compliance with all of the MCLs promulgated to date. Although we have a rigorous water quality assurance program in place, we cannot guarantee that we will continue to comply with all standards. If we violate any federal or state regulations or laws governing health and safety, we could be subject to substantial fines or otherwise sanctioned.

Environmental health and safety laws are complex and change frequently. They tend to become more stringent over time. As new or stricter standards are introduced, they could increase our operating costs. Although we would likely seek permission to recover these costs through rate increases, we can give no assurance that the Commissions would approve rate increases to enable us to recover these additional compliance costs.

We are required to test our water quality for certain chemicals and potential contaminants on a regular basis. If the test results indicate that our water exceeds allowable limits, we may be required either to commence treatment to remove the contaminant or to develop an alternate water source. Either of these results may be costly. Although we would likely seek permission to recover these through rate increases, there can be no assurance that the Commissions would approve rate increases to enable us to recover these additional compliance costs.

***New and/or more stringent water quality regulations could increase our operating costs.***

We are subject to water quality standards set by federal, state and local authorities that have the power to issue new regulations. Compliance with new regulations that are more stringent than current regulations could increase our operating costs.

In August of 2009, the Office of Environmental Health Hazard Assessment within the California Environmental Protection Agency changed the water quality standard for TCP in our water supply. The new standard requires us to have 0.0007 parts per billion or less of TCP in our California water supply. We have incurred costs associated with the compliance of the new TCP standard and expect to continue to incur costs in the future. In 2018, we received proceeds from a TCP settlement (see note 14 in the Notes to the Consolidated Financial Statements) that has been used to offset some of the compliance costs that we have incurred. Although we would likely seek permission to these additional costs through the GRC process, we can give no assurance that the CPUC would approve the recovery of these additional compliance costs.

Perfluorooctane sulfonate (PFOS) and perfluorooctanoic acid (PFOA) are two water contaminants of emerging concern. Although a water quality standard has yet to be set by federal or state regulators, preliminary testing and guidance from Cal EPA has affected our operations of some wells in California. We expect that a water quality standard will be set in the future and that we will incur costs to comply with the water quality standard. We would likely request a memorandum account to track the incremental compliance costs in the future and we would likely seek permission to recover additional costs of compliance through rate increases; however, we can give no assurance that the CPUC would approve rate increases to enable us to recover these additional compliance costs.

**Legislation and regulation designed to mitigate or adapt to climate change may impact our operations.**

Future legislation or regulation regarding climate change may restrict our operations or impose new costs on our business. Our operations depend on power provided by other public utilities and, in emergencies, power generated by our portable and fixed generators. If future legislation or regulation limits emissions from the power generation process, our cost of power may increase. Any increase in the cost of power will be passed along to our California customers through the MCBA or included in our cost of service paid by our customers as requested in our GRC filings in California.

Starting January 1, 2010, under the CEQA, all capital projects of a certain type (primarily wells, tanks, major pipelines and treatment facilities) require mitigation of greenhouse gas emissions. The cost to prepare the CEQA documentation and permit will add an estimated ten thousand dollars to such capital projects. This cost will be included in our capital cost and added to our rate base, which will be requested to be paid for by our customers. Any increase in the operating cost of the facilities will also be included in our cost of service paid by our customers as requested in our GRC filings. Although we would likely seek permission to recover these costs through rate increases, we can give no assurance that the CPUC would approve rate increases to enable us to recover these additional compliance costs.

Cap and trade regulations were implemented in California in 2012 with the goal of reducing emissions to 1990 levels by the year 2020. Although we would likely seek permission to recover these costs through rate increases, we can give no assurance that the CPUC would approve rate increases to enable us to recover these additional compliance costs.

**We have been and may in the future be party to environmental and product-related lawsuits which could result in us paying damages not covered by insurance.**

We have been and may be in the future, party to water contamination lawsuits, which may not be fully covered by insurance.

The number of environmental and product-related lawsuits against other water utilities have increased in frequency in recent years. If we are subject to additional environmental or product-related lawsuits, we might incur significant legal costs and it is uncertain whether we would be able to recover the legal costs from customers or other third parties. In addition, if current California law regarding CPUC's preemptive jurisdiction over regulated public utilities for claims about compliance with California Department of Health Services and United States EPA water quality standards changes, our legal exposure may be significantly increased.

**Risks Related to Our Business Operations**

**We may be at risk for litigation under the principle of inverse condemnation for activities in the normal course of business which have a damaging effect on private property.**

The California constitution may allow compensation to property owners for a public utility taking or damaging private property, even when damage occurs through no fault of the utility and regardless of whether the damage could be foreseen by the utility. As a result, this doctrine, which is known as inverse condemnation and is routinely invoked in California, imposes strict liability for damages, including legal fees, as a result of the design, construction and maintenance of utility facilities. In addition to claims that our water or wastewater systems damaged property, Cal Water could be sued under inverse condemnation if its facilities or operations damage private property or if it is unable to timely deliver sufficient quantities of water for firefighting because of system capacity limitations or water supply disruptions, including as a result of action taken by an electric utility pursuant to a PSPS program or other loss of power. Although the imposition of liability is

premised on the assumption that utilities have the ability to recover these costs from their customers, there is no assurance that the CPUC would allow Cal Water to recover any such damage awards from customers. For example, in December 2017, the CPUC denied recovery of costs that San Diego Gas & Electric Company incurred as a result of inverse condemnation, holding that the inverse condemnation principles of strict liability are not relevant to the CPUC's prudent manager standard. In October 2019 the U.S. Supreme Court denied a writ of certiorari to review this decision.

***The effects of natural disasters, attacks by third parties, pandemics, or poor water quality or contamination to our water supply may result in disruption in our services and litigation which could adversely affect our business, operating results and financial condition.***

We operate in areas that are prone to earthquakes, fires, mudslides and other natural disasters. A significant seismic event or other natural disaster in California where our operations are concentrated could adversely impact our ability to deliver water and adversely affect our costs of operations. A major disaster could damage or destroy substantial capital assets. The CPUC has historically allowed utilities to establish a catastrophic event memorandum account as another possible mechanism to recover costs. However, we can give no assurance that the CPUC or any other commission would allow any such cost recovery mechanism in the future.

Our water supplies are subject to contamination, including contamination from the development of naturally-occurring compounds, chemicals in groundwater systems, pollution resulting from man-made sources, such as TCP, sea water incursion and possible third-party attacks, including physical attacks, terrorist attacks, and cyber attacks. If our water supply is contaminated, we may have to interrupt the use of that water supply until we are able to substitute the flow of water from an uncontaminated water source. In addition, we may incur significant costs in order to treat the contaminated source through expansion of our current treatment facilities, or development of new treatment methods. If we are unable to substitute water supply from an uncontaminated water source, or to adequately treat the contaminated water source in a cost-effective manner, there may be an adverse effect on our revenues, operating results and financial condition. The costs we incur to decontaminate a water source or an underground water system could be significant and may not be recoverable in rates. We could also be held liable for consequences arising out of human exposure to hazardous substances in our water supplies or other environmental damage. For example, private plaintiffs have the right to bring personal injury or other toxic tort claims arising from the presence of hazardous substances in our drinking water supplies. Our insurance policies may not be sufficient to cover the costs of these claims.

We operate a dam. If the dam were to fail for any reason, we would lose a water supply and flooding likely would occur. Whether or not we were responsible for the dam's failure, we could be sued. We can give no assurance that we would be able to successfully defend such a suit.

In light of the threats to the nation's health and security ensuing in the wake of the September 11, 2001 terrorist attacks, we have taken steps to increase security measures at our facilities and heighten employee awareness of threats to our water supply, to protect against third-party attacks, including physical attacks, terrorist attacks and cyber attacks. We have also tightened our security measures regarding the delivery and handling of certain chemicals used in our business. We have and will continue to bear increased costs for security precautions to protect our facilities, operations and supplies. These costs may be significant. Despite these tightened security measures, we may not be in a position to control the outcome of third-party attacks should they occur.

We depend upon our skilled and trained workforce to ensure water delivery. Were a pandemic to occur, we can give no assurance that we would be able to maintain sufficient human resources to ensure uninterrupted service in all of the districts that we serve.



If any of these catastrophic events were to occur, we can give no assurance that our emergency preparedness plans would be adequate and that we would respond effectively, which could result in public or employee harm.

***We rely on our information technology (“IT”) and a number of complex business systems to assist with the management of our business and customer and supplier relationships, and a disruption of these systems could adversely affect our business.***

Our IT systems are an integral part of our business, and a serious disruption of our IT systems could significantly limit our ability to manage and operate our business efficiently, which, in turn, could cause our business and competitive position to suffer and adversely affect our results of operations. We depend on our IT systems to bill customers, process orders, provide customer service, manage construction projects, manage our financial records, track assets, remotely monitor certain of our plants and facilities and manage human resources, inventory and accounts receivable collections. Our IT systems also enable us to purchase products from our suppliers and bill customers on a timely basis, maintain cost-effective operations and provide service to our customers. Some of our mission and business critical IT systems are older, such as our SCADA (Supervisory Control and Data Acquisition) system. Although we do not believe that our IT systems are at a materially greater risk of cyber security incidents than other similar organizations, our IT systems remain vulnerable to damage or interruption from:

- power loss, computer systems failures, and internet, telecommunications or data network failures;
- operator negligence or improper operation by, or supervision of, employees;
- physical and electronic loss of customer data due to security breaches, cyber attacks, misappropriation and similar events;
- computer viruses;
- intentional security breaches, hacking, denial of services actions, misappropriation of data and similar events; and
- earthquakes, floods, fires, mudslides and other natural disasters or physical attacks.

These events may result in physical and/or electronic loss of customer or financial data, security breaches, misappropriation and other adverse consequences, including liability or regulatory penalties under data privacy laws and regulations. In addition, the lack of redundancy for certain of our IT systems, including billing systems, could exacerbate the impact of any of these events on us.

In addition, we may not be successful in developing or acquiring technology that is competitive and responsive to the needs of our business, and we might lack sufficient resources to make the necessary upgrades or replacements of our outdated existing technology to allow us to continue to operate at our current level of efficiency.

***The adequacy of our water supplies depends upon a variety of factors beyond our control. Interruption in the water supply may adversely affect our earnings.***

We depend on an adequate water supply to meet the present and future needs of our customers. Whether we have an adequate supply varies depending upon a variety of factors, many of which are partially or completely beyond our control, including:

- the amount of rainfall;
- the amount of water stored in reservoirs;
- underground water supply from which well water is pumped;

- availability from water wholesalers;
- changes in the amount of water used by our customers;
- water quality and availability of appropriate treatment technology;
- legal limitations on water use such as rationing restrictions during a drought;
- changes in prevailing weather patterns and climate; and
- population growth.

We purchase our water supply from various governmental agencies and others. Water supply availability may be affected by weather conditions, funding and other political and environmental considerations. In addition, our ability to use surface water is subject to regulations regarding water quality and volume limitations. If new regulations are imposed or existing regulations are changed or given new interpretations, the availability of surface water may be materially reduced. A reduction in surface water could result in the need to procure more costly water from other sources, thereby increasing our water production costs and adversely affecting our operating results if not recovered in rates on a timely basis.

We have entered into long-term water supply agreements, which commit us to making certain minimum payments whether or not we purchase any water. Therefore, if demand is insufficient to use our required purchases we would have to pay for water we did not receive.

From time to time, we enter into water supply agreements with third parties and our business is dependent upon such agreements in order to meet regional demand. For example, we have entered into a water supply contract with the SFPUC that expires on June 30, 2034. We can give no assurance that the SFPUC, or any of the other parties from whom we purchase water, will renew our contracts upon expiration, or that we will not be subject to significant price increases under any such renewed contracts.

The parties from whom we purchase water maintain significant infrastructure and systems to deliver water to us. Maintenance of these facilities is beyond our control. If these facilities are not adequately maintained or if these parties otherwise default on their obligations to supply water to us, we may not have adequate water supplies to meet our customers' needs.

If we are unable to access adequate water supplies, we may be unable to satisfy all customer demand, which could result in rationing. Rationing may have an adverse effect on cash flow from operations. We can make no guarantee that we will always have access to an adequate supply of water that will meet all required quality standards. Water shortages may affect us in a variety of ways. For example, shortages could:

- adversely affect our supply mix by causing us to rely on more expensive purchased water;
- adversely affect operating costs;
- increase the risk of contamination to our systems due to our inability to maintain sufficient pressure; and
- increase capital expenditures for building 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.

We may or may not be able to recover increased operating and construction costs on a timely basis, or at all, for our regulated systems through the ratemaking process. Although we can give no assurance, we may be able to recover certain of these costs from third parties that may be responsible, or potentially responsible, for groundwater contamination.

***Our water supplies and other aspects of our operations may be affected by climate change.***

There is strong scientific consensus that human activity including carbon and methane emissions is impacting many planetary systems such as the heat-trapping capacity of the atmosphere; ocean temperature, circulation, acidity, and volume; weather patterns including the severity and frequency of severe weather events; ambient temperatures; and planetary ice cover. Because scientific investigations have been focused globally, there is tremendous uncertainty over the timing, extent, and types of impacts global climate change may have on our service areas and in our water supplies. Moreover, studies of tree ring data show long periods of drought conditions have occurred prior to significant human impacts in California and prior to our operation. Finally, in the last fifty years, California has experienced at least three severe multi-year droughts. Thus, we plan for water reliability and water shortages including projected and potential climate change risks in our water supply planning activities. Several anticipated impacts of climate change which could impact our service areas are a greater percentage of state precipitation falling as rain rather than snow, changes in the frequency and volume of precipitation, hotter summer temperatures increasing demand for outdoor irrigation, and sea level rise increasing the likelihood of seawater intrusion into coastal aquifers. We also periodically review the climate change plans of our wholesalers to determine whether alternative supplies may be necessary in the future. However, we can give no assurance that replacement water supplies will be available at a reasonable cost or a cost acceptable to our customers and Commissions.

***Natural disasters, climate change, and other factors may change the population in our service areas.***

In the event that some outside factor such as a wildfire, flood, changed climate pattern, actual or threatened public health emergency or change in the local economy reduces or eliminates our customer base in a service area, we could face unrecoverable costs. In those circumstances the remaining customers might not be able to pay for the operating costs or capital costs of the water system. The company may not be able to recover capital costs of property which is no longer used and useful in utility service. Although we would likely seek permission to recover these costs through rate increases on remaining customers or in statewide rates, we can give no assurance that the Commissions would approve rate increases to enable us to recover these costs.

***Wastewater operations entail significant risks.***

Wastewater collection and treatment involve many risks associated with damage to the environment, and we anticipate that wastewater collection and treatment will become an increasing significant part of our business. If collection or treatment systems fail or do not operate properly, untreated or partially treated wastewater could discharge onto property or into nearby streams and rivers, causing property damage or injury to aquatic life, or even human life. Liabilities resulting from such damage could materially and adversely affect our results of operations and financial condition.

***Demand for our water is subject to various factors and is affected by seasonal fluctuations.***

Demand for our water during the warmer, dry months is generally greater than during cooler or rainy months due primarily to additional requirements for water in connection with irrigation systems, swimming pools, cooling systems and other outside water use. Throughout the year, and particularly during typically warmer months, demand will vary with temperature and rainfall levels. If temperatures during the typically warmer months are cooler than normal, or if there is more rainfall than normal, the demand for our water may decrease. Under the WRAM mechanism, lower

water usage in our California operations impacts our cash flows in the year of usage, but results in higher cash flows in the following years.

In addition, governmental restrictions on water usage during drought conditions may result in a decreased demand for our water, even if our water reserves are sufficient to serve our customers during these drought conditions. The Commissions may not allow surcharges to collect lost revenues caused by customers' conservation during a drought. Regardless of whether we may surcharge our customers during a conservation period, they may use less water even after a drought has passed because of conservation patterns developed during the drought. Furthermore, our customers may wish to use recycled water as a substitute for potable water. If rights are granted to others to serve our customers recycled water, there will likely be a decrease in demand for our water.

Finally, changes in prevailing weather patterns due to climate change may affect customer demand. If increased ambient temperatures affect our service areas, water used for irrigation and cooling may increase. If rainfall patterns change, our customers may change their patterns of water use including the amount of outdoor irrigation and the type of landscape they install. Government agencies may also mandate changes to customer irrigation or landscape patterns in response to changes in weather and climate.

***Changes in water supply costs impact our operations.***

The cost to obtain water for delivery to our customers varies depending on the sources of supply, wholesale suppliers' prices, the quality of water required to be treated and the quantity of water produced to fulfill customer water demand. Our source of supply varies among our operating districts. Certain districts obtain all of their supply from wells; some districts purchase all of the supply from wholesale suppliers; and other districts obtain the 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. On average, slightly more than half of the water we deliver to our customers is pumped from wells or received from a surface supply with the remainder purchased from wholesale suppliers. Water purchased from suppliers usually costs us more than surface supplied or well pumped water. The cost of purchased water for delivery to customers represented 34.5% and 35.2% of our total operating costs in 2019 and 2018, respectively. Water purchased from suppliers will require renewal of our contracts upon expiration and may result in significant price increases under any such renewed contracts.

Wholesale water suppliers may increase their prices for water delivered to us based on factors that affect their operating costs. Purchased water rate increases are beyond our control. In California, effective July 1, 2008, our ability to recover increases in the cost of purchased water changed with the adoption of the MCBA. With this change, actual purchased water costs are compared to authorized purchased water costs, with variances netted against the variances in purchased power, pump tax, and metered revenue, being recorded to revenue. The balance in the MCBA will be collected in the future by billing the net WRAM and MCBA accounts receivable balances over 12, 18, and 18+ month periods, which may have a short-term negative impact on cash flow.

***Dependency upon adequate supply of electricity and certain chemicals could adversely affect our results of operations.***

Purchased electrical power is required to operate the wells and pumps needed to supply water to our customers. Although there are back-up power generators to operate a number of wells and pumps in emergencies, an extended interruption in power could impact the ability to supply water. In the past, California has been subject to rolling power blackouts due to insufficient power supplies. There is no assurance we will not be subject to power blackouts in the future. Additionally,

we require sufficient amounts of certain chemicals in order to treat the water we supply. There are multiple sources for these chemicals but an extended interruption of supply could adversely affect our ability to adequately treat our water.

Purchased power is a significant operating expense. During 2019 and 2018, purchased power expense represented 5.1% and 5.3%, respectively, of our total operating costs. These costs are beyond our control and can change unpredictably and substantially as occurred in California during 2001 when rates paid for electricity increased 48%. As with purchased water, purchased power costs are included in the MCBA. Cash flows between rate filings may be adversely affected until the Commission authorizes a rate change, but earnings will be minimally impacted. Cost of chemicals used in the delivery of water is not an element of the MCBA, and therefore, variances in quantity or cost could impact the results of operations.

***Our business requires significant capital expenditures to replace or improve aging infrastructure that are dependent on our ability to secure appropriate funding. If we are unable to obtain sufficient capital or if the rates at which we borrow increase, there would be a negative impact on our results of operations.***

The water utility business is capital-intensive. We invest significant funds to replace or improve aging infrastructure such as property, plant and equipment. In addition, water shortages may adversely affect us by causing us to rely on more purchased water. This could cause increases in capital expenditures needed to build pipelines to secure alternative water sources. In addition, we require capital to grow our business through acquisitions. We fund our short-term capital requirements from cash received from operations and funds received from developers. We also borrow funds from banks under short-term bank lending arrangements. We seek to meet our long-term capital needs by raising equity through common or preferred stock issues or issuing debt obligations. We cannot give any 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. In the event we are unable to obtain sufficient capital, our expansion efforts could be curtailed, which may affect our growth and may affect our future results of operations.

Our ability to access the capital markets is affected by the ratings of certain of our debt securities. Standard & Poor's Rating Agency issues a rating on California Water Service Company's ability to repay certain debt obligations. The credit rating agency could downgrade our credit rating based on reviews of our financial performance and projections or upon the occurrence of other events that could impact our business outlook. Lower ratings by the agency could restrict our ability to access equity and debt capital. We can give no assurance that the rating agency will maintain ratings which allow us to borrow under advantageous conditions and at reasonable interest rates. A future downgrade by the agency could also increase our cost of capital by causing potential investors to require a higher interest rate due to a perceived risk related to our ability to repay outstanding debt obligations.

While the majority of our debt is long term at fixed rates, we do have interest rate exposure in our short-term borrowings which have variable interest rates. We are also subject to interest rate risks on new financings. However, if interest rates were to increase on a long-term basis, our management believes that customer rates would increase accordingly, subject to approval by the appropriate commission. We can give no assurance that the Commission would approve such an increase in customer rates.

We are obligated to comply with specified debt covenants under certain of our loan and debt agreements. Failure to maintain compliance with these covenants could limit future borrowing, and we could face increased borrowing costs, litigation, acceleration of maturity schedules, and cross default issues. Such actions by our creditors could have a material adverse effect on our financial condition and results of operations.

***Our inability to access the capital or financial markets could affect our ability to meet our liquidity needs at reasonable cost and our ability to meet long-term commitments. Changes in economic conditions in our markets could affect our customers' ability to pay for water services. Any of these could adversely affect our results of operations, cash flows and financial condition.***

We rely on our current credit facilities to fund short-term liquidity needs if internal funds are not available from operations. Specifically, given the seasonal fluctuations in demand for our water we commonly draw on our credit facilities to meet our cash requirements at times in the year when demand is relatively low. We also may occasionally use letters of credit issued under our revolving credit facilities. Disruptions in the capital and credit markets could adversely affect our ability to draw on our credit facilities. Our access to funds under our credit facilities is dependent on the ability of our banks to meet their funding commitments.

Many of our customers and suppliers also have exposure to risks that could affect their ability to meet payment and supply commitments. We operate in geographic areas that may be particularly susceptible to declines in the price of real property, which could result in significant declines in demand for our products and services. In the event that any of our significant customers or suppliers, or a significant number of smaller customers and suppliers, are adversely affected by these risks, we may face disruptions in supply, significant reductions in demand for our products and services, inability of customers to pay invoices when due, and other adverse effects that could negatively affect our financial condition, results of operations and/or cash flows.

Our operations and certain contracts for water distribution and treatment depend on the financial capability of state and local governments, and other municipal entities such as water districts. Major disruptions in the financial strength or operations of such entities, such as liquidity limitations, bankruptcy or insolvency, could have an adverse effect on our ability to conduct our business and/or enforce our rights under contracts to which such entities are a party.

***We are a holding company that depends on cash flow from our subsidiaries to meet our obligations and to pay dividends on our common stock.***

As a holding company, we conduct substantially all of our operations through our subsidiaries and our only significant assets are investments in those subsidiaries. 93.8% of our revenues are derived from the operations of California Water Service Company. As a result, we are dependent on cash flow from our subsidiaries, and California Water Service Company in particular, to meet our obligations and to pay dividends on our common stock.

Our subsidiaries are separate and distinct legal entities and generally have no obligation to pay any amounts due on California Water Service Group's debt or to provide California Water Service Group with funds for dividends. Although there are no contractual or regulatory restrictions on the ability of our subsidiaries to transfer funds to us, the reasonableness of our capital structure is one of the factors considered by state and local regulatory agencies in their ratemaking determinations. Therefore, transfer of funds from our subsidiaries to us for the payment of our obligations or dividends may have an adverse effect on ratemaking determinations. Furthermore, our right to receive cash or other assets upon the liquidation or reorganization of a subsidiary is generally subject to the prior claims of creditors of that subsidiary. If we are unable to obtain funds from our subsidiaries in a timely manner, we may be unable to meet our obligations or pay dividends.

We can make dividend payments only from our surplus (the excess, if any, of our net assets over total paid-in capital) or if there is no surplus, the net profits for the current fiscal year or the fiscal year before which the dividend is declared. In addition, we can pay cash dividends only if after paying those dividends we would be able to pay our liabilities as they become due. Owners of our capital stock cannot force us to pay dividends and dividends will only be paid if and when declared by our board of directors. Our board of directors can elect at any time, and for an indefinite duration, not to declare dividends on our capital stock.

***An important element of our growth strategy is the acquisition of water and wastewater systems. Risks associated with potential acquisitions, divestitures or restructurings may adversely affect us.***

We may seek to acquire or invest in other companies, technologies, services or products that complement our business. The execution of our growth strategy may expose us to different risks than those associated with our utility operations. We can give no assurance that we will succeed in finding attractive acquisition candidates or investments, or that we would be able to reach mutually agreeable terms with such parties. In addition, as consolidation becomes more prevalent in the water and wastewater industries, the prices for suitable acquisition candidates may increase to unacceptable levels and limit our ability to grow through acquisitions. If we are unable to find acquisition candidates or investments, our ability to grow may be limited.

Acquisition and investment transactions may result in the issuance of our equity securities that could be dilutive if the acquisition or business opportunity does not develop in accordance with our business plan. They may also result in significant write-offs and an increase in our debt. The occurrence of any of these events could have a material adverse effect on our business, financial condition and results of operations.

Any of these transactions could involve numerous additional risks, including one or more of the following:

- problems integrating the acquired operations, personnel, technologies, physical and cyber security processes, or products with our existing businesses and products;
- liabilities inherited from the acquired companies' prior business operations;
- diversion of management time and attention from our core business to the acquired business;
- failure to retain key technical, management, sales and other personnel of the acquired business;
- difficulty in retaining relationships with suppliers and customers of the acquired business; and
- difficulty in obtaining required regulatory approvals.

In addition, the businesses and other assets we acquire may not achieve the sales and profitability expected. The occurrence of one or more of these events may have a material adverse effect on our business. There can be no assurance that we will be successful in overcoming these or any other significant risks encountered.

***We may not be able to increase or sustain our recent growth rate, and we may not be able to manage our future growth effectively.***

We may be unable to continue to expand our business or manage future growth. To successfully manage our growth and handle the responsibilities of being a public company, we must effectively:

- hire, train, integrate and manage additional qualified engineers for engineering design and construction activities, new business personnel, and financial and information technology personnel;
- retain key management, augment our management team, and retain qualified and certified water and wastewater system operators;

- implement and improve additional and existing administrative, financial and operations systems, procedures and controls;
- expand our technological capabilities; and
- manage multiple relationships with our customers, regulators, suppliers and other third parties.

If we are unable to manage our growth effectively, we may not be able to take advantage of market opportunities, satisfy customer requirements, execute our business plan or respond to competitive pressures.

***We have a number of large-volume commercial and industrial customers and a significant decrease in consumption by one or more of these customers could have an adverse effect on our operating results and cash flows.***

Our billed revenues and cash flows from operations will decrease if a significant business or industrial customer terminates or materially reduces its use of our water. Approximately \$161.1 million, or 24.2%, of our 2019 water utility revenues was derived from business and industrial customers. However, if any of our large business or industrial customers in California reduce or cease its consumption of our water, the impact to net operating income would be minimal to our operations due to the WRAM and MCBA, but could impact our cash flows. In Hawaii, we serve a number of large resorts which if their water usage was reduced or ceased could have a material impact to our Hawaii operation. The delay between such date and the effective date of the rate relief may be significant and could adversely affect our operating results and cash flows.

***Our operating cost and costs of providing services may rise faster than our revenues.***

Our ability to increase rates over time is dependent upon approval of such rate increases by the Commissions, or in the case of the City of Hawthorne and the City of Commerce, the City Council, which may be inclined, for political or other reasons, to limit rate increases. However, our costs, which are subject to market conditions and other factors, may increase significantly. The second largest component of our operating costs after water production is made up of salaries and wages. These costs are affected by the local supply and demand for qualified labor. Other large components of our costs are general insurance, workers compensation insurance, employee benefits and health insurance costs. These costs may increase disproportionately to rate increases authorized by the Commissions and may have a material adverse effect on our future results of operations.

***Demand for our stock may fluctuate due to circumstances beyond our control.***

We believe that stockholders invest in public utility stocks, in part, because they seek reliable dividend payments. If there is an over-supply of stock of public utilities in the market relative to demand by such investors, the trading price of our securities could decrease. Additionally, if interest rates rise above the dividend yield offered by our equity securities, demand for our stock, and consequently its market price, may also decrease. A decline in demand for our stock may have a negative impact on our ability to finance capital projects.

***Adverse investment returns and other factors may increase our pension liability and pension funding requirements.***

A substantial number of our employees are covered by a defined benefit pension plan. At present, the pension plan is underfunded because our projected pension benefit obligation exceeds the aggregate fair value of plan assets. Under applicable law, we are required to make cash contributions to the extent necessary to comply with minimum funding levels imposed by



regulatory requirements. The amount of such required cash contribution is based on an actuarial valuation of the plan. The funded status of the plan can be affected by investment returns on plan assets, discount rates, mortality rates of plan participants, pension reform legislation and a number of other factors. There can be no assurance that the value of our pension plan assets will be sufficient to cover future liabilities. Although we have made contributions to our pension plan in recent years, it is possible that we could incur a pension liability adjustment, or could be required to make additional cash contributions to our pension plan, which would reduce the cash available for business and other needs.

***Labor relations matters could adversely affect our operating results.***

At December 31, 2019, 768 of our 1,207 total employees were union employees. Most of our unionized employees are represented by the Utility Workers Union of America, AFL-CIO, except certain engineering and laboratory employees who are represented by the International Federation of Professional and Technical Engineers, AFL-CIO.

We believe our labor relations are good, but in light of rising costs for health care and pensions, contract negotiations in the future may be difficult. Furthermore, changes in applicable law or regulations could have an adverse effect on management's negotiating position with respect to our currently unionized employees and/or employees that decide to unionize in the future. We are subject to a risk of work stoppages and other labor relations matters as we negotiate with the unions to address these issues, which could affect our results of operations and financial condition. We can give no assurance that issues with our labor forces will be resolved favorably to us in the future or that we will not experience work stoppages.

***We depend significantly on the services of the members of our management team, and the departure of any of those persons could cause our operating results to suffer.***

Our success depends significantly on the continued individual and collective contributions of our management team. The loss of the services of any member of our management team could have an adverse effect on our business as our management team has knowledge of our industry and customers and would be difficult to replace.

***Our operations are geographically concentrated in California and this lack of diversification may negatively impact our operations.***

Although we own facilities in a number of states, over 93.8% of our operations are located in California. As a result, we are largely subject to weather, political, water supply, labor, energy cost, regulatory and economic risks affecting California.

We are also affected by the real property market in California. In order to grow our business, we may need to acquire additional real estate or rights to use real property owned by third parties, the cost of which tends to be higher and more volatile in California than in other states. The value of our assets in California may decline if there is a decline in the California real estate market which results in a significant decrease in real property values.

***We retain certain risks not covered by our insurance policies.***

We evaluate our risks and insurance coverage annually or more frequently if circumstances dictate. Our evaluation considers the costs, risks and benefits of retaining versus insuring various risks as well as the availability of certain types of insurance coverage. Furthermore, we are also affected by increases in prices for insurance coverage; in particular, we have been, and will continue to be, affected by rising health insurance costs. Retained risks are associated with deductible limits, partial self-insurance programs and insurance policy coverage ceilings. If we suffer an uninsured

loss, we may be unable to pass all, or any portion, of the loss on to customers because our rates are regulated by regulatory commissions. Consequently, uninsured losses may negatively affect our financial condition, liquidity and results of operations. There can be no assurance that we will not face uninsured losses pertaining to the risks we have retained.

***Our enterprise risk management processes may not be effective in identifying and mitigating the risks to which we are subject, or in reducing the potential for losses in connection with such risks.***

Our enterprise risk management processes are designed to minimize or mitigate the risks to which we are subject, as well as any losses stemming from such risks. Although we seek to identify, measure, monitor, report, and control our exposure to such risks, and employ a broad and diversified set of risk monitoring and mitigation techniques in the process, those techniques are inherently limited in their ability to anticipate the existence or development of risks that are currently unknown and unanticipated. The ineffectiveness of our enterprise risk management processes in mitigating the impact of known risks or the emergence of previously unknown or unanticipated risks may result in our incurring losses in the future that could adversely impact our financial condition and results of operations.

***The accuracy of our judgments and estimates about financial and accounting matters will impact our operating results and financial condition.***

We make certain estimates and judgments in preparing our financial statements regarding, among others:

- the useful life of intangible rights;
- the number of years to depreciate certain assets;
- amounts to set aside for uncollectible accounts receivable, inventory obsolescence and uninsured losses;
- our legal exposure and the appropriate accrual for claims, including medical claims and workers' compensation claims;
- future costs and assumptions for pensions and other postretirement benefits;
- regulatory recovery of regulatory assets;
- possible tax uncertainties; and
- projected collections of WRAM and MCBA receivables.

The quality and accuracy of those estimates and judgments will have an impact on our operating results and financial condition.

In addition, we must estimate unbilled revenues and costs as of the end of each accounting period. If our estimates are not accurate, we will be required to make an adjustment in a future period. Accounting rules permit us to use expense balancing accounts and memorandum accounts that include cost changes to us that are different from amounts incorporated into the rates approved by the Commissions. These accounts result in expenses and revenues being recognized in periods other than in which they occurred.

***Municipalities, water districts and other public agencies may condemn our property by eminent domain action.***

State statutes allow municipalities, water districts and other public agencies to own and operate water systems. These agencies are empowered to condemn water systems or real property

owned by privately owned public utilities in certain circumstances and in compliance with California and federal law. Additionally, whenever a public agency constructs facilities to extend its utility system into the service area of a privately owned public utility, such an act may constitute the taking of property and require reimbursement to the public utility for its loss. If a public agency were to file an eminent domain lawsuit against us, we would incur substantial attorney's fees, consultant and expert fees and other costs in considering a challenge to the right to take our utility property and/or its valuation for just compensation, as well as such fees and costs in any subsequent litigation if necessary. If the public agency prevailed and acquired our utility property, we would be entitled to just compensation for our loss, but we would no longer have access to the condemned property or water system. Neither would we be entitled to any portion of revenue generated from the use of such asset going forward.

**Item 1B. *Unresolved Staff Comments.***

None.

**Item 2. *Properties.***

Our physical properties consist of offices and water facilities to accomplish the production, storage, treatment, and distribution of water. These properties are located in or near the geographic service areas listed above in Item 1, "Business—Geographical Service Areas and Number of Customer Connections at Year-end." Our headquarters, which houses accounting, engineering, information systems, human resources, purchasing, regulatory, water quality, and executive staff, is located in San Jose, California.

The real properties owned are held in fee simple title. Properties owned by Cal Water are subject to the lien of an Indenture of Mortgage and Deed of Trust dated June 11, 2019, March 16, 2016, October 13, 2015, November 22, 2010, and April 17, 2009 (the California Indenture), securing Cal Water's First Mortgage Bonds, of which \$801.2 million was outstanding at December 31, 2019. The California Indenture contains certain restrictions common to such types of instruments regarding the disposition of property and includes various covenants and restrictions. At December 31, 2019, our California utility was in compliance with the covenants of the California Indenture.

Cal Water owns 596 wells and operates eleven leased wells. There are 448 owned storage tanks with a capacity of 295 million gallons, two leased storage tanks with a capacity of 0.4 million gallons, 30 managed storage tanks with a capacity of 32.4 million gallons, and three surface water reservoirs with a capacity of 220 million gallons. Cal Water owns and operates six surface water treatment plants with a combined capacity of 46 million gallons per day. There are 5,920 miles of supply and distribution mains in the various systems.

Hawaii Water owns 22 wells and manages two irrigation wells. There are 24 storage tanks with a storage capacity of 20.1 million gallons. There are 80 miles of supply and distribution lines. Hawaii Water operates five wastewater treatment facilities with a combined capacity to process approximately 2.1 million gallons per day. There are 29 miles of sewer collection mains including force mains.

Washington Water owns 352 wells and manages seven wells. There are 147 owned storage tanks and two managed storage tanks with a storage capacity of 7.8 million gallons. There are 406 miles of supply and distribution lines.

New Mexico Water owns 20 wells. There are 17 storage tanks with a storage capacity of 3.8 million gallons. There are 145 miles of supply and distribution lines. New Mexico operates two waste water treatment facilities with a combined capacity to process 0.62 million gallons per day. There are eight life stations and 35 miles of sewer collection mains.

Washington Water has long-term bank loans that are secured primarily by utility plant owned by Washington Water.

In the leased City of Hawthorne and City of Commerce systems or in systems that are operated under contract for municipalities or private companies, title to the various properties is held exclusively by the municipality or private company.

**Item 3. *Legal Proceedings.***

Information with respect to this item may be found under the subheading “Commitments and Contingencies” in Note 14 to the consolidated Financial Statements in Item 8, which is incorporated herein by reference.

**Item 4. *Mine Safety Disclosures.***

Not applicable.

## PART II

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

Our common stock is traded on the New York Stock Exchange under the symbol "CWT." At December 31, 2019, there were 48,532,199 common shares outstanding. There were 1,922 common stockholders of record as of February 10, 2020.

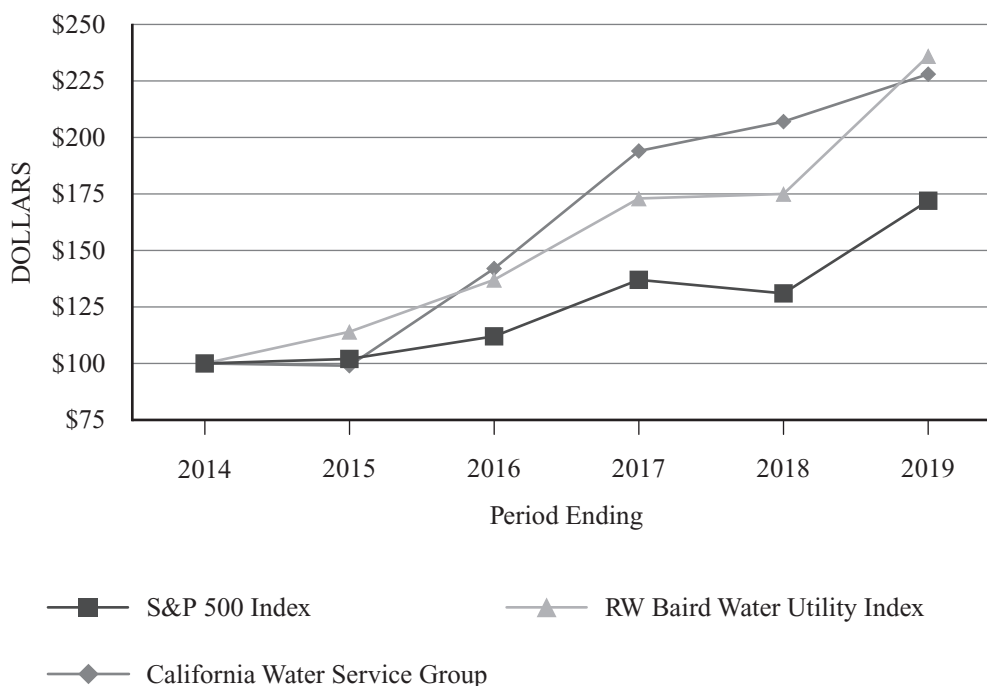
During 2019, we paid a cash dividend of \$0.7900 per common share, or \$0.1975 per quarter. During 2018, we paid a cash dividend of \$0.7500 per common share, or \$0.1875 per quarter. On January 29, 2020, our Board of Directors declared a quarterly cash dividend of \$0.2125 per common share payable on February 21, 2020, to stockholders of record on February 10, 2020. This represents an indicated annual cash dividend of \$0.8500, and would be our 53rd consecutive year of increasing the annual dividend and marks the 300th consecutive quarterly dividend.

We presently intend to pay quarterly cash dividends in the future consistent with past practices, subject to our earnings and financial condition, restrictions set forth in our debt instruments, regulatory requirements and such other factors as our Board of Directors may deem relevant.

#### **Five-Year Performance Graph**

The following performance graph compares the changes in the cumulative shareholder return on California Water Service Group's common stock with the cumulative total return on the Robert W. Baird Water Utility Index and the Standard & Poor's 500 Index during the last five years ended December 31, 2019. The comparison assumes \$100 was invested on December 31, 2014, in California Water Service Group's common stock and in each of the forgoing indices and assumes reinvestment of dividends.

#### **Performance Graph Data**



The following descriptive data is supplied in accordance with Rule 304(d) of Regulations S-T:

|   | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> |
|---|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>California Water Service Group . . . . .</b> | 100         | 99          | 142         | 194         | 207         | 228         |
| <b>S&amp;P 500 . . . . .</b>                    | 100         | 102         | 112         | 137         | 131         | 172         |
| <b>RW Baird Water Utility Index . . . . .</b>   | 100         | 114         | 137         | 173         | 175         | 236         |

An initial \$100 investment in the common stock of California Water Service Group on December 31, 2014 including reinvestment of dividends would be worth \$228 at the end of the 5-year period ending December 31, 2019.

**Item 6. Selected Financial Data.**

The following selected consolidated financial data should be read in conjunction with our Consolidated Financial Statements and the Notes thereto and the information contained in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Historical results are not necessarily indicative of future results.

## FIVE YEAR FINANCIAL REVIEW

|   | 2019   | 2018             | 2017             | 2016             | 2015             |
|---|--|------------------|------------------|------------------|------------------|
|   | (Dollars in thousands, except per common share and other data) |                  |                  |                  |                  |
| <b>Summary of Operations</b>                                      |  |                  |                  |                  |                  |
| Operating revenue . . . . .                                       | 714,557  | 698,196          | 676,113          | 609,370          | 588,368          |
| Total operating expenses(b) . . . . .                             | 615,145  | 587,656          | 569,030          | 526,734          | 506,803          |
| Interest expense, other income<br>and expenses, net(b) . . . . .  | 36,296   | 44,956           | 34,143           | 33,961           | 36,548           |
| <b>Net income</b> . . . . .                                       | <u>\$ 63,116</u>   | <u>\$ 65,584</u> | <u>\$ 72,940</u> | <u>\$ 48,675</u> | <u>\$ 45,017</u> |
| <b>Common Share Data</b>  |  |                  |                  |                  |                  |
| Earnings per share—diluted . . . . .                              | \$ 1.31  | \$ 1.36          | \$ 1.52          | \$ 1.01          | \$ 0.94          |
| Dividend paid . . . . .   | 0.7900   | 0.7500           | 0.7200           | 0.6900           | 0.6700           |
| Dividend payout ratio . . . . .                                   | 60.31%   | 55.15%           | 47.37%           | 68.32%           | 71.28%           |
| Book value per share . . . . .                                    | \$ 16.07   | \$ 15.19         | \$ 14.56         | \$ 13.75         | \$ 13.41         |
| Market price at year-end . . . . .                                | 51.56  | 47.66            | 45.35            | 33.90            | 23.27            |
| Common shares outstanding at<br>year-end (in thousands) . . . . . | 48,532   | 48,065           | 48,012           | 47,965           | 47,875           |
| Return on average common<br>stockholders' equity . . . . .        | 8.36%  | 9.18%            | 10.73%           | 7.50%            | 7.10%            |
| Long-term debt interest coverage                                  | 3.10   | 3.57             | 4.58             | 3.45             | 3.67             |
| <b>Balance Sheet Data</b>   |  |                  |                  |                  |                  |
| Net utility plant . . . . .                                       | \$2,406,370  | \$2,232,723      | \$2,047,965      | \$1,859,277      | \$1,701,768      |
| Total assets(a) . . . . .   | 3,111,308  | 2,837,704        | 2,744,710        | 2,411,745        | 2,241,253        |
| Long-term debt including current<br>portion, net(a) . . . . .     | 808,622  | 814,938          | 531,713          | 557,953          | 514,045          |
| Capitalization ratios:  |  |                  |                  |                  |                  |
| Common stockholders' equity(a)                                    | 49.10%   | 47.30%           | 56.80%           | 54.20%           | 55.50%           |
| Long-term debt(a)   | 50.90%   | 52.70%           | 43.20%           | 45.80%           | 44.50%           |
| <b>Other Data</b>   |  |                  |                  |                  |                  |
| Estimated water production<br>(million gallons)                   |  |                  |                  |                  |                  |
| Wells and surface supply . . . . .                                | 50,992   | 54,228           | 53,855           | 50,942           | 51,413           |
| Purchased . . . . .   | 53,743   | 53,361           | 51,131           | 48,154           | 47,486           |
| Total estimated water production                                  | <u>104,735</u>   | <u>107,589</u>   | <u>104,986</u>   | <u>99,096</u>    | <u>98,899</u>    |
| Metered customers . . . . .                                       | 498,900  | 494,600          | 490,100          | 485,200          | 477,300          |
| Flat-rate customers . . . . .                                     | 21,700   | 22,900           | 24,200           | 26,300           | 31,700           |
| Customers at year-end(c) . . . . .                                | <u>520,600</u>   | <u>517,500</u>   | <u>514,300</u>   | <u>511,500</u>   | <u>509,000</u>   |
| New customers added . . . . .                                     | 3,100  | 3,200            | 2,800            | 2,500            | 2,900            |
| Revenue per customer . . . . .                                    | \$ 1,373   | \$ 1,349         | \$ 1,315         | \$ 1,191         | \$ 1,156         |
| Utility plant per customer . . . . .                              | 6,820  | 6,240            | 5,775            | 5,312            | 4,925            |
| Employees at year-end . . . . .                                   | 1,207  | 1,184            | 1,176            | 1,163            | 1,155            |

(a) The five year financial review for 2015 reflects the retrospective adoption of ASU 2015-03, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The Company adopted this guidance effective January 1, 2016.

(b) The five year financial review for 2017, 2016, and 2015 reflect the retrospective adoption of ASU 2017-07, which requires employers to present the service cost component of the net periodic benefit cost as part of operating expenses. The other components of net benefit cost, including interest cost, expected return on plan assets, amortization of prior service cost/credit and actuarial gain/loss, and settlement and curtailment effects, are to be presented as non-regulated expenses. The Company adopted this guidance effective January 1, 2018.

(c) Includes customers of the City of Hawthorne and City of Commerce

## **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

The following sections include a discussion of results for fiscal 2019 compared to fiscal 2018 as well as certain 2017 results. The comparative results for fiscal 2018 with fiscal 2017 generally have not been included in this Form 10-K, but may be found in "Part II—Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" of the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

### **Overview**

In 2019 and 2018, net income was \$63.1 million and \$65.6 million, respectively. Earnings per diluted common share decreased \$0.05 to \$1.31 or 3.7% from 2018 to 2019. The \$2.5 million decrease in net income was driven primarily by increases of \$7.8 million in administrative and general, \$10.2 million in other operations, \$5.4 million of depreciation and amortization, \$2.3 million of maintenance, \$1.5 million of property and other taxes, and \$3.4 million of net interest expense. In addition, a reduction in the income tax benefit from repairs deductions resulted in a \$2.3 million decrease in 2019 net income as compared to the prior year. These cost increases were partially offset by general rate increases of \$19.7 million, a reduction in business development expenses of \$4.4 million, and an increase in the allowance for equity funds used during construction of \$2.7 million.

Changes driven by factors outside the Company's immediate control partially offset the decrease in 2019 net income. They included a \$7.4 million unrealized gain from certain benefit plan investments due to market conditions, which was partially offset by a \$2.2 million reduction in the unbilled revenue accrual and a \$1.6 million decrease in the benefits from Company-owned life insurance.

We plan to continue to seek rate relief to recover our operating cost increases and receive reasonable returns on invested capital. We expect to fund our long-term capital needs through a combination of debt, common stock offerings, and cash flow from operations.

### **Critical Accounting Policies and Estimates**

We maintain our accounting records in accordance with accounting principles generally accepted in the United States of America and as directed by the Commissions to which our operations are subject. The process of preparing financial statements requires the use of estimates on the part of management. The estimates used by management are based on historic experience and an understanding of current facts and circumstances. A summary of our significant accounting policies is listed in Note 2 of the Notes to Consolidated Financial Statements. The following sections describe those policies where the level of subjectivity, judgment, and variability of estimates could have a material impact on the financial condition, operating performance, and cash flows of the business.

### **Revenue Recognition**

#### *Revenue from contracts with customers*

The Company principally generates operating revenue from contracts with customers by providing regulated water and wastewater services at tariff-rates authorized by the Commissions in the states in which they operate and non-regulated water and wastewater services at rates authorized by contracts with government agencies. Revenue from contracts with customers reflects amounts billed for the volume of consumption at authorized per unit rates, for a service charge, and for other authorized charges.



The Company satisfies its performance obligation to provide water and wastewater services over time as services are rendered. The Company applies the invoice practical expedient and recognizes revenue from contracts with customers in the amount for which the Company has a right to invoice. The Company has a right to invoice for the volume of consumption, for the service charge, and for other authorized charges. The measurement of sales to customers is generally based on the reading of their meters, which occurs on a systematic basis throughout the month.

Contract terms are generally short-term and at will by customers and, as a result, no separate financing component is recognized for the Company's collections from customers, which generally require payment within 30 days of billing. The Company applies judgment, based principally on historical payment experience, in estimating its customers' ability to pay.

Certain customers are not billed for volumetric consumption, but are instead billed a flat rate at the beginning of each monthly service period. The amount billed is initially deferred and subsequently recognized over the monthly service period, as the performance obligation is satisfied. The deferred revenue balance or contract liability, which is included in "other accrued liabilities" on the consolidated balance sheets, is inconsequential.

#### Regulatory balancing account revenue

The Company's ability to recover revenue requirements authorized by the CPUC in its triennial GRC, is decoupled from the volume of the sales. Regulatory balancing account revenue is revenue related to rate mechanisms authorized in California by the CPUC, which allow the Company to recover the authorized revenue and are not considered contracts with customers. These mechanisms include the following:

The Water Revenue Adjustment Mechanism (WRAM) allows the Company to recognize the adopted level of volumetric revenues. The variance between adopted volumetric revenues and actual billed volumetric revenues for metered accounts is recorded as regulatory balancing account revenue.

Cost-recovery rates, such as the Modified Cost Balancing Account (MCBA), Conservation Balancing Account, Pension Cost Balancing Account, and Health Cost Balancing Account, provide for recovery of the adopted levels of expenses for purchased water, purchased power, pump taxes, water conservation program costs, pension, and health care. Variances between adopted and actual costs are recorded as regulatory balancing account revenue.

Each district's WRAM and MCBA regulatory assets and liabilities are allowed to be netted against one another. The Company recognizes regulatory balancing account revenues that have been authorized for rate recovery, are objectively determinable and probable of recovery, and are expected to be collected within 24 months. To the extent that regulatory balancing account revenue is estimated to be collectible beyond 24 months, recognition is deferred.

### **Regulated Utility Accounting**

Because we operate almost exclusively in a regulated business, we are subject to the accounting standards for regulated utilities. The Commissions in the states in which we operate establish rates that are designed to permit the recovery of the cost of service and a return on investment. We capitalize and record regulatory assets for costs that would otherwise be charged to expense if it is probable that the incurred costs will be recovered in future rates. Regulatory assets are amortized over the future periods that the costs are expected to be recovered. If costs expected to be incurred in the future are currently being recovered through rates, we record those expected future costs as regulatory liabilities. In addition, we record regulatory liabilities when the Commissions require a refund to be made to our customers over future periods.

Determining probability requires significant judgment by management and includes, but is not limited to, consideration of testimony presented in regulatory hearings, proposed regulatory decisions, final regulatory orders, and the strength or status of applications for rehearing or state court appeals.

If we determine that a portion of our assets used in utility operations is not recoverable in customer rates, we would be required to recognize the loss of the assets disallowed.

## **Income Taxes**

We account for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. We measure deferred tax assets and liabilities at enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. We recognize the effect on the deferred tax assets and liabilities of a change in tax rate in the period that includes the enactment date. We also assess the likelihood that deferred tax assets will be recovered in future taxable income and, to the extent recovery is not probable, a valuation allowance would be recorded. In management's view, a valuation allowance was not required as of December 31, 2019 and December 31, 2018.

We anticipate that future rate actions by the regulatory commissions will reflect revenue requirements for the tax effects of temporary differences recognized, which have previously been passed through to customers. The regulatory commissions have granted the Company permission to reflect the normalization of the tax benefits of the federal accelerated methods and available Investment Tax Credits (ITCs) for all assets placed in service after 1980. ITCs are deferred and amortized over the lives of the related properties for book purposes. The CPUC requires flow through accounting for state deferred taxes.

On December 22, 2017, the Tax Cuts and Jobs Act (TCJA) was enacted. Based on the accounting principles generally accepted in the United States of America, the Company is required to re-measure deferred income taxes to reflect the corporate income tax rate change from 35 percent to 21 percent as of the date of enactment. The re-measurement of the deferred income taxes resulted in an estimated excess deferred income tax liability of \$121.0 million as of December 31, 2019. The TCJA lowered ratepayers' rates in 2018 and 2019 due to lower income tax expense recoveries and resulted in the quantification of excess deferred income tax balances collected from ratepayers. The lower customer rates will be partially offset by the TCJA's effect of increasing rate base in future years. The Company is working with state regulators on the refund process for excess deferred income taxes collected from ratepayers in prior years that complies with the federal income tax normalization rules. There are aspects to the TCJA that contain technical matters that require management to interpret the legislation and make judgments until further guidance becomes available. As a result, changes in management's judgments could materially affect amounts recognized in the financial statements.

## **Pension and Postretirement Health Care Benefits**

We incur costs associated with our pension and postretirement health care benefits plans. To measure the expense of these benefits, our management must estimate compensation increases, mortality rates, future health cost increases and discount rates used to value related liabilities and to determine appropriate funding. Different estimates used by our management could result in significant variances in the cost recognized for pension and postretirement health care benefit plans. The estimates used are based on historical experience, current facts, future expectations, and recommendations from independent advisors and actuaries. We use an investment advisor to provide advice in managing the plan's investments. We anticipate any increases in funding for the

pension benefits plans will be recovered in future rate filings, thereby mitigating the financial impact. We believe it is probable that future costs will be recovered in future rates and therefore have recorded a regulatory asset in accordance with generally accepted accounting principles.

Changes to the pension benefits actuarial assumptions can significantly affect pension costs, regulatory assets, and liabilities. The following table reflects the sensitivity of pension amounts reported for the year ended December 31, 2019, to changes in actuarial assumptions:

|  | <u>Increase/(Decrease)<br/>in Pension Benefits<br/>Actuarial Assumption</u> | <u>Increase/(Decrease)<br/>in 2019 Net Periodic<br/>Benefit Cost</u> | <u>Increase/(Decrease)<br/>in Projected Benefit<br/>Obligation as of<br/>December 31, 2019</u> |
|--|---|--|--|
|  |   | <b>Dollars in thousands</b>  |  |
| Discount rate . . . . .                              | (0.5)%  | \$ 7,617   | \$ 86,772  |
| Long-term rate of return on plan<br>assets . . . . . | (0.5)%  | 2,329  | —  |
| Rate of compensation increases . .                   | (0.5)%  | (3,248)  | (23,132)   |
| Cost of living adjustment . . . . .                  | (0.5)%  | (6,156)  | (52,291)   |
| Discount rate . . . . .                              | 0.5%  | (6,596)  | (75,156)   |
| Long-term rate of return on plan<br>assets . . . . . | 0.5%  | (2,330)  | —  |
| Rate of compensation increases . .                   | 0.5%  | 3,492  | 24,773   |
| Cost of living adjustment . . . . .                  | 0.5%  | 6,691  | 56,917   |

## **Results of Operations**

### **Operating Revenue**

Operating revenue in 2019 was \$714.6 million, an increase of \$16.4 million, or 2.3%, over 2018. Operating revenue in 2018 was \$698.2 million, an increase of \$22.1 million, or 3.3%, over 2017. The sources of changes in operating revenue were:

|  | <u>2019</u>                    | <u>2018</u>   |
|--|--------------------------------|---------------|
|  | <b>Dollars<br/>in millions</b> |               |
| Net change in WRAM, service charges, usage, and other(1) . . . . | \$23.1                         | \$ 9.3        |
| MCBA revenue(2) . . . . .  | (5.3)                          | 3.5           |
| Other balancing account revenue(3) . . . . .                     | 3.8                            | 3.1           |
| Deferral of revenue(4) . . . . .                                 | (5.2)                          | 6.2           |
| Net change . . . . .   | <u>\$16.4</u>                  | <u>\$22.1</u> |

- (1) In 2019, the operating revenue increase is due to rate increases, which increase WRAM and service charges (see table in Rates and Regulation section below), partially offset by a \$2.2 million decrease in accrued unbilled revenue.
- (2) The MCBA revenue decrease in 2019 resulted from a decrease in actual water production costs relative to adopted water production costs in 2019 as compared to 2018. As required by the MCBA mechanism, the change in water production costs in California changes operating revenue in the same amount.
- (3) The other balancing accounts revenue consists of the pension cost, conservation and health cost balancing account revenues. Pension cost and conservation balancing account revenues are the differences between actual expenses and adopted rate recovery. Health cost balancing account revenue is 85% of the difference between

actual health care expenses and adopted rate recovery. In 2019, the increase in other balancing account revenue was due to an increase in actual conservation expenses relative to adopted in 2019 as compared to 2018, which was partially offset by a decrease in actual pension expenses relative to adopted in 2019 as compared to 2018.

- (4) The deferral of revenue consists of amounts that are expected to be collected from customers beyond 24 months following the end of the accounting period in which these revenues were recorded. In 2019, the deferral increased as compared to 2018 due a decline in actual customer usage relative to adopted customer usage in 2019 as compared to 2018.

### **Water Production Expenses**

Water production expenses, which consist of purchased water, purchased power, and pump taxes, comprise the largest segment of total operating expenses. Water production costs accounted for 41.5% and 43.0%, of total operating costs in 2019 and 2018, respectively. The rates charged for wholesale water supplies, electricity, and pump taxes are established by various public agencies. As such, these rates are beyond our control.

The table below provides the change in water production expenses during the past 2 years:

|                                     | 2019           |               |             | 2018           |               |             |
|-------------------------------------|----------------|---------------|-------------|----------------|---------------|-------------|
|                                     | Amount         | Change        | % Change    | Amount         | Change        | % Change    |
| <b>Dollars in millions</b>          |                |               |             |                |               |             |
| Purchased water . . . . .           | \$212.5        | \$ 5.4        | 2.6%        | \$207.1        | \$ 8.0        | 4.0%        |
| Purchased power . . . . .           | 31.4           | 0.3           | 1.0%        | 31.1           | 2.2           | 7.6%        |
| Pump taxes . . . . .                | 11.5           | (3.2)         | (21.8)%     | 14.7           | 0.8           | 5.8%        |
| Total water production expenses . . | <u>\$255.4</u> | <u>\$ 2.5</u> | <u>1.0%</u> | <u>\$252.9</u> | <u>\$11.0</u> | <u>4.5%</u> |

The principal factors affecting water production expenses are the quantity, price and source of the water. Generally, water pumped from wells costs less than water purchased from wholesale suppliers.

The table below provides the amounts, percentage change, and source mix for the respective years:

|                                 | 2019           |               |                          | 2018           |               |                          |
|---------------------------------|----------------|---------------|--------------------------|----------------|---------------|--------------------------|
|                                 | MG             | % of Total    | % change from prior year | MG             | % of Total    | % change from prior year |
| <b>Millions of gallons (MG)</b> |                |               |                          |                |               |                          |
| Source:                         |                |               |                          |                |               |                          |
| Wells . . . . .                 | 45,575         | 43.5%         | (7.6)%                   | 49,340         | 45.9%         | 1.3%                     |
| Purchased . . . . .             | 53,743         | 51.3%         | 0.7%                     | 53,361         | 49.6%         | 4.4%                     |
| Surface . . . . .               | 5,417          | 5.2%          | 10.8%                    | 4,888          | 4.5%          | (4.6)%                   |
| Total . . . . .                 | <u>104,735</u> | <u>100.0%</u> | <u>(2.7)%</u>            | <u>107,589</u> | <u>100.0%</u> | <u>2.5%</u>              |

Purchased water expenses are affected by changes in quantities purchased, supplier prices, and cost differences between wholesale suppliers. The MCBA mechanism is designed to recover all incurred purchased water expenses.

For 2019, the \$5.4 million increase in purchased water expenses is due to a 0.7% increase in purchased quantities and an overall blended water wholesaler rate increase of 1.9%.

Purchased power expenses are affected by the quantity of water pumped from wells and moved through the distribution system, rates charged by electric utility companies, and rate structures applied to usage during peak and non-peak times of the day or season. In 2019, purchased power expenses increased \$0.3 million, or 1.0%, mainly due to a 10.8% increase in surface water production.

Changes in climate change regulations could increase the cost of power which in turn would result in an increase in the rates our power suppliers charge us. Any change in pricing of our purchased power expenses in California would be recovered from our customers through the MCBA mechanism. Any change in power costs in other states would be requested to be recovered by the customers in those states. The impact of such legislation is dependent upon the enacted date, the factors that impact our suppliers' cost structure, and their ability to pass the costs to us in their approved tariffs. These items are not known at this time.

### ***Administrative and General Expenses***

Administrative and general expenses include payroll related to administrative and general functions, all employee benefits charged to expense accounts, insurance expenses, legal fees, expenses associated with being a public company, and general corporate expenses.

During 2019, administrative and general expenses increased \$7.8 million or 7.8%, as compared to 2018. The increase was mostly due to employee wage increases of \$3.2 million, legal and outside services fees increase of \$3.1 million, and uninsured losses of \$1.2 million which were partially offset by a \$2.2 million decrease in employee pension and retiree medical expenses. Also, 2018 expenses were partially offset by the recovery of \$2.6 million for 2016 and 2017 drought program incremental costs. Employee pension benefit expenses are fully recovered in rates and are tracked in the pension cost balancing account, such that revenues are recovered on a dollar-for-dollar basis up to the amounts authorized in the 2015 GRC. Employee and retiree medical expenses are recovered in rates through health cost balancing account authorized in the 2015 GRC, such that revenues are recovered up to 85% of the variance between adopted and recorded expenses.

### ***Other Operations Expenses***

The components of other operations expenses include payroll, material and supplies, and contract service costs of operating the regulated water systems, including the costs associated with water transmission and distribution, pumping, water quality, meter reading, billing, operations of district offices, and water conservation programs.

During 2019, other operations expenses increased \$10.2 million, or 12.8%, compared to 2018. The increase was mostly due to increases in water conservation program expenses of \$8.1 million, PSPS program costs of \$1.5 million, software licensing fees of \$1.3 million, employee wage increases of \$0.7 million, property maintenance costs of \$0.6 million, and a \$0.4 million increase from the impairment of utility plant from the California GRC. These cost increases were partially offset by a decrease in costs associated with the deferral of operating revenue of \$4.2 million. Also, 2018 expenses were partially offset by the recovery of \$0.7 million for 2016 and 2017 drought program incremental costs. Water conservation program expenses are fully recovered in rates and are tracked in the conservation balancing account if it is within the authorized amount, such that revenues are recovered on a dollar-for-dollar basis up to the amounts authorized in the 2015 GRC.

### ***Maintenance***

Maintenance expenses increased \$2.3 million, or 9.6%, in 2019, compared to 2018 due to increased costs for repairs of reservoirs, structures, and transmission and distribution mains.

### **Depreciation and Amortization**

Depreciation and amortization increased \$5.4 million in 2019, or 6.5%, primarily due to capital additions.

### **Income Taxes**

For 2019, income taxes decreased \$2.3 million, or 12.4%, to \$16.3 million as compared to 2018. The decrease was primarily due to a reduction in operating income which was partially offset by a \$2.3 million decrease in the tax benefit from the flow through method of accounting for “repairs” deductions on our corporate state income tax filings. The Company’s effective combined income tax rate for 2019 was 21.9% as compared to 19.5% for 2018.

### **Property and Other Taxes**

For 2019, property and other taxes increased \$1.5 million, or 5.5%, as compared to 2018. The increase was due to an increase in our assessed property values for utility plant placed in service during the year.

### **Other Income and Expenses**

In 2019, net other income increased \$12.0 million to net other income of \$4.9 million as compared to a net other loss of \$7.1 million in 2018. The increase was due primarily to a \$7.4 million increase in unrealized gains from certain benefit plan investments due to market conditions, a \$4.4 million decrease in business development expenses, and a \$2.7 million increase in the allowance for equity funds used during construction, which was partially offset by wage increases of \$0.7 million and a decrease in the benefits from Company-owned life insurance of \$1.6 million.

### **Net Interest Expense**

In 2019, net interest expense increased \$3.4 million as compared to 2018. The increase relates to an increase in average daily borrowings on the unsecured revolving credit facilities, which were used to fund capital expenditures and general corporate purposes.

### **Rates and Regulation**

The following is a summary of 2019 rate filings. A description of the “Type of Filing” can be found in the “Item 1—Rates and Regulation” section above. California decisions and resolutions may be found on the CPUC website at [www.cpuc.ca.gov](http://www.cpuc.ca.gov).

| <b>Type of Filing</b>              | <b>Decision/Resolution</b> | <b>Effective Date</b> | <b>Increase<br/>(Decrease)<br/>Annual Revenue</b> | <b>CA District/<br/>Subsidiary</b> |
|------------------------------------|----------------------------|-----------------------|---|------------------------------------|
| <b>GRC and Offset Filings</b>      |                            |                       |   |                                    |
| 2019 Expense Offset . . . . .      | AL 2319-2323               | Jan 2019              | \$ 2.0 million                                    | 5 Districts                        |
| 2019 Escalation rate increases . . | AL 2324 and 2332           | Jan 2019              | \$16.2 million                                    | All Districts                      |
| Waikoloa GRC . . . . .             |                            | Jan 2019              | \$ 1.6 million                                    | Hawaii Water                       |
| 2019 Rate Base Offset . . . . .    | AL 2325-2328               | Apr 2019              | \$ 0.2 million                                    | 4 Districts                        |
| 2019 Expense Offset . . . . .      | AL 2345-2349               | July 2019             | \$ 3.9 million                                    | 5 Districts                        |
| 2019 Rate Base Offset . . . . .    | AL 2350                    | Nov 2019              | \$ 0.4 million                                    | 1 District                         |

The estimated impact of current and prior year rate changes on operating revenues compared to prior years is listed in the following table:

|  | <u>2019</u>                | <u>2018</u>   |
|--|----------------------------|---------------|
|  | <b>Dollars in millions</b> |               |
| General Rate Case (GRC)(a) . . . . .                     | \$ 3.5                     | \$ 4.9        |
| Escalation rate increases(b) . . . . .                   | 16.2                       | 15.4          |
| Expense offset (purchased water/pump taxes)(c) . . . . . | 5.7                        | 5.8           |
| Tax Cut Jobs Act(d) . . . . .                            | —                          | (10.7)        |
| Cost of capital(d) . . . . .                             | —                          | (6.3)         |
| Total rate increases . . . . .                           | <u>\$25.4</u>              | <u>\$ 9.1</u> |

- (a) Includes rate changes for the Cal Water 2015 GRC decision in 2017, rate base offsets in 2019, 2018 and 2017, Hawaii Water GRC decisions in 2019, 2018, and 2017 and Washington Water GRC decision in 2019 and 2018.
- (b) Includes rate changes for escalation rate increases in 2019 and 2018.
- (c) Includes purchased water and pump tax offsets for 2019, 2018 and 2017.
- (d) Customer rates were reduced beginning July 1, 2018 for the Tax Cuts Jobs Act and Cost of Capital decision in California. Includes revenue reduction recorded as regulatory liability for the first six months of 2018.

### **Water Supply**

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

California’s normal weather pattern yields little precipitation between mid-spring and mid-fall. The Washington Water service areas receive precipitation in all seasons, with the heaviest amounts during the winter. New Mexico Water’s rainfall is heaviest in the summer monsoon season. Hawaii Water receives precipitation throughout the year, with the largest amounts in the winter months. Water usage in all service areas is highest during the warm and dry summers and declines in the cool winter months. Rain and snow during the winter months replenish underground water aquifers and fill reservoirs, providing the water supply for subsequent delivery to customers. Management believes that supply pumped from underground aquifers and purchased from wholesale suppliers will be adequate to meet customer demand during 2020 and beyond. However, water rationing may be required in future periods, 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.

## **Liquidity and Capital Resources**

### ***Cash flow from Operations***

During 2019, we generated cash flow from operations of \$168.8 million, compared to \$179.0 million during 2018. The decrease in 2019 was primarily due to an increase in net WRAM and MCBA receivable in 2019 as actual customer usage was below adopted.

The water business is seasonal. Billed revenue is lower in the cool, wet winter months when less water is used compared to the warm, dry summer months when water use is highest. This seasonality results in the possible need for short-term borrowings under the bank lines of credit in the event cash is not sufficient to cover operating and capital costs during the winter period. The increase in cash flow during the summer allows short-term borrowings to be paid down. Customer water usage can be lower than normal in years when more than normal precipitation falls in our service areas or temperatures are lower than normal, especially in the summer months. The reduction in water usage reduces cash flow from operations and increases the need for short-term bank borrowings. In addition, short-term borrowings are used to finance capital expenditures until long-term financing is arranged.

### ***Investing Activities***

During 2019, 2018, and 2017, we used \$273.8 million, \$271.7 million and \$259.2 million, respectively, of cash for capital expenditures, both Company-funded and developer-funded. The 2019 capital expenditures exceeded the high end of the budgeted capital expenditures of \$260.0 million. Annual expenditures fluctuate each year due to the availability of construction resources and our ability to obtain construction permits in a timely manner.

### ***Financing Activities***

During 2019, we borrowed \$260.0 million, and paid down \$150.0 million on our unsecured revolving credit facilities to fund capital expenditures and for general corporate purposes. We also added \$27.8 million of advances and contributions in aid of construction, which was reduced by refunds to developers of \$7.6 million. We issued \$400.0 million of First Mortgage Bonds on June 11, 2019 in a private placement and used the net proceeds to pay down Cal Water's unsecured revolving credit facility and for general corporate purposes. We also repaid \$405.6 million of First Mortgage Bonds that matured or were redeemed in 2019 and other long-term debt obligations. In addition, we issued \$20.4 million of Company common stock through our at-the-market equity plan and our employee stock purchase plan that went into effect on January 1, 2019 (see Note 6 in the Notes to Consolidated Financial Statements for additional information).

On March 29, 2019, the Company and Cal Water entered into certain syndicated credit agreements, which provide for unsecured revolving credit facilities of up to an initial aggregate amount of \$550.0 million for a term of five years. The revolving credit facilities amend, expand, and replace the Company's and its subsidiaries' prior credit facilities originally entered into on May 10, 2015. The new credit facilities extended the terms until March 29, 2024, and increased Cal Water's unsecured revolving line of credit. The Company and subsidiaries that it designates may borrow up to \$150.0 million under the Company's revolving credit facility. Cal Water may borrow up to \$400.0 million under its revolving credit facility. All borrowings must be repaid within 24 months unless a different period is required or authorized by the CPUC. Additionally, the credit facilities may be increased by up to an incremental \$150.0 million under the Cal Water facility and \$50.0 million under the Company facility, subject in each case to certain conditions. The proceeds from the revolving credit facilities may be used for working capital purposes, including the short-term financing of capital projects. Borrowings under the credit facilities typically have maturities varying between one and nine months and will bear interest annually at a rate equal to



(i) the base rate or (ii) the Eurodollar rate, plus an applicable margin of 0.650% to 0.875%, depending on the Company and its subsidiaries' consolidated total capitalization ratio.

The under-collected net WRAM and MCBA receivable balances were \$62.6 million, \$56.1 million, and \$69.1 million as of December 31, 2019, 2018, and 2017, respectively. The increase of \$6.5 million from December 31, 2018 to December 31, 2019 was primarily due to actual customer usage being lower than adopted. The under-collected net WRAM and MCBA receivable balances were primarily financed by Cal Water with short-term and long-term financing arrangements to meet operational cash requirements. Interest on the under-collected net WRAM and MCBA receivable balances, the interest recoverable from customers, is limited to the current 90-day commercial paper rate, which is significantly lower than Cal Water's short and long-term financing rates.

Bond principal and other long-term debt payments were \$405.6 million during 2019, \$16.5 million during 2018, and \$26.8 million during 2017.

At the January 2020 meeting, the Board of Directors declared the quarterly dividend, increasing it for the 53rd consecutive year. The quarterly dividend was raised from \$0.1975 to \$0.2125 per common share. This represents an indicated annual rate of \$0.8500 per common share. Dividends have been paid for 74 consecutive years. The annual dividends paid per common share in 2019, 2018, and 2017 were \$0.7900, \$0.7500, and \$0.7200, respectively. Earnings not paid as dividends are reinvested in the business for the benefit of stockholders. The dividend payout ratio was 60.3% in 2019, 55.2% in 2018, and 47.4% in 2017 for an average of 54.3% over the 3-year period. Our long-term targeted dividend payout ratio is 60%.

### ***Short-Term Financing***

Short-term liquidity is provided by the bank lines of credit described above and by internally generated funds. As of December 31, 2019, there were borrowings of \$175.1 million outstanding on our unsecured revolving lines of credit, compared to \$65.1 million outstanding on our unsecured revolving lines of credit as of December 31, 2018.

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.

The Company and subsidiaries which it designates may borrow up to \$150.0 million under its credit facility. Cal Water may borrow up to \$400.0 million under its credit facility; however, all borrowings currently need to be repaid within 24 months unless otherwise authorized by the CPUC.

Both 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" not to exceed 66.7% and "interest coverage ratio" of three or more (each as defined in the respective credit agreements). As of December 31, 2019, our consolidated total capitalization ratio was 58.4% and the interest coverage ratio was greater than five. In summary, as of such date, we met all of the covenant requirements and were eligible to use the full amounts of these credit agreements.

### ***Long-Term Financing***

Long-term financing is accomplished through the use of both debt and equity. Cal Water was authorized to issue \$350.0 million of debt and common stock to finance capital projects and

operations by a CPUC decision dated May 12, 2016. In addition, the decision retained \$146.0 million of prior financing authority and determined that refinancing long-term debt did not count against the authorization. The CPUC requires that any loans from Cal Water to the Company be at arm's length. This restriction did not materially impact the Company's ability to meet its cash obligations in 2019. Management does not expect this restriction to have a material impact on the Company's ability to meet its cash obligations in 2020 and beyond.

On June 11, 2019, Cal Water issued \$400.0 million of First Mortgage Bonds (see Note 8) in a private placement. Cal Water used the net proceeds from the sale of the bonds to pay down outstanding short-term borrowings and to redeem \$300.0 million of First Mortgage Bond series UUU. Long-term financing, which includes First Mortgage Bonds, 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.

Additional information regarding the bank borrowings and long-term debt is presented in Notes 7 and 8 in the Notes to Consolidated Financial Statements.

### ***Equity Issuance***

On October 31, 2019, the Company entered into an equity distribution agreement to sell shares of its common stock having an aggregate gross sales price of up to \$300.0 million from time to time depending on market conditions through an at-the-market equity program over the next three years. The Company intends to use the net proceeds from these sales, after deducting commissions on such sales and offering expenses, for general corporate purposes, which may include working capital, construction and acquisition expenditures, investments and repurchases and redemptions of securities. Additional information regarding this program is presented in Note 6 of the Notes to Consolidated Financial Statements.

### ***Off-Balance Sheet Transactions***

We do not utilize off-balance-sheet financing or utilize special purpose entity arrangements for financing. We do not have equity ownership through joint ventures or partnership arrangements.

### ***Contractual Obligations***

The contractual obligations presented in the table below represent our estimates of future payments under fixed contractual obligations and commitments. Changes in our business needs, cancellation provisions and changes in interest rates, as well as action by third parties and other factors, may cause these estimates to change. Therefore, our actual payments in future periods may vary from those presented in the table below.

The following table summarizes our contractual obligations as of December 31, 2019.

|   | <u>Total</u>              | <u>Less than<br/>1 Year</u> | <u>1 - 3 Years</u>      | <u>3 - 5 Years</u>      | <u>After<br/>5 Years</u>  |
|---|---------------------------|-----------------------------|-------------------------|-------------------------|---------------------------|
|   | (In thousands)            |                             |                         |                         |                           |
| Long-term debt(a) . . . . .                         | \$ 807,429                | \$ 21,693                   | \$ 9,909                | \$ 1,658                | \$ 774,169                |
| Interest payments . . . . .                         | 793,673                   | 38,308                      | 72,579                  | 71,736                  | 611,050                   |
| Advances for construction . . . . .                 | 191,062                   | 7,628                       | 15,254                  | 15,254                  | 152,926                   |
| Pension and postretirement<br>benefits(b) . . . . . | 285,089                   | 18,889                      | 43,875                  | 52,603                  | 169,722                   |
| Finance lease obligations(c) . . . . .              | 7,051                     | 986                         | 1,974                   | 2,446                   | 1,645                     |
| Operating lease obligations . . . . .               | 18,245                    | 1,951                       | 3,312                   | 2,777                   | 10,205                    |
| Water supply contracts(d) . . . . .                 | 777,093                   | 34,550                      | 69,101                  | 69,100                  | 604,342                   |
| <b>TOTAL . . . . .</b>                              | <b><u>\$2,879,642</u></b> | <b><u>\$124,005</u></b>     | <b><u>\$216,004</u></b> | <b><u>\$215,574</u></b> | <b><u>\$2,324,059</u></b> |

- (a) Excludes finance lease obligations as reported below. Also, excludes unamortized debt issuance costs of \$4.7 million.
- (b) Pension and postretirement benefits include \$2.1 million of short-term pension obligations.
- (c) Finance lease obligations represent total cash payments to be made in the future and include interest expense of \$1.2 million.
- (d) Estimated annual contractual obligations are based on the same payment levels as 2019.

For pension and postretirement benefits other than pensions obligations, see Note 11 of the Notes to the Consolidated Financial Statements.

Long-term debt payments include annual sinking fund payments on First Mortgage Bonds, maturities of long-term debt, and annual payments on other long-term obligations.

Advances for construction represent annual contract refunds to developers for the cost of water systems paid for by the developers. The contracts are non-interest bearing, and refunds are generally on a straight-line basis over a 40-year period. System and facility leases include obligations associated with leasing water systems and rents for office space.

For finance and operating lease obligations, see Note 14 of the Notes to the Consolidated Financial Statements.

Cal Water has water supply contracts with wholesale suppliers in 13 of its operating districts and for the two leased systems in Hawthorne and Commerce. For each contract, the cost of water is established by the wholesale supplier and is generally beyond our control. The amount paid annually to the wholesale suppliers is charged to purchased water expense on our statement of income. Most contracts do not require minimum annual payments and vary with the volume of water purchased. For more details related to water supply contracts, see Note 11 of the Notes to the Consolidated Financial Statements.

### **Capital Requirements**

Capital requirements consist primarily of new construction expenditures for expanding and replacing utility plant facilities and the acquisition of water systems. They also include refunds of advances for construction.

Company-funded and developer-funded utility plant expenditures were \$273.8 million, \$271.7 million, and \$259.2 million in 2019, 2018, and 2017, respectively. A majority of capital expenditures was associated with mains and water treatment equipment.

For 2020, the Company is estimating its capital expenditures to be between \$260.0 million and \$290.0 million based on the pending 2018 GRC in California and normal capital needs in the other subsidiaries. Capital expenditures in California are evaluated in the context of the pending GRC and may change as the case moves forward. We expect our annual capital expenditure to increase during the next five years due to increasing needs to replace and maintain infrastructure.

Management expects developer-funded expenditures in 2020. These expenditures will be financed by developers through refundable advances for construction and non-refundable contributions in aid of construction. Developers are required to deposit the cost of a water construction project with us prior to our commencing construction work, or the developers may construct the facilities themselves and deed the completed facilities to us. Funds are generally received in advance of incurring costs for these projects. Advances are normally refunded over a 40-year period without interest. Future payments for advances received are listed under contractual obligations above. Because non-Company-funded construction activity is solely at the discretion of developers, we cannot predict the level of future activity. The cash flow impact is expected to be minor due to the structure of the arrangements.

### **Capital Structure**

Common stockholders' equity was \$779.9 million at December 31, 2019, compared to \$730.2 million at December 31, 2018. The Company sold 381,105 shares of its common stock in 2019 through its at-the-market equity program.

Total capitalization, including the current portion of long-term debt, was \$1,588.5 million at December 31, 2019 and \$1,545.1 million at December 31, 2018. In 2019, Cal Water issued \$400.0 million of First Mortgage Bonds in a private placement and repaid \$405.6 million for First Mortgage Bonds that matured or were redeemed in 2019 and other long-term debt obligations. In future periods, the Company intends to issue common stock and long-term debt to finance our operations. The capitalization ratios will vary depending upon the method we choose to finance our operations.

At December 31, capitalization ratios were:

|                          | <u>2019</u> | <u>2018</u> |
|--------------------------|-------------|-------------|
| Common equity . . . . .  | 49.1%       | 47.3%       |
| Long-term debt . . . . . | 50.9%       | 52.7%       |

The return (from both regulated and non-regulated operations) on average common equity was 8.36% in 2019 compared to 9.18% in 2018. Cal Water does not include construction work in progress in its regulated rate base; instead, Cal Water was authorized to record AFUDC on construction work in progress, effective January 1, 2017. Construction work in progress for Cal Water was \$231.1 million at December 31, 2019 and \$199.1 million at December 31, 2018.

### **Acquisitions**

In 2019 and 2018 there were no significant acquisitions.

### **Real Estate Program**

We own real estate. From time to time, certain parcels are deemed no longer used or useful for water utility operations. Most surplus properties have a low cost basis. We developed a program to realize the value of certain surplus properties through sale or lease of those properties. The program will be ongoing for a period of several years. There were no significant sales in 2019 and

2018 and a pre-tax gain of \$0.6 million in 2017. As sales are dependent on real estate market conditions, future sales, if any, may or may not be at prior year levels.

**Item 7A. Quantitative and Qualitative Disclosures about Market Risk.**

We do not participate in hedge arrangements, such as forward contracts, swap agreements, options, or other contractual agreements to mitigate the impact of market fluctuations on our assets, liabilities, production, or contractual commitments. We operate only in the United States and, therefore, are not subject to foreign currency exchange rate risks.

**Interest Rate Risk**

We are subject to interest rate risk, although this risk is lessened because we operate in a regulated industry. If interest rates were to increase, management believes customer rates would increase accordingly, subject to Commission approval in future GRC filings. The majority of our debt is long-term at a fixed rate. Interest rate risk does exist on short-term borrowings within our credit facilities, as these interest rates are variable. We also have interest rate risk on new financing, as higher interest cost may occur on new debt if interest rates increase.

Over the next 12 months, approximately \$21.9 million of the \$808.6 million of existing long-term debt instruments will mature or require sinking fund payments. Applying a hypothetical 10 percent increase in the rate of interest charged on those borrowings would not have a material effect on our earnings.

## **Item 8. Financial Statements and Supplementary Data.**

### **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders and the Board of Directors of  
California Water Service Group  
San Jose, California

#### **Opinions on the Financial Statements and Internal Control over Financial Reporting**

We have audited the accompanying consolidated balance sheets of California Water Service Group and subsidiaries (the "Company") as of December 31, 2019 and 2018, the related consolidated statements of income, common stockholders' equity, and cash flows, for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by COSO.

#### **Basis for Opinions**

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Annual Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included

performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

### **Definition and Limitations of Internal Control over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

### **Critical Audit Matter**

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

### **Impact of Rate Regulation on the Financial Statements—Refer to Note 2 to the financial statements**

#### *Critical Audit Matter Description*

The Company is subject to rate regulation by the California Public Utilities Commission ("the Commission"), which has jurisdiction with respect to the rates of water and wastewater service companies in California. Management has determined it meets the requirements under accounting principles generally accepted in the United States of America to prepare its financial statements applying the specialized rules to account for the effects of cost-based rate regulation. Accounting for the economics of rate regulation impacts multiple financial statement line items and disclosures, such as utility plant; regulatory assets and liabilities; operating revenues; operation and maintenance expense; and depreciation expense.

The Commission establishes rates that are designed to permit the recovery of the cost of service and a return on investment. The Company's rates are subject to regulatory rate-setting processes including a General Rate Case proceeding. The Company capitalizes and records regulatory assets for costs that would otherwise be charged to expense if it is probable that the incurred costs will be recovered in future rates. If costs expected to be incurred in the future are currently being recovered through rates, the Company records those expected future costs as regulatory liabilities.

Determining probability requires significant judgment by management and includes, but is not limited to, consideration of testimony presented in regulatory hearings, proposed regulatory decisions, final regulatory orders, and the strength or status of applications for rehearing or state court appeals. If the Company determines that a portion of the assets used in utility operations are not recoverable in customer rates, the Company would be required to recognize the loss of the assets disallowed.

We identified the impact of rate regulation as a critical audit matter due to the significant judgments that underlie the Company's regulatory account balances and disclosures and the high degree of subjectivity involved in assessing the impact of regulatory decisions on the financial statements. Management judgments include interpreting the intent of the Commission's decisions when appropriately measuring related regulatory assets or liabilities and assessing the probability of (1) recovery in future rates of incurred costs and (2) the requirement to refund amounts to customers. Given that management's accounting judgements are based on assumptions about the outcome of future regulatory decisions and interpretation of new or revised regulatory decisions, auditing these judgments required specialized knowledge of accounting for rate regulation and the rate setting process due its inherent complexities and pervasive impact on the financial statements.

#### *How the Critical Audit Matter Was Addressed in the Audit*

Our audit procedures related to the interpretation of new or revised, and the uncertainty of future, regulatory hearings, proposed regulatory decisions, final regulatory orders, and the strength or status of applications for rehearing or state court appeals included the following, among others:

- We tested the effectiveness of management's controls over the determination of regulatory assets or liabilities and the evaluation of the likelihood of (1) the recovery in future rates of costs incurred as property, plant, and equipment and deferred as regulatory assets, and (2) a refund or a future reduction in rates that should be reported as regulatory liabilities. We also tested the effectiveness of management's controls over the initial recognition of amounts as utility plant; regulatory assets or liabilities; and the monitoring and evaluation of regulatory developments that may affect the likelihood of recovering costs in future rates or of a future reduction in rates.
- We read regulatory orders issued by the Commission for the Company, regulatory statutes, interpretations, procedural memorandums, filings made by interveners, and other publicly available information to evaluate management's interpretation of the accounting impacts of any new or revised regulatory decisions and their impact on measuring related regulatory assets and liabilities. We evaluated the external information and compared to management's recorded regulatory asset and liability balances for completeness.
- We obtained supporting documentation (such as letters or memorandums) from management, and internal and external legal counsel, as appropriate, regarding probability of recovery for regulatory assets or refund or future reduction in rates for regulatory liabilities not yet addressed in a regulatory order to assess management's assertion that amounts are probable of recovery or a future reduction in rates.
- We obtained supporting documentation from management regarding their interpretation of the intent of Commission decisions and evaluated management's assumptions and methodologies used in measuring regulatory assets and liabilities for compliance with the related orders. We reconciled the underlying data or inputs used in the measurement to rate decisions approved by the Commission and tested the mathematical accuracy of the calculations.



- We evaluated the Company's disclosures related to the impacts of rate regulation, including the balances recorded and regulatory developments.

/s/ DELOITTE & TOUCHE LLP

San Francisco, California

February 27, 2020

We have served as the Company's auditor since 2008.

**CALIFORNIA WATER SERVICE GROUP**  
**Consolidated Balance Sheets**

|  | <b>December 31,</b>                          |                    |
|--|--|--------------------|
|  | <b>2019</b>                                  | <b>2018</b>        |
|  | <b>(In thousands, except per share data)</b> |                    |
| <b>ASSETS</b>  |  |                    |
| <b>Utility plant:</b>  |  |                    |
| Land   | \$ 45,047                                    | \$ 44,019          |
| Depreciable plant and equipment  | 3,235,415                                    | 2,950,424          |
| Construction work in progress  | 245,169                                      | 210,260            |
| Intangible assets  | 24,854                                       | 24,743             |
| Total utility plant  | 3,550,485                                    | 3,229,446          |
| Less accumulated depreciation and amortization   | (1,144,115)                                  | (996,723)          |
| <b>Net utility plant</b>   | <b>2,406,370</b>                             | <b>2,232,723</b>   |
| <b>Current assets:</b>   |  |                    |
| Cash and cash equivalents  | 42,653                                       | 47,176             |
| Receivables: net of allowance for doubtful accounts of \$771 and \$757 in 2019 and 2018, respectively                  |  |                    |
| Customers  | 32,058                                       | 30,037             |
| Regulatory balancing accounts  | 38,225                                       | 42,394             |
| Other  | 14,187                                       | 17,101             |
| Unbilled revenue   | 34,879                                       | 33,427             |
| Materials and supplies at weighted average cost  | 7,745  | 6,586              |
| Taxes, prepaid expenses, and other assets  | 14,965                                       | 11,981             |
| <b>Total current assets</b>  | <b>184,712</b>                               | <b>188,702</b>     |
| <b>Other assets:</b>   |  |                    |
| Regulatory assets  | 433,322                                      | 353,569            |
| Goodwill   | 2,615  | 2,615              |
| Other  | 84,289                                       | 60,095             |
| <b>Total other assets</b>  | <b>520,226</b>                               | <b>416,279</b>     |
| <b>TOTAL ASSETS</b>  | <b>\$ 3,111,308</b>                          | <b>\$2,837,704</b> |
| <b>CAPITALIZATION AND LIABILITIES</b>  |  |                    |
| <b>Capitalization:</b>   |  |                    |
| Common stock, \$0.01 par value; 68,000 shares authorized, 48,532 and 48,065 outstanding in 2019 and 2018, respectively | \$ 485                                       | \$ 481             |
| Additional paid-in capital   | 362,275                                      | 337,623            |
| Retained earnings  | 417,146                                      | 392,053            |
| Total common stockholders' equity  | 779,906                                      | 730,157            |
| Long-term debt, net  | 786,754                                      | 710,027            |
| <b>Total capitalization</b>  | <b>1,566,660</b>                             | <b>1,440,184</b>   |
| <b>Current liabilities:</b>  |  |                    |
| Current maturities of long-term debt, net  | 21,868                                       | 104,911            |
| Short-term borrowings  | 175,100                                      | 65,100             |
| Accounts payable   | 108,463                                      | 95,580             |
| Regulatory balancing accounts  | 4,462  | 12,213             |
| Accrued other taxes  | 4,445  | 4,182              |
| Accrued interest   | 5,810  | 5,674              |
| Other accrued liabilities  | 38,573                                       | 33,506             |
| <b>Total current liabilities</b>   | <b>358,721</b>                               | <b>321,166</b>     |
| <b>Unamortized investment tax credits</b>  | 1,575  | 1,649              |
| <b>Deferred income taxes</b>   | 222,590                                      | 213,033            |
| <b>Regulatory liabilities</b>  | 211,413                                      | 211,275            |
| <b>Pension and postretirement benefits other than pensions</b>   | 258,907                                      | 193,538            |
| <b>Advances for construction</b>   | 191,062                                      | 186,342            |
| <b>Contributions in aid of construction</b>  | 241,537                                      | 225,270            |
| <b>Other long-term liabilities</b>   | 58,843                                       | 45,247             |
| <b>Commitments and contingencies</b>   |  |                    |
| <b>TOTAL CAPITALIZATION AND LIABILITIES</b>  | <b>\$ 3,111,308</b>                          | <b>\$2,837,704</b> |

See accompanying Notes to Consolidated Financial Statements.

**CALIFORNIA WATER SERVICE GROUP**  
**Consolidated Statements of Income**

|   | <b>For the Years Ended December 31,</b>      |                  |                  |
|---|--|------------------|------------------|
|   | <b>2019</b>                                  | <b>2018</b>      | <b>2017</b>      |
|   | <b>(In thousands, except per share data)</b> |                  |                  |
| <b>Operating revenue</b> .....                                  | <u>\$714,557</u>                             | <u>\$698,196</u> | <u>\$676,113</u> |
| <b>Operating expenses:</b>                                      |  |                  |                  |
| Operations:   |  |                  |                  |
| Purchased water .....   | 212,461                                      | 207,103          | 199,081          |
| Purchased power .....   | 31,362                                       | 31,080           | 28,862           |
| Pump taxes .....  | 11,518                                       | 14,664           | 13,924           |
| Administrative and general .....                                | 108,617                                      | 100,781          | 93,326           |
| Other operations .....  | 90,061                                       | 79,868           | 74,448           |
| Maintenance .....   | 26,834                                       | 24,494           | 22,530           |
| Depreciation and amortization .....                             | 89,220                                       | 83,781           | 76,783           |
| Income taxes .....  | 16,280                                       | 18,589           | 35,279           |
| Property and other taxes .....                                  | 28,792                                       | 27,296           | 24,797           |
| <b>Total operating expenses</b> .....                           | <u>615,145</u>                               | <u>587,656</u>   | <u>569,030</u>   |
| <b>Net operating income</b> .....                               | <u>99,412</u>                                | <u>110,540</u>   | <u>107,083</u>   |
| <b>Other income and expenses:</b>                               |  |                  |                  |
| Non-regulated revenue .....                                     | 19,205                                       | 18,272           | 15,898           |
| Non-regulated expenses .....                                    | (13,869)                                     | (22,787)         | (9,390)          |
| Other components of net periodic benefit cost .....             | (5,733)                                      | (9,308)          | (9,588)          |
| Allowance for equity funds used during construction .....       | 6,685  | 3,954            | 3,750            |
| Gain on sale of non-utility property .....                      | 28   | 50               | 663              |
| Income tax (expense) benefit on other income and expenses ..... | (1,391)                                      | 2,717            | (1,548)          |
| <b>Net other income (loss)</b> .....                            | <u>4,925</u>                                 | <u>(7,102)</u>   | <u>(215)</u>     |
| <b>Interest expense:</b>  |  |                  |                  |
| Interest expense .....  | 44,891                                       | 39,917           | 36,288           |
| Allowance for borrowed funds used during construction .....     | (3,670)                                      | (2,063)          | (2,360)          |
| <b>Net interest expense</b> .....                               | <u>41,221</u>                                | <u>37,854</u>    | <u>33,928</u>    |
| <b>Net income</b> .....   | <u>\$ 63,116</u>                             | <u>\$ 65,584</u> | <u>\$ 72,940</u> |
| <b>Earnings per share:</b>                                      |  |                  |                  |
| Basic .....   | \$ 1.31                                      | \$ 1.36          | \$ 1.52          |
| Diluted .....   | \$ 1.31                                      | \$ 1.36          | \$ 1.52          |
| <b>Weighted average number of common shares outstanding:</b>    |  |                  |                  |
| Basic .....   | 48,168                                       | 48,060           | 48,009           |
| Diluted .....   | 48,168                                       | 48,060           | 48,009           |

See accompanying Notes to Consolidated Financial Statements.

**CALIFORNIA WATER SERVICE GROUP**  
**Consolidated Statements of Common Stockholders' Equity**  
**For the Years Ended December 31, 2019, 2018 and 2017**

|   | <u>Common Stock</u> |               | <u>Additional<br/>Paid-in<br/>Capital</u> | <u>Retained<br/>Earnings</u> | <u>Total<br/>Stockholders'<br/>Equity</u> |
|---|---------------------|---------------|---|------------------------------|---|
|   | <u>Shares</u>       | <u>Amount</u> |   |                              |   |
|   |                     |               | (In thousands)                            |                              |   |
| Balance at December 31, 2016 . . . . .                          | 47,965              | \$480         | \$334,856                                 | \$324,135                    | \$659,471                                 |
| Net income . . . . .  |                     |               |   | 72,940                       | 72,940                                    |
| Issuance of common stock . . . . .                              | 88                  | 1             | 2,877                                     |                              | 2,878                                     |
| Repurchase of common stock . . . . .                            | (41)                | (1)           | (1,504)                                   |                              | (1,505)                                   |
| Dividends paid on common stock<br>(\$0.720 per share) . . . . . |                     |               |   | (34,563)                     | (34,563)                                  |
| Balance at December 31, 2017 . . . . .                          | <u>48,012</u>       | <u>480</u>    | <u>336,229</u>                            | <u>362,512</u>               | <u>699,221</u>                            |
| Net income . . . . .  |                     |               |   | 65,584                       | 65,584                                    |
| Issuance of common stock . . . . .                              | 95                  | 1             | 3,039                                     |                              | 3,040                                     |
| Repurchase of common stock . . . . .                            | (42)                | —             | (1,645)                                   |                              | (1,645)                                   |
| Dividends paid on common stock<br>(\$0.750 per share) . . . . . |                     |               |   | (36,043)                     | (36,043)                                  |
| Balance at December 31, 2018 . . . . .                          | <u>48,065</u>       | <u>481</u>    | <u>337,623</u>                            | <u>392,053</u>               | <u>730,157</u>                            |
| Net income . . . . .  |                     |               |   | 63,116                       | 63,116                                    |
| Issuance of common stock . . . . .                              | 515                 | 5             | 27,148                                    |                              | 27,153                                    |
| Repurchase of common stock . . . . .                            | (48)                | (1)           | (2,496)                                   |                              | (2,497)                                   |
| Dividends paid on common stock<br>(\$0.790 per share) . . . . . |                     |               |   | (38,023)                     | (38,023)                                  |
| Balance at December 31, 2019 . . . . .                          | <u>48,532</u>       | <u>\$485</u>  | <u>\$362,275</u>                          | <u>\$417,146</u>             | <u>\$779,906</u>                          |

See accompanying Notes to Consolidated Financial Statements.

**CALIFORNIA WATER SERVICE GROUP**  
**Consolidated Statements of Cash Flows**

|   | For the Years Ended<br>December 31, |                  |                  |
|---|-------------------------------------|------------------|------------------|
|   | 2019                                | 2018             | 2017             |
|   | (In thousands)                      |                  |                  |
| <b>Operating activities:</b>  |                                     |                  |                  |
| Net income  | \$ 63,116                           | \$ 65,584        | \$ 72,940        |
| Adjustments to reconcile net income to net cash provided by operating activities:                                 |                                     |                  |                  |
| Depreciation and amortization   | 91,288                              | 85,707           | 78,592           |
| Amortization of debt premium and expenses   | 744                                 | 1,099            | 920              |
| Changes in normalized deferred income taxes   | 15,346                              | 20,909           | 21,087           |
| Change in value of life insurance contracts   | (5,104)                             | 2,334            | (3,058)          |
| Allowance for equity funds used during construction   | (6,685)                             | (3,954)          | (3,750)          |
| Stock-based compensation  | 6,731                               | 3,141            | 3,118            |
| Gain on sale of non-utility properties  | (28)                                | (50)             | (663)            |
| Write-off of capital costs  | 698                                 | 410              | 1,293            |
| Changes in operating assets and liabilities:  |                                     |                  |                  |
| Receivables   | (4,580)                             | 20,422           | (31,871)         |
| Unbilled revenue  | (1,452)                             | (3,671)          | (4,528)          |
| Taxes, prepaid expenses, and other assets   | (3,545)                             | (587)            | (3,718)          |
| Accounts payable  | 10,719                              | 4,701            | 1,564            |
| Other current liabilities   | 1,282                               | (4,382)          | 2,164            |
| Other changes in noncurrent assets and liabilities  | 264                                 | (12,644)         | 13,752           |
| <b>Net cash provided by operating activities</b>  | <u>168,794</u>                      | <u>179,019</u>   | <u>147,842</u>   |
| <b>Investing activities:</b>  |                                     |                  |                  |
| Utility plant expenditures  | (273,770)                           | (271,707)        | (259,194)        |
| Proceeds from sale of non-utility assets  | 28                                  | 59               | 666              |
| TCP settlement proceeds   | —                                   | —                | 56,004           |
| Life insurance benefits   | —                                   | 3,491            | 1,558            |
| Purchase of life insurance  | (2,216)                             | (4,925)          | (5,605)          |
| <b>Net cash used in investing activities</b>  | <u>(275,958)</u>                    | <u>(273,082)</u> | <u>(206,571)</u> |
| <b>Financing activities:</b>  |                                     |                  |                  |
| Short-term borrowings   | 260,000                             | 151,000          | 265,000          |
| Repayment of short-term borrowings  | (150,000)                           | (361,000)        | (87,000)         |
| Issuance of long-term debt, net of debt issuance costs of \$1,796 for 2019, \$617 for 2018, \$0 for 2017          | 398,204                             | 299,383          | —                |
| Advances and contributions in aid of construction   | 27,774                              | 18,612           | 21,369           |
| Refunds of advances for construction  | (7,566)                             | (7,297)          | (8,378)          |
| Retirement of long-term debt  | (405,568)                           | (16,532)         | (26,829)         |
| Repurchase of common stock  | (2,497)                             | (1,645)          | (1,505)          |
| Issuance of common stock  | 20,423                              | —                | —                |
| Dividends paid  | (38,023)                            | (36,043)         | (34,563)         |
| <b>Net cash provided by financing activities</b>  | <u>102,747</u>                      | <u>46,478</u>    | <u>128,094</u>   |
| <b>Change in cash, cash equivalents, and restricted cash</b>  | <u>(4,417)</u>                      | <u>(47,585)</u>  | <u>69,365</u>    |
| <b>Cash, cash equivalents, and restricted cash at beginning of year</b>   | <u>47,715</u>                       | <u>95,300</u>    | <u>25,935</u>    |
| <b>Cash, cash equivalents, and restricted cash at end of year</b>   | <u>\$ 43,298</u>                    | <u>\$ 47,715</u> | <u>\$ 95,300</u> |
| <b>Supplemental disclosures of cash flow information:</b>   |                                     |                  |                  |
| Cash paid (received) during the year for:   |                                     |                  |                  |
| Interest (net of amounts capitalized)   | \$ 40,980                           | \$ 35,941        | \$ 32,223        |
| Income tax refunds  | —                                   | —                | (1,697)          |
| <b>Supplemental disclosure of investing and financing non-cash activities:</b>                                    |                                     |                  |                  |
| Accrued payables for investments in utility plant   | 40,794                              | 38,807           | 41,017           |
| Utility plant contributed by developers   | 16,288                              | 20,609           | 19,898           |
| Litigation proceeds for TCP and MTBE contamination reclassified from liability to depreciable plant and equipment | 13,968                              | 32,315           | 2,420            |

See accompanying Notes to Consolidated Financial Statements.

**CALIFORNIA WATER SERVICE GROUP**  
**Notes to Consolidated Financial Statements**  
**December 31, 2019, 2018, and 2017**  
**Dollar amounts in thousands unless otherwise stated**

**1 ORGANIZATION AND OPERATIONS**

California Water Service Group (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 as the Commissions). CWS Utility Services and HWS Utility Services LLC provide non-regulated water utility and utility-related services.

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

***Basis of Presentation***

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and include the Company's accounts and those of its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated from the consolidated financial statements. In the opinion of management, the consolidated financial statements reflect all adjustments that are necessary to provide a fair presentation of the results for the periods covered.

The preparation of the Company's 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 consolidated balance sheet dates and the reported amounts of revenues and expenses for the periods presented. These include, but are not limited to, estimates and assumptions used in determining the Company's regulatory asset and liability balances based upon probability assessments of regulatory recovery, utility plant useful lives, revenues earned but not yet billed, asset retirement obligations, allowance for doubtful accounts, pension and other employee benefit plan liabilities, and income tax-related assets and liabilities. Actual results could differ from these estimates.

Subsequent to the issuance of the Company's Consolidated Financial Statements for the year ended December 31, 2017, the Company identified an immaterial computational error related to the amount of authorized revenue recorded pursuant to the Company's pension and health cost balancing accounts. The Company corrected the error in the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018. For additional information regarding the error and its correction, please refer to Note 17 of the Notes to Consolidated Financial Statements included in that report.

**CALIFORNIA WATER SERVICE GROUP**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2019, 2018, and 2017**  
**Dollar amounts in thousands unless otherwise stated**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Operating Revenue***

The following table disaggregates the Company’s operating revenue by source for the years ended December 31, 2019, 2018, and 2017:

|  | <u>2019</u>      | <u>2018</u>      | <u>2017</u>      |
|--|------------------|------------------|------------------|
| Revenue from contracts with customers . . . .  | \$664,358        | \$674,736        | \$622,474        |
| Regulatory balancing account revenue . . . . . | 50,199           | 23,460           | 53,639           |
| Total operating revenue . . . . .              | <u>\$714,557</u> | <u>\$698,196</u> | <u>\$676,113</u> |

*Revenue from contracts with customers*

The Company principally generates operating revenue from contracts with customers by providing regulated water and wastewater services at tariff-rates authorized by the Commissions in the states in which they operate and non-regulated water and wastewater services at rates authorized by contracts with government agencies. Revenue from contracts with customers reflects amounts billed for the volume of consumption at authorized per unit rates, for a service charge, and for other authorized charges.

The Company satisfies its performance obligation to provide water and wastewater services over time as services are rendered. The Company applies the invoice practical expedient and recognizes revenue from contracts with customers in the amount for which the Company has a right to invoice. The Company has a right to invoice for the volume of consumption, for the service charge, and for other authorized charges.

The measurement of sales to customers is generally based on the reading of their meters, which occurs on a systematic basis throughout the month. At the end of each month, the Company estimates consumption since the date of the last meter reading and a corresponding unbilled revenue is recognized. The estimate is based upon the number of unbilled days that month and the average daily customer billing rate from the previous month (which fluctuates based upon customer usage).

Contract terms are generally short-term and at will by customers and, as a result, no separate financing component is recognized for the Company’s collections from customers, which generally require payment within 30 days of billing. The Company applies judgment, based principally on historical payment experience, in estimating its customers’ ability to pay.

Certain customers are not billed for volumetric consumption, but are instead billed a flat rate at the beginning of each monthly service period. The amount billed is initially deferred and subsequently recognized over the monthly service period, as the performance obligation is satisfied. The deferred revenue balance or contract liability, which is included in “other accrued liabilities” on the consolidated balance sheets, is inconsequential.

Form 10-K

**CALIFORNIA WATER SERVICE GROUP**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2019, 2018, and 2017**  
**Dollar amounts in thousands unless otherwise stated**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

In the following table, revenue from contracts with customers is disaggregated by class of customers for the years ended December 31, 2019, 2018, and 2017:

|   | <u>2019</u>      | <u>2018</u>      | <u>2017</u>      |
|---|------------------|------------------|------------------|
| Residential . . . . .                       | \$446,323        | \$450,062        | \$415,893        |
| Business . . . . .                          | 129,223          | 130,041          | 118,279          |
| Industrial . . . . .                        | 31,857           | 34,236           | 28,905           |
| Public authorities . . . . .                | 33,862           | 34,511           | 31,671           |
| Other* . . . . .                            | 23,093           | 25,886           | 27,726           |
| Total revenue from contracts with customers | <u>\$664,358</u> | <u>\$674,736</u> | <u>\$622,474</u> |

\* Other includes accrued unbilled revenue

Regulatory balancing account revenue

The Company's ability to recover revenue requirements authorized by the California Public Utilities Commission (CPUC) in its triennial General Rate Case (GRC), is decoupled from the volume of the sales. Regulatory balancing account revenue is revenue related to rate mechanisms authorized in California by the CPUC, which allow the Company to recover the authorized revenue and are not considered contracts with customers. These mechanisms include the following:

The Water Revenue Adjustment Mechanism (WRAM) allows the Company to recognize the adopted level of volumetric revenues. The variance between adopted volumetric revenues and actual billed volumetric revenues for metered accounts is recorded as regulatory balancing account revenue.

Cost-recovery rates, such as the Modified Cost Balancing Account (MCBA), Conservation Balancing Account, Pension Cost Balancing Account, and Health Cost Balancing Account, generally provide for recovery of the adopted levels of expenses for purchased water, purchased power, pump taxes, water conservation program costs, pension, and health care. Variances between adopted and actual costs are recorded as regulatory balancing account revenue.

Each district's WRAM and MCBA regulatory assets and liabilities are allowed to be netted against one another. The Company recognizes regulatory balancing account revenues that have been authorized for rate recovery, are objectively determinable and probable of recovery, and are expected to be collected within 24 months. To the extent that regulatory balancing account revenue is estimated to be collectible beyond 24 months, recognition is deferred.



**CALIFORNIA WATER SERVICE GROUP**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2019, 2018, and 2017**  
**Dollar amounts in thousands unless otherwise stated**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Non-Regulated Revenue***

The following tables disaggregate the Company's non-regulated revenue by source for the years ended December 31, 2019, 2018, and 2017:

|  | <u>2019</u>     | <u>2018</u>     | <u>2017</u>     |
|--|-----------------|-----------------|-----------------|
| Operating and maintenance revenue . . . . .                      | \$12,655        | \$10,392        | \$ 8,621        |
| Other non-regulated revenue . . . . .                            | 4,271           | 5,413           | 5,262           |
| Non-regulated revenue from contracts with<br>customers . . . . . | \$16,926        | \$15,805        | \$13,883        |
| Lease revenue . . . . .  | 2,279           | 2,467           | 2,015           |
| Total non-regulated revenue . . . . .                            | <u>\$19,205</u> | <u>\$18,272</u> | <u>\$15,898</u> |

Operating and maintenance services are provided for non-regulated water and wastewater systems owned by private companies and municipalities. The Company negotiates formal agreements with the customers, under which they provide operating, maintenance and customer billing services related to the customers' water system. The formal agreements outline the fee schedule for the services provided. The agreements typically call for a fee-per-service or a flat-rate amount per month. The Company satisfies its performance obligation of providing operating and maintenance services over time as services are rendered; as a result, the Company employs the invoice practical expedient and recognizes revenue in the amount that it has the right to invoice. Contract terms are generally short-term and, as a result, no separate financing component is recognized for its collections from customers, which generally require payment within 30 days of billing.

Other non-regulated revenue primarily relates to services for the design and installation of water mains and other water infrastructure for customers outside the regulated service areas and insurance program administration.

Lease revenue is not considered revenue from contracts with customers and is recognized following operating lease standards. The Company is the lessor in operating lease agreements with telecommunications companies under which cellular phone antennas are placed on the Company's property. The Company provides the lessee the right to ingress and egress across lessor property to access the antennas. The minimum rents are recognized on a straight-line basis over the terms of the leases, which may span multiple years. The excess rents are recognized over amounts contractually due pursuant to the underlying leases and is included in a deferred receivable account in the accompanying balance sheet. The leases generally have terms of 5 to 10 years, with lessee options to extend the lease for up to 15 years. The exercise of lease renewal options is at the lessee's sole discretion. Most of the Company's lease agreements contain mutual termination options that require prior written notice by either lessee or lessor. A subset of the Company's leases contains variable lease payments that depend on changes in the consumer price index (CPI).

The Company determines if an arrangement is a lease at inception. Generally, a lease agreement exists if the Company determines that the arrangement gives the lessee control over the use of an identified asset and obtains substantially all of the benefits from the identified asset.

Form 10-K

**CALIFORNIA WATER SERVICE GROUP**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2019, 2018, and 2017**  
**Dollar amounts in thousands unless otherwise stated**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Maturities of lease payments to be received are as follows:

| <u>Year Ending December 31,</u> | <u>Operating<br/>Leases</u> |
|---------------------------------|-----------------------------|
| 2020 . . . . .                  | \$2,772                     |
| 2021 . . . . .                  | 2,012                       |
| 2022 . . . . .                  | 1,211                       |
| 2023 . . . . .                  | 725                         |
| 2024 . . . . .                  | 411                         |
| Thereafter . . . . .            | 585                         |

***Allowance for Doubtful Accounts***

The Company provides an allowance for doubtful accounts receivable. The allowance is based upon specific identified accounts plus an estimate of uncollectible accounts based upon historical percentages. The balance of customer receivables is net of the allowance for doubtful accounts of \$0.8 million as of December 31, 2019, 2018 and 2017.

The activities in the allowance for doubtful accounts were as follows:

|   | <u>2019</u>   | <u>2018</u>   | <u>2017</u>   |
|---|---------------|---------------|---------------|
| Beginning Balance . . . . .                       | \$ 757        | \$ 773        | \$ 830        |
| Provision for uncollectible accounts . . . . .    | 1,664         | 1,703         | 1,570         |
| Net write off of uncollectible accounts . . . . . | (1,650)       | (1,719)       | (1,627)       |
| Ending Balance . . . . .                          | <u>\$ 771</u> | <u>\$ 757</u> | <u>\$ 773</u> |

***Other Receivables***

As of December 31, 2019 and 2018, other receivables were:

|   | <u>2019</u>     | <u>2018</u>     |
|---|-----------------|-----------------|
| Accounts receivable from developers . . . . . | \$ 6,299        | \$ 9,633        |
| Other . . . . .                               | 7,888           | 7,468           |
| Total other receivables . . . . .             | <u>\$14,187</u> | <u>\$17,101</u> |

***Utility Plant***

Utility plant is carried at original cost when first constructed or purchased, or at fair value when acquired through acquisition. When depreciable plant is retired, the cost is eliminated from utility plant accounts and such costs are charged against accumulated depreciation. Maintenance of utility plant is charged to operating expenses as incurred. Maintenance projects are not accrued for in advance.

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Intangible assets acquired as part of water systems purchased are recorded at fair value. All other intangibles have been recorded at cost and are amortized over their useful life.

The following table represents depreciable plant and equipment as of December 31:

|   | <u>2019</u>        | <u>2018</u>        |
|---|--------------------|--------------------|
| Equipment . . . . .                             | \$ 726,475         | \$ 643,581         |
| Office buildings and other structures . . . . . | 281,462            | 267,948            |
| Transmission and distribution plant . . . . .   | 2,227,478          | 2,038,895          |
| Total . . . . .                                 | <u>\$3,235,415</u> | <u>\$2,950,424</u> |

Depreciation of utility plant is computed on a straight-line basis over the assets' estimated useful lives including cost of removal of certain assets as follows:

|                                       | <u>Useful Lives</u> |
|---------------------------------------|---------------------|
| Equipment                             | 5 to 50 years       |
| Transmission and distribution plant   | 40 to 65 years      |
| Office Buildings and other structures | 50 years            |

The provision for depreciation expressed as a percentage of the aggregate depreciable asset balances was 2.96% in 2019, 3.02% in 2018, and 3.00% in 2017.

**AFUDC**

The AFUDC represents the capitalized cost of funds used to finance the construction of the utility plant. In general, AFUDC is applied to Cal Water construction projects requiring more than one month to complete. No AFUDC is applied to projects funded by customer advances for construction, contributions in aid of construction, or applicable state-revolving fund loans. AFUDC includes the net cost of borrowed funds and a rate of return on other funds when used, and is recovered through water rates as the utility plant is depreciated.

The amount of AFUDC related to equity funds and to borrowed funds for 2019, 2018, and 2017 are shown in the table below:

|   | <u>2019</u>     | <u>2018</u>    | <u>2017</u>    |
|---|-----------------|----------------|----------------|
| Allowance for equity funds used during construction . . . . .   | \$ 6,685        | \$3,954        | \$3,750        |
| Allowance for borrowed funds used during construction . . . . . | 3,670           | 2,063          | 2,360          |
| Total . . . . .   | <u>\$10,355</u> | <u>\$6,017</u> | <u>\$6,110</u> |

**Asset Retirement Obligation**

The Company has a legal obligation to retire wells in accordance with State Water Resources Control Board regulations. In addition, upon decommission of a wastewater plant or lift station

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

certain wastewater infrastructure would need to be retired in accordance with State Water Resources Control Board regulations. An asset retirement cost and corresponding retirement obligation is recorded when a well or waste water infrastructure is placed into service. As of December 31, 2019 and 2018, the retirement obligation is estimated to be \$25.6 million and \$24.3 million, respectively. The change only impacted the consolidated balance sheets as the Company recognizes a regulatory asset or liability for the timing differences between the recognition of expenses and costs recovered through the ratemaking process.

***Cash, Cash Equivalents, and Restricted Cash***

Cash and cash equivalents include highly liquid investments with remaining maturities of three months or less at the time of acquisition. In 2019 and 2018, restricted cash includes \$0.6 million and \$0.5 million, respectively, of proceeds collected through a surcharge on certain customers' bills plus interest earned on the proceeds and is used to service California Safe Drinking Water Bond obligations.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash within the Consolidated Balance Sheets that total to the amounts shown on the Consolidated Statements of Cash Flows:

|   | <b>December 31,<br/>2019</b> | <b>December 31,<br/>2018</b> |
|---|------------------------------|------------------------------|
| Cash and cash equivalents . . . . .   | 42,653                       | 47,176                       |
| Restricted cash (included in "taxes, prepaid expenses, and other assets") . . . . .               | 645                          | 539                          |
| Total cash, cash equivalents, and restricted cash shown in the statements of cash flows . . . . . | <b>\$43,298</b>              | <b>\$47,715</b>              |

***Regulatory Assets and Liabilities***

Because the Company operates almost exclusively in a regulated business, the Company is subject to the accounting standards for regulated utilities. The Commissions in the states in which the Company operates establish rates that are designed to permit the recovery of the cost of service and a return on investment. The Company capitalizes and records regulatory assets for costs that would otherwise be charged to expense if it is probable that the incurred costs will be recovered in future rates. Regulatory assets are amortized over the future periods that the costs are expected to be recovered. If costs expected to be incurred in the future are currently being recovered through rates, the Company records those expected future costs as regulatory liabilities. In general, the Company does not earn a return on regulatory assets if the related costs do not accrue interest. Accordingly, the Company earns a return only on its regulatory assets for net WRAM and MCBA, pension cost balancing account, health cost balancing account, and interim rates receivable. In addition, the Company records regulatory liabilities when the Commissions require a refund to be made to the Company's customers over future periods.

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Determining probability requires significant judgment by management and includes, but is not limited to, consideration of testimony presented in regulatory hearings, proposed regulatory decisions, final regulatory orders, and the strength or status of applications for rehearing or state court appeals.

If the Company determines that a portion of the Company's assets used in utility operations is not recoverable in customer rates, the Company would be required to recognize the loss of the assets disallowed.

Cal Water submitted its 2018 GRC with the CPUC in July of 2019. As of February 27, 2020, the GRC approval is still pending.

Regulatory assets and liabilities were comprised of the following as of December 31:

|  | <b>Recovery<br/>Period</b> | <b>2019</b>      | <b>2018</b>      |
|--|----------------------------|------------------|------------------|
| <i>Regulatory Assets</i>   |                            |                  |                  |
| Pension and retiree group health . . . . .   | Indefinitely               | \$208,321        | \$156,947        |
| Property-related temporary differences (tax benefits<br>flowed through to customers) . . . . . | Indefinitely               | 104,931          | 99,376           |
| Other accrued benefits . . . . .   | Indefinitely               | 20,030           | 20,588           |
| Net WRAM and MCBA long-term accounts receivable . . .  | 1 - 2 years                | 25,465           | 17,134           |
| Asset retirement obligations, net . . . . .  | Indefinitely               | 19,567           | 18,197           |
| Interim rates long-term accounts receivable . . . . .  | 1 year                     | 4,642            | 4,642            |
| Tank coating . . . . .   | 10 years                   | 13,535           | 11,196           |
| Recoverable property losses . . . . .  | 10 years                   | 5,000            | 1,275            |
| Pension cost balancing account . . . . .   | 1 year                     | 21,465           | 16,494           |
| Other components of net periodic benefit cost . . . . .  | Indefinitely               | 5,145            | 3,221            |
| Other regulatory assets . . . . .  | Various                    | 5,221            | 4,499            |
| Total Regulatory Assets . . . . .  |                            | <u>\$433,322</u> | <u>\$353,569</u> |
| <i>Regulatory Liabilities</i>  |                            |                  |                  |
| Future tax benefits due to customers . . . . .   |                            | \$194,501        | \$180,205        |
| Health cost balancing account . . . . .  |                            | 4,271            | 3,516            |
| Conservation program . . . . .   |                            | 2,742            | 6,880            |
| Net WRAM and MCBA long-term payable . . . . .  |                            | 211              | 222              |
| Tax accounting memorandum account . . . . .  |                            | 806              | 5,039            |
| Cost of capital memorandum account . . . . .   |                            | 151              | 2,834            |
| 1,2,3 trichloropropane settlement proceeds . . . . .   |                            | 8,426            | 12,142           |
| Other regulatory liabilities . . . . .   |                            | 305              | 437              |
| Total Regulatory Liabilities . . . . .   |                            | <u>\$211,413</u> | <u>\$211,275</u> |

The Company's pension and postretirement health care benefits regulatory asset represents the unfunded obligation of the Company's pension and postretirement benefit plans which the Company expects to recover from customers in the future for these plans. These plans are discussed in further detail in Note 11. The pension cost balancing account regulatory asset and the health cost

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

balancing account regulatory liability represent incurred pension and healthcare costs that exceeded/was below the cost recovery in rates and is recoverable/refundable from/to customers. The other components of net periodic benefit cost regulatory asset are authorized by the Commissions and are probable for rate recovery through the capital program.

The property-related temporary differences are primarily due to: (i) the difference between book and federal income tax depreciation on utility plant that was placed in service before the regulatory Commissions adopted normalization for rate making purposes; and (ii) certain (state) deferred taxes for which flow through accounting continues to be applied to originating deferred taxes. The regulatory asset will be recovered in rates in future periods as the tax effects of the temporary differences previously flowed-through to customers reverse.

Other accrued benefits are accrued benefits for vacation, self-insured workers' compensation, and directors' retirement benefits. The net WRAM and MCBA long-term accounts receivable is the under-collected portion of recorded revenues that are not expected to be collected from customers within 12 months.

The asset retirement obligation regulatory asset represents the difference between costs associated with asset retirement obligations and amounts collected in rates. Tank coating represents the maintenance costs for tank coating projects that are recoverable from customers.

The future tax benefits due to customers primarily resulted from federal tax law changes enacted by the federal Tax Cuts and Jobs Act (TCJA) on December 22, 2017. The TCJA reduced the federal corporate income tax rate from 35 percent to 21 percent beginning on January 1, 2018, and GAAP requires the Company to re-measure all existing deferred income tax assets and liabilities to reflect the reduction in the federal tax rate on the enactment date. The Company is working with state regulators to finalize the ratepayer refund process to ensure compliance with federal normalization rules.

The conservation program regulatory liability is for incurred conservation costs that were below the cost recovery in rates and is refundable to customers.

The tax accounting and cost of capital memorandum account regulatory liabilities are related to the estimated customer refunds due to changes in the federal income tax rate and to the March 22, 2018 cost of capital decision for Cal Water (see Item 1. Business—Rates and Regulation).

1,2,3 trichloropropane (TCP) settlement proceeds are discussed in Note 14.

Short-term regulatory assets and liabilities are excluded from the above table. The short-term regulatory assets for 2019 and 2018 were \$38.2 million and \$42.4 million, respectively. The short-term regulatory assets, as of December 31, 2019 and 2018, primarily consist of net WRAM and MCBA receivables. The short-term portion of regulatory liabilities for 2019 and 2018 were \$4.5 million and \$12.2 million, respectively. The short-term regulatory liabilities as of December 31, 2019, primarily consist of TCP settlement proceeds, tax accounting memorandum account refunds, and cost of capital memorandum account refunds. As of December 31, 2018, the short-term regulatory liabilities primarily consist of TCP settlement proceeds and net WRAM and MCBA liability balances.

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Impairment of Long-Lived Assets, Intangibles and Goodwill***

The Company's long-lived assets include transmission and distribution plant, equipment, land, buildings, and intangible assets. Long-lived assets, other than land, are depreciated or amortized over their estimated useful lives, and are reviewed for impairment whenever changes in circumstances indicate the carrying value of the assets may not be recoverable. Such circumstances would include items such as a significant decrease in the market value of a long-lived asset, a significant adverse change in the manner in which the asset is being used or planned to be used or in its physical condition, or a history of operating or cash flow losses associated with the uses of the asset. In addition, changes in the expected useful life of these long-lived assets may also be an impairment indicator. When such events or changes occur, the Company estimates the fair value of the asset from future cash flows expected to result from the use and, if applicable, the eventual disposition of the assets, and compare that to the carrying value of the asset. If the carrying value is greater than the fair value, then an impairment loss is recognized equal to the amount by which the asset's carrying value exceeds its fair value. The key variables that must be estimated include assumptions regarding sales volume, rates, operating costs, labor and other benefit costs, capital additions, assumed discount rates and other economic factors. These variables require significant management judgment and include inherent uncertainties since they are forecasting future events. A variation in the assumptions used could lead to a different conclusion regarding the realizability of an asset and, thus could have a significant effect on the consolidated financial statements.

Goodwill is measured as the excess of the cost of an acquisition over the sum of the amounts assigned to identifiable assets acquired less liabilities assumed. Goodwill is not amortized but instead is reviewed annually at November 30th for impairment or more frequently if impairment indicators arise. The impairment test is performed at the reporting unit level using a two-step, fair-value based approach. The first step determines the fair value of the reporting unit and compares it to the reporting unit's carrying value. If the fair value of the reporting unit is less than its carrying amount, a second step is performed to measure the amount of impairment loss, if any. The second step allocates the fair value of the reporting unit to the Company's tangible and intangible assets and liabilities. This derives an implied fair value for the reporting unit's goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized equal to the excess.

***Long-Term Debt Premium, Discount and Expense***

The premiums, discounts, and issuance expenses on long-term debt are amortized over the original lives of the related debt on a straight-line basis which approximates the effective interest method. Premiums paid on the early redemption of certain debt and the unamortized original issuance discount and expense are amortized over the life of new debt issued in conjunction with the early redemption. Amortization expense included in interest expense for 2019, 2018, and 2017 was \$0.7 million, \$1.1 million, and \$0.9 million, respectively.

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Advances for Construction***

Advances for construction consist of payments received from developers for installation of water production and distribution facilities to serve new developments. Advances are excluded from rate base for rate setting purposes. Annual refunds are made to developers without interest. Advances of \$191.1 million, and \$186.3 million at December 31, 2019 and 2018, respectively, will be refunded primarily over a 40-year period in equal annual amounts. Estimated refunds of advances are shown in the table below.

| <u>Year Ending December 31,</u> | <u>Refunds<br/>of Advances</u> |
|---------------------------------|--------------------------------|
| 2020 .....                      | \$ 7,628                       |
| 2021 .....                      | 7,627                          |
| 2022 .....                      | 7,627                          |
| 2023 .....                      | 7,627                          |
| 2024 .....                      | 7,627                          |
| Thereafter .....                | <u>152,926</u>                 |
| Total refunds .....             | <u>\$191,062</u>               |

***Contributions in Aid of Construction***

Contributions in aid of construction represent payments received from developers, primarily for fire protection purposes, which are not subject to refunds. Facilities funded by contributions are included in utility plant, but excluded from rate base. Depreciation related to assets acquired from contributions is charged to the Contributions in Aid of Construction account.

***Income Taxes***

The Company accounts for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Measurement of the deferred tax assets and liabilities is at enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. The Company evaluates the need for a valuation allowance on deferred tax assets based on historical taxable income and projected taxable income for future tax years.

Historically the Commissions reduced revenue requirements for the tax effects of certain originating temporary differences and allowed recovery of these tax costs as the related temporary differences reverse. The Commissions have granted the Company rate increases to reflect the normalization of the tax benefits of the federal accelerated methods and available Investment Tax Credits (ITC) for all assets placed in service after 1980. ITCs are deferred and amortized over the lives



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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

of the related properties for book purposes. The CPUC sets rates utilizing the flow through method of accounting for state income taxes.

Subsequent to 1986, Advances for Construction and Contributions in Aid of Construction were taxable for federal income tax purposes. Subsequent to 1991, Advances for Construction and Contributions in Aid of Construction were subject to California income tax. Due to changes in the federal tax law in 1996 and the California tax law in 1997 only deposits for new services were taxable. In late 2000, federal regulations were further modified to exclude contributions of fire services from taxable income. With the enactment of the TCJA, all Advances for Construction and Contributions in Aid of Construction received from developers after December 22, 2017 became taxable for federal income tax purposes.

The accounting standards for accounting for uncertainty in income taxes allows the inclusion of interest and penalties related to uncertain tax positions as a component of income taxes. (see Note 10—Income Taxes).

***Workers' Compensation***

For workers' compensation, the Company estimates the liability associated with claims submitted and claims not yet submitted based on historical data. Expenses for workers compensation insurance are included in rates on a pay-as-you-go basis. Therefore, a corresponding regulatory asset has been recorded.

***Earnings per Share***

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 into common stock. Restricted Stock Awards (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. Restricted Stock Unit Awards (RSUs) are not included in diluted shares for financial reporting until authorized by the Organization & Compensation Committee of the Board of Directors.

|  | <u>2019</u>                              | <u>2018</u>     | <u>2017</u>     |
|--|--|-----------------|-----------------|
|  | (In thousands,<br>except per share data) |                 |                 |
| Net income available to common stockholders . .  | <u>\$63,116</u>                          | <u>\$65,584</u> | <u>\$72,940</u> |
| Weighted average common shares, basic . . . . .  | 48,168                                   | 48,060          | 48,009          |
| Weighted average common shares, dilutive . . . . | <u>48,168</u>                            | <u>48,060</u>   | <u>48,009</u>   |
| Earnings per share—basic . . . . .               | <u>\$ 1.31</u>                           | <u>\$ 1.36</u>  | <u>\$ 1.52</u>  |
| Earnings per share—diluted . . . . .             | <u>\$ 1.31</u>                           | <u>\$ 1.36</u>  | <u>\$ 1.52</u>  |

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Stock-based Compensation***

Stock-based compensation cost is measured at the grant date based on the fair value of the award. The Company recognizes compensation expense on a straight-line basis over the requisite service period, which is the vesting period.

***Comprehensive Income or Loss***

Comprehensive income for all periods presented was the same as net income.

***Accumulated Other Comprehensive Income***

The Company did not have any accumulated other comprehensive income or loss transactions as of December 31, 2019 and 2018.

***Adoption of New Accounting Standards in 2019***

In February of 2016, the Financial Accounting Standards Board (FASB) issued guidance on leases, with amendments in 2018. The guidance requires lessees to recognize an asset and liability on the balance sheet for all of their lease obligations. Operating leases were previously not recognized on the balance sheet.

The Company adopted the standard using the modified retrospective method for its existing leases and did not restate its comparative periods in the period of adoption. The Company completed its review of its lease portfolio including significant leases and the Company designed and implemented new controls as part of the adoption of the new standard. The implementation increased lease assets and lease liabilities on the Consolidated Balance Sheet by \$13.8 million as of January 1, 2019.

The Company elected certain practical expedients and carried forward historical conclusions related to (1) contracts that contain leases, (2) existing lease classification for any expired or existing leases, and (3) initial direct costs for any existing leases. The Company also applied the practical expedient that allowed the Company to elect, as an accounting policy, by asset class, to include both lease and non-lease components as a single component and account for it as a lease. The Company applied the short-term lease exception which allowed the Company to not have to apply the recognition requirements of the new leasing guidance for short-term leases and to recognize lease payments in net income on a straight-line basis over the lease term. Otherwise, the new standard did not have a material impact on the remaining consolidated financial statements.

***New Accounting Standards Issued But Not Yet Adopted in 2019***

In June of 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which changed the impairment model for certain financial assets that have a contractual right to receive cash, including trade and loan receivables. The new model required recognition based upon an estimation of expected credit losses rather than recognition of losses when it is probable that they have been incurred.

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

ASU 2016-13 was effective for annual reporting periods beginning after December 15, 2019, with early adoption permitted. The Company adopted the standard utilizing the modified retrospective method for its trade receivables and unbilled revenue on January 1, 2020. Based on the composition of the Company's trade receivables and unbilled revenue, and expected future losses, the adoption of ASU 2016-13 is not expected to have a material impact on its consolidated financial statements.

In January of 2017, the FASB issued ASU 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which eliminated step 2 of goodwill impairment test, which required a hypothetical purchase price allocation to measure goodwill impairment. Under the new guidance, a goodwill impairment loss will be measured at the amount by which a reporting unit's carrying amount exceeds its fair value, not to exceed the carrying amount of goodwill. ASU 2017-04 was effective for annual reporting periods beginning after December 15, 2019, with early adoption permitted for any impairment test performed on testing dates after January 1, 2017. The Company adopted the standard on January 1, 2020 and the adoption of the standard is not expected to have a material impact on its consolidated financial statements.

In August of 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure for Fair Value Measurement*, which modified the disclosure requirements on fair value measurements. The modifications in this update eliminated, amended, and added disclosure requirements for fair value measurements. ASU 2018-13 was effective for annual reporting periods beginning after December 15, 2019, with early adoption permitted. As required by the standard, the Company adopted the standard prospectively and retrospectively depending on the requirements of ASU 2018-13 on January 1, 2020. Since the Company, does not have level 3 fair value measurements or transfers between level 1 and level 2 fair value measurements, the Company does not expect the adoption of the standard to have a material impact on its footnote disclosures.

In August of 2018, the FASB issued ASU No. 2018-14, an amendment to ASC 715, *Compensation—Retirement Benefits—General (subtopic 715-20) Disclosure Framework: Changes to the Disclosure Requirements for Defined Benefit Plans*, which modifies the disclosures required for defined benefit pension and other postretirement benefit plans. ASU 2018-14 removes disclosures that are no longer considered cost-beneficial, clarifies the specific requirements of certain disclosures and adds new disclosure requirements identified as relevant. The guidance is effective for fiscal years beginning after December 15, 2020, with early adoption permitted. Upon adoption, the amendments will be applied on a retrospective basis. The Company is evaluating the requirements of the guidance to determine the impact on the Company's disclosures upon adoption.

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**3 OTHER INCOME AND EXPENSES**

The Company conducts various non-regulated activities as reflected in the table below:

|  | 2019            |                 | 2018            |                 | 2017            |                 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|  | Revenue         | Expense         | Revenue         | Expense         | Revenue         | Expense         |
| Operating and maintenance . . . . .                                  | \$12,655        | \$13,791        | \$10,392        | \$11,895        | \$ 8,621        | \$ 8,847        |
| Leases . . . . .   | 2,279           | 35              | 2,467           | 135             | 2,015           | 182             |
| Design and construction . . . . .                                    | 1,745           | 1,612           | 1,273           | 1,202           | 1,918           | 1,635           |
| Meter reading and billing . . . . .                                  | 412             | 163             | 391             | 157             | 256             | (6)             |
| Interest income . . . . .  | 92              | —               | 133             | —               | 68              | —               |
| Change in value of life insurance<br>contracts (gain) loss . . . . . | —               | (5,104)         | —               | 2,340           | —               | (3,057)         |
| Other non-regulated income and<br>expenses . . . . .                 | 2,022           | 3,372           | 3,616           | 7,058           | 3,020           | 1,789           |
| Total . . . . .  | <u>\$19,205</u> | <u>\$13,869</u> | <u>\$18,272</u> | <u>\$22,787</u> | <u>\$15,898</u> | <u>\$ 9,390</u> |

Operating and maintenance services and meter reading and billing services are provided for water and wastewater systems owned by private companies and municipalities. The agreements typically call for a fee-per-service or a flat-rate amount per month. Leases have been entered into with telecommunications companies for cellular phone antennas placed on the Company's property. Design and construction services are for the design and installation of water mains and other water infrastructure for others outside the Company's regulated service areas. Third-party insurance program gains and losses are included in other non-regulated income and expenses. The 2018 other non-regulated income and expenses included \$5.4 million of business development expenses.

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**4 INTANGIBLE ASSETS**

As of December 31, 2019 and 2018, intangible assets that will continue to be amortized and those not amortized were:

|  | Weighted<br>Average<br>Amortization<br>Period<br>(years) | 2019                       |                             |                          | 2018                       |                             |                          |
|--|--|----------------------------|-----------------------------|--------------------------|----------------------------|-----------------------------|--------------------------|
|  |  | Gross<br>Carrying<br>Value | Accumulated<br>Amortization | Net<br>Carrying<br>Value | Gross<br>Carrying<br>Value | Accumulated<br>Amortization | Net<br>Carrying<br>Value |
| Amortized intangible assets:               |  |                            |                             |                          |                            |                             |                          |
| Water pumping rights usage                 |  | \$ 1,084                   | \$ 116                      | \$ 968                   | \$ 1,084                   | \$ 112                      | \$ 972                   |
| Water planning studies . . . . .           | 13   | 18,476                     | 12,950                      | 5,526                    | 18,364                     | 11,899                      | 6,465                    |
| Leasehold improvements and other . . . . . | 17   | 1,519                      | 889                         | 630                      | 1,519                      | 882                         | 637                      |
| Total . . . . .                            |  | <u>\$21,079</u>            | <u>\$13,955</u>             | <u>\$7,124</u>           | <u>\$20,967</u>            | <u>\$12,893</u>             | <u>\$8,074</u>           |
| Unamortized intangible assets:             |  |                            |                             |                          |                            |                             |                          |
| Perpetual water rights and other . . .     |  | \$ 3,776                   | \$ —                        | \$3,776                  | \$ 3,776                   | \$ —                        | \$3,776                  |

Water pumping rights usage is the amount of water pumped from aquifers to be treated and distributed to customers.

For the year ended December 31, 2019, 2018, and 2017, amortization of intangible assets was \$1.5 million, \$1.7 million, \$1.6 million, respectively.

Estimated future amortization expense related to intangible assets are shown in the table below:

| <u>Year Ending December 31,</u> | <u>Estimated Future Amortization Expense Related to Intangible Assets</u> |
|---------------------------------|---|
| 2020 . . . . .                  | \$ 958  |
| 2021 . . . . .                  | 870   |
| 2022 . . . . .                  | 747   |
| 2023 . . . . .                  | 569   |
| 2024 . . . . .                  | 446   |
| Thereafter . . . . .            | <u>3,534</u>  |
| Total . . . . .                 | <u>\$7,124</u>  |

Form 10-K

**CALIFORNIA WATER SERVICE GROUP**  
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**5 PREFERRED STOCK**

On February 27, 2019, the Company filed with the Delaware Secretary of State a Certificate of Elimination of Series D Participating Preferred Stock, which returned the 221,000 shares that had previously been designated as Series D Preferred Stock but had never been issued to the status of preferred shares of the Company, without designation as to series.

The foregoing summary of the Certificate of Elimination is qualified in its entirety by reference to the full text of the Certificate of Elimination, a copy of which is attached as Exhibit 4.2.

**6 COMMON STOCKHOLDERS' EQUITY**

As of December 31, 2019 and 2018, 48,532,199 shares and 48,064,707 shares, respectively, of common stock were issued and outstanding.

Effective January 1, 2019, the Company implemented an Employee Stock Purchase Plan (ESPP). Under the ESPP, qualified employees are permitted to purchase the Company's common stock at 90% of the market value of the common stock on the specified stock purchase date. The ESPP is deemed compensatory and compensation costs will be accounted for under ASC 718, *Stock Compensation*. Employees' payroll deductions for common stock purchases may not exceed 10% of their salaries. Employees may purchase up to 2,000 shares per period provided that the value of the shares purchased in any calendar year may not exceed \$25,000, as calculated pursuant to the ESPP. The Company's recorded expense was \$0.2 million for 2019 and the Company has issued 35,281 shares of common stock related to the ESPP.

On October 31, 2019, the Company entered into an equity distribution agreement to sell shares of its common stock having an aggregate gross sales price of up to \$300.0 million from time to time depending on market conditions through an at-the-market equity program over the next three years. The Company intends to use the net proceeds from these sales, after deducting commissions on such sales and offering expenses, for general corporate purposes, which may include working capital, construction and acquisition expenditures, investments and repurchases, and redemptions of securities. From October 31, 2019 to December 31, 2019, the Company sold 381,105 shares of common stock through the at-the-market equity program and raised proceeds of \$19.3 million net of \$0.2 million in commissions paid under the equity distribution agreement. The Company also incurred \$0.5 million of equity issuance costs.

***Dividend Reinvestment and Stock Repurchase Plan***

The Company has a Dividend Reinvestment and Stock Purchase Plan (DRIP Plan). Under the DRIP Plan, stockholders may reinvest dividends to purchase additional Company common stock without commission fees. The DRIP Plan also allows existing stockholders and other interested investors to purchase Company common stock through the transfer agent up to certain limits. The Company's transfer agent operates the DRIP Plan and purchases shares on the open market to provide shares for the DRIP Plan.

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**7 SHORT-TERM BORROWINGS**

On March 29, 2019, the Company and Cal Water entered into certain syndicated credit agreements, which provide for unsecured revolving credit facilities of up to an initial aggregate amount of \$550.0 million for a term of five years. The revolving credit facilities amend, expand, and replace the Company's and its subsidiaries' prior credit facilities originally entered into on May 10, 2015. The new credit facilities extended the terms until March 29, 2024, and increased Cal Water's unsecured revolving line of credit. The Company and subsidiaries that it designates may borrow up to \$150.0 million under the Company's revolving credit facility. Cal Water may borrow up to \$400.0 million under its revolving credit facility. All borrowings must be repaid within 24 months unless a different period is required or authorized by the CPUC. Additionally, the credit facilities may be increased by up to an incremental \$150.0 million under the Cal Water facility and \$50.0 million under the Company facility, subject in each case to certain conditions. The proceeds from the revolving credit facilities may be used for working capital purposes, including the short-term financing of capital projects. Borrowings under the credit facilities typically have maturities varying between one and six months and will bear interest annually at a rate equal to (i) the base rate or (ii) the Eurodollar rate, plus an applicable margin of 0.650% to 0.875%, depending on the Company and its subsidiaries' consolidated total capitalization ratio.

The revolving credit facilities 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 December 31, 2019 and 2018, the outstanding borrowings on the Company lines of credit were \$55.1 million. The borrowings on the Cal Water lines of credit was \$120.0 million and \$10.0 million as of December 31, 2019 and 2018, respectively. The average borrowing rate for borrowings on the Company and Cal Water lines of credit during 2019 was 3.23% compared to 2.91% for the same period last year.

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**8 LONG-TERM DEBT**

As of December 31, 2019 and 2018, long-term debt outstanding was:

|  | <u>Series</u> | <u>Interest Rate</u> | <u>Maturity Date</u> | <u>2019</u>      | <u>2018</u>      |  |
|--|---------------|----------------------|----------------------|------------------|------------------|--|
| First Mortgage Bonds . . . . .   | YYY           | 4.170%               | 2059                 | \$200,000        | \$ —             |  |
|  | WWW           | 4.070%               | 2049                 | 100,000          | —                |  |
|  | VVV           | 3.400%               | 2029                 | 100,000          | —                |  |
|  | TTT           | 4.610%               | 2056                 | 10,000           | 10,000           |  |
|  | SSS           | 4.410%               | 2046                 | 40,000           | 40,000           |  |
|  | QQQ           | 3.330%               | 2025                 | 50,000           | 50,000           |  |
|  | RRR           | 4.310%               | 2045                 | 50,000           | 50,000           |  |
|  | PPP           | 5.500%               | 2040                 | 100,000          | 100,000          |  |
|  | LL            | 5.875%               | 2019                 | —                | 100,000          |  |
|  |               | 3-month LIBOR        |                      |                  |                  |  |
|  | UUU           | plus 70 basis points | 2020                 | —                | 300,000          |  |
|  | AAA           | 7.280%               | 2025                 | 20,000           | 20,000           |  |
|  | BBB           | 6.770%               | 2028                 | 20,000           | 20,000           |  |
|  | CCC           | 8.150%               | 2030                 | 20,000           | 20,000           |  |
|  | DDD           | 7.130%               | 2031                 | 20,000           | 20,000           |  |
|  | EEE           | 7.110%               | 2032                 | 20,000           | 20,000           |  |
|  | GGG           | 5.290%               | 2022                 | 5,455            | 7,273            |  |
|  | HHH           | 5.290%               | 2022                 | 5,455            | 7,273            |  |
|  | III           | 5.540%               | 2023                 | 3,636            | 4,546            |  |
| OOO  | 6.020%        | 2031                 | 20,000               | 20,000           |                  |  |
| CC   | 9.860%        | 2020                 | 16,700               | 16,800           |                  |  |
| Total First Mortgage Bonds . . . . .                                   |               |                      |                      | 801,246          | 805,892          |  |
| California Department of Water Resources Loans . . . . .               |               | 3.0% to 7.0%         | 2019 - 39            | 5,604            | 5,830            |  |
| Other long-term debt . . . . .   |               |                      |                      | 6,465            | 6,978            |  |
| Unamortized debt issuance costs . . . . .                              |               |                      |                      | (4,693)          | (3,762)          |  |
| Total long-term debt, net of unamortized debt issuance costs . . . . . |               |                      |                      | 808,622          | 814,938          |  |
| Less current maturities of long-term debt, net . . . . .               |               |                      |                      | 21,868           | 104,911          |  |
| Long-term debt, net . . . . .  |               |                      |                      | <u>\$786,754</u> | <u>\$710,027</u> |  |

On June 11, 2019, Cal Water completed the sale and issuance of \$400.0 million in aggregate principal amount of First Mortgage Bonds (the bonds) in a private placement. The bonds consist of \$100.0 million of 3.40% bonds, series VVV, maturing June 11, 2029; \$100.0 million of 4.07% bonds,



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**8 LONG-TERM DEBT (Continued)**

series WWW, maturing June 11, 2049; and \$200.0 million of 4.17% bonds, series YYY, maturing June 11, 2059. Interest on the bonds will accrue semi-annually and be payable in arrears. The bonds will rank equally with all of Cal Water’s other First Mortgage Bonds and will be secured by liens on Cal Water’s properties, subject to certain exceptions and permitted liens. Cal Water used the net proceeds from the sale of the bonds to pay down outstanding short-term borrowings and to redeem \$300.0 million of bond series UUU. The bonds were not registered under the Securities Act of 1933 and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

On September 13, 2018, Cal Water sold \$300.0 million of floating rate First Mortgage Bonds UUU due in September of 2020 in a private placement. The floating interest rate was set at three-month LIBOR plus 70 basis points, accrued quarterly, and was payable in arrears. The bonds were redeemed at par during the second quarter of 2019. In 2019, Cal Water also repaid \$100.0 million of First Mortgage Bonds LL, which matured in 2019. In 2018, Cal Water repaid \$10.9 million of First Mortgage Bonds JJJ and LLL, which matured in 2018.

On October 4, 2011, Cal Water entered into a capital lease arrangement with the City of Hawthorne to operate the City’s water system for a 15-year period. The \$5.2 million and \$5.8 million capital lease liability as of December 31, 2019 and 2018 is included in other long-term debt and current maturities set forth above.

**9 OTHER ACCRUED LIABILITIES**

As of December 31, 2019 and 2018, other accrued liabilities were:

|   | <u>2019</u>     | <u>2018</u>     |
|---|-----------------|-----------------|
| Accrued and deferred compensation . . . . .                 | \$22,543        | \$20,229        |
| Accrued benefits and workers’ compensation claims . . . . . | 6,241           | 5,896           |
| Unearned revenue and customer deposit . . . . .             | 2,024           | 1,915           |
| Due to contracts and agencies . . . . .                     | 3,325           | 3,196           |
| Current portion of operating lease . . . . .                | 1,452           | —               |
| Other . . . . .   | 2,988           | 2,270           |
| Total other accrued liabilities . . . . .                   | <u>\$38,573</u> | <u>\$33,506</u> |

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**10 INCOME TAXES**

Income tax expense (benefit) consisted of the following:

|                        | <u>Federal</u>  | <u>State</u>    | <u>Total</u>    |
|------------------------|-----------------|-----------------|-----------------|
| <i>2019</i>            |                 |                 |                 |
| Current .....          | \$ —            | \$ 3            | \$ 3            |
| Deferred .....         | 15,582          | 2,086           | 17,668          |
| Total .....            | <u>\$15,582</u> | <u>\$2,089</u>  | <u>\$17,671</u> |
| <i>2018</i>            |                 |                 |                 |
| Current .....          | \$ —            | \$ 3            | \$ 3            |
| Deferred .....         | 15,995          | (126)           | 15,869          |
| Total .....            | <u>\$15,995</u> | <u>\$ (123)</u> | <u>\$15,872</u> |
| <i>2017</i>            |                 |                 |                 |
| Current .....          | \$ —            | \$ 3            | \$ 3            |
| Deferred .....         | 35,881          | 943             | 36,824          |
| Total income tax ..... | <u>\$35,881</u> | <u>\$ 946</u>   | <u>\$36,827</u> |

The Company's 2019, 2018 and 2017 qualified tax repairs and maintenance deductions totaled \$70.0 million, \$102.0 million, and \$85.9 million, respectively.

The total federal NOL carry-forward was \$57.3 million and the state of California NOL carry-forward was \$95.2 million as of December 31, 2019. Management has concluded that the NOL carry-forward amounts are more likely than not to be recovered and therefore require no valuation allowance. The loss and credit carry-forward will begin to expire in 2027.

As of December 31, 2019, the California Enterprise Zone (EZ) credit was \$4.2 million net of federal tax benefit for qualified property purchased before January 1, 2015, and placed in service before January 1, 2016. The Company has carry-forward California EZ credits of \$2.2 million net of any unrecognized tax benefit. Unused State of California EZ credits can carry-forward until 2024.

**CALIFORNIA WATER SERVICE GROUP**  
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**10 INCOME TAXES (Continued)**

The difference between the recorded and the statutory income tax expense is reconciled in the table below:

|   | <u>2019</u>     | <u>2018</u>     | <u>2017</u>     |
|---|-----------------|-----------------|-----------------|
| Statutory income tax . . . . .                                      | \$16,965        | \$17,105        | \$38,419        |
| Increase (reduction) in taxes due to:                               |                 |                 |                 |
| State income taxes net of federal tax benefit . . . . .             | 5,639           | 5,685           | 6,017           |
| Effect of regulatory treatment of fixed asset differences . . . . . | (3,696)         | (5,954)         | (4,584)         |
| Investment tax credits . . . . .                                    | (74)            | (74)            | (74)            |
| AFUDC equity . . . . .  | (1,870)         | (1,106)         | (1,528)         |
| Share base stock compensation . . . . .                             | 302             | (278)           | (581)           |
| Other . . . . .   | 405             | 494             | (842)           |
| Total income tax . . . . .  | <u>\$17,671</u> | <u>\$15,872</u> | <u>\$36,827</u> |

The effect of regulatory treatment of fixed asset differences includes estimated repair and maintenance deductions and asset related flow through items.

On December 22, 2017, the U.S. government enacted expansive tax legislation commonly referred to as the TCJA. Among other provisions, the TCJA reduces the federal income tax rate from 35 percent to 21 percent beginning on January 1, 2018 and eliminated bonus depreciation for utilities. The TCJA required the Company to re-measure all existing deferred income tax assets and liabilities to reflect the reduction in the federal tax rate. The Company adjusted and recorded the impacts of the TCJA in accordance with rules issued by the SEC in Staff Accounting Bulletin No. 118, for the re-measurement of deferred tax balances as of December 31, 2017.

A TCJA refund of \$108.0 million was recorded as a provisional estimate on December 31, 2017. During the year of 2019, the Company further analyzed its deferred tax balances, tax regulatory asset and tax regulatory liability. As a result, the TCJA refund was \$121.0 million, with gross up \$47.0 million, total regulatory liabilities for TCJA was \$168.0 million as of December 31, 2019. The Company continued working with state regulators to finalize the ratepayer net refund of \$121.0 million to ensure compliance with federal normalization rules. Changes in interpretations, guidance on legislative intent, and any changes in accounting standards for income taxes in response to the TCJA could impact the recorded amounts.

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**10 INCOME TAXES (Continued)**

The deferred tax assets and deferred tax liabilities as of December 31, 2019 and 2018, are presented in the following table:

|  | <u>2019</u>      | <u>2018</u>      |
|--|------------------|------------------|
| Deferred tax assets:   |                  |                  |
| Developer deposits for extension agreements and contributions in aid of construction . . . . . | \$ 25,114        | \$ 39,074        |
| Net operating loss carryforward and tax credits . . . . .                                      | 11,029           | 8,257            |
| Pension liability . . . . .  | 10,095           | 8,725            |
| Income tax regulatory liability . . . . .  | 47,196           | 44,072           |
| Operating leases liabilities . . . . .   | 4,024            | —                |
| Other . . . . .  | 2,975            | 4,273            |
| Total deferred tax assets . . . . .  | <u>100,433</u>   | <u>104,401</u>   |
| Deferred tax liabilities:  |                  |                  |
| Property related basis and depreciation differences . . . . .                                  | 297,470          | 288,544          |
| WRAM/MCBA and interim rates balancing accounts . . . . .                                       | 17,771           | 26,348           |
| Operating lease-right to use asset . . . . .   | 4,030            | —                |
| Other . . . . .  | 3,752            | 2,542            |
| Total deferred tax liabilities . . . . .   | <u>323,023</u>   | <u>317,434</u>   |
| Net deferred tax liabilities . . . . .   | <u>\$222,590</u> | <u>\$213,033</u> |

The developer deposits for extension agreements and contributions in aid of construction (CIAC) decreased as compared to 2018 due to the method change in extension agreement tax treatment. For extension agreements, all developer deposits for service are taxable prior to 2019 for both federal and CA income tax purposes. The Company filed a method change with the IRS and received approval in 2019 to treat the extension agreement receipt from developer as a loan effective January 1, 2019. The state of California conformed with the IRS method change. For CIAC, all receipts from developers are taxable after TCJA for federal tax purpose. Only receipts for services are taxable for the state of California.

A valuation allowance was not required at December 31, 2019 and 2018. Based on historical taxable income and future taxable income projections over the period in which the deferred assets are deductible, management believes it is more likely than not that the Company will realize the benefits of the deductible differences.

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**10 INCOME TAXES (Continued)**

The following table reconciles the changes in unrecognized tax benefits:

|  | December 31,<br>2019 | December 31,<br>2018 | December 31,<br>2017 |
|--|----------------------|----------------------|----------------------|
| Balance at beginning of year . . . . .                             | \$ 9,716             | \$11,058             | \$10,499             |
| Additions for tax positions taken<br>during current year . . . . . | 1,292                | 1,787                | 559                  |
| Reduction to prior year tax<br>position . . . . .                  | —                    | (3,129)              | —                    |
| Balance at end of year . . . . .                                   | <u>\$11,008</u>      | <u>\$ 9,716</u>      | <u>\$11,058</u>      |

The Company does not expect a material change in its unrecognized tax benefits within the next 12 months. The component of unrecognized tax benefits that, if recognized, would affect the effective tax rate as of December 31, 2019, was \$3.1 million, with the remaining balance representing the potential deferral of taxes to later years.

The Company's federal income tax years subject to an examination are from 2013 to 2019 and the state income tax years subject to an examination are from 2012 to 2019.

**11 EMPLOYEE BENEFIT PLANS**

***Savings Plan***

The Company sponsors a 401(k) qualified defined contribution savings plan that allows participants to contribute up to 20% of pre-tax compensation. Effective January 1, 2010, the Company matches 75 cents for each dollar contributed by the employee up to a maximum Company match of 6.0% of base salary. Company contributions were \$6.5 million, \$6.0 million, and \$5.6 million, for the years 2019, 2018, and 2017, respectively.

***Pension Plans***

The Company provides a qualified, defined-benefit, non-contributory pension plan for substantially all employees. The accumulated benefit obligations of the pension plan are \$615.5 million and \$492.4 million as of December 31, 2019 and 2018, respectively. The fair value of pension plan assets was \$573.6 million and \$469.8 million as of December 31, 2019 and 2018, respectively.

Prior to 2010, pension payment obligations were generally funded by the purchase of an annuity from a life insurance company. Beginning in 2010, the pension plan trust pays monthly benefits to retirees, rather than the purchase of an annuity.

The Company also maintains an unfunded, non-qualified, supplemental executive retirement plan (SERP). The unfunded SERP accumulated benefit obligations were \$71.8 million and \$56.8 million as of December 31, 2019 and 2018, respectively. Benefit payments under the supplemental executive retirement plan are paid currently.

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**11 EMPLOYEE BENEFIT PLANS (Continued)**

Expected payments to be made for the pension and SERP plans are shown in the table below:

| <u>Year Ending December 31,</u> | <u>Pension</u>   | <u>SERP</u>     | <u>Total</u>     |
|---------------------------------|------------------|-----------------|------------------|
| 2020 .....                      | \$ 13,765        | \$ 2,086        | \$ 15,851        |
| 2021 .....                      | 15,332           | 2,196           | 17,528           |
| 2022 .....                      | 16,992           | 2,336           | 19,328           |
| 2023 .....                      | 18,749           | 2,416           | 21,165           |
| 2024 .....                      | 20,517           | 2,415           | 22,932           |
| 2025-2029 .....                 | 130,341          | 12,907          | 143,248          |
| Total payments .....            | <u>\$215,696</u> | <u>\$24,356</u> | <u>\$240,052</u> |

The expected benefit payments are based upon the same assumptions used to measure the Company's benefit obligation at December 31, 2019, and include estimated future employee service.

The costs of the pension and retirement plans are charged to expense and utility plant. The Company makes annual contributions to fund the amounts accrued for pension cost.

***Other Postretirement Plan***

The Company provides substantially all active, permanent employees with medical, dental, and vision benefits through a self-insured plan. Employees retiring at or after age 58, along with their spouses and dependents, continue participation in the plan by payment of a premium. Plan assets are invested in mutual funds, short-term money market instruments and commercial paper based upon a similar asset mix to the pension plan. Retired employees are also provided with a \$10,000 dollar life insurance benefit.

The Company records the costs of postretirement benefits other than pensions (PBOP) during the employees' years of active service. Postretirement benefit expense recorded in 2019, 2018, and 2017, was \$7.9 million, \$8.8 million, and \$8.5 million, respectively. The remaining net periodic benefit cost was \$2.1 million at December 31, 2019, and is being recovered through future customer rates and is recorded as a regulatory asset.

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**11 EMPLOYEE BENEFIT PLANS (Continued)**

The expected benefit payments, net of retiree premiums and Medicare Part D subsidies, are shown in the table below.

| <u>Year Ending December 31,</u> | <u>Expected Benefit Payments Before Medicare Part D Subsidy</u> | <u>Effect of Medicare Part D Subsidy on Expected Benefit Payments</u> | <u>Expected Benefit Payments Net of Medicare Part D Subsidy</u> |
|---------------------------------|---|---|---|
| 2020 . . . . .                  | \$ 3,305  | \$ (267)  | \$ 3,038  |
| 2021 . . . . .                  | 3,645   | (301)   | 3,344   |
| 2022 . . . . .                  | 4,011   | (336)   | 3,675   |
| 2023 . . . . .                  | 4,417   | (371)   | 4,046   |
| 2024 . . . . .                  | 4,864   | (404)   | 4,460   |
| 2025-2029 . . . . .             | <u>29,403</u>   | <u>(2,656)</u>  | <u>26,747</u>   |
| Total payments . . . . .        | <u>\$49,645</u>   | <u>\$(4,335)</u>  | <u>\$45,310</u>   |

***Benefit Plan Assets***

The Company actively manages pensions and PBOP trust (Plan) assets. The Company's investment objectives are:

- Maximize the return on the assets, commensurate with the risk that the Company deems appropriate to meet the obligations of the Plans, minimize the volatility of the pension expense, and account for contingencies;
- Generate a rate of return for the total portfolio that equals or exceeds the actuarial investment rate assumption;

Additionally, the rate of return of the total fund is measured periodically against an index comprised of 35% of the Standard & Poor's Index, 15% of the Russell 2000 Index, 10% of the MSCI EAFE Index, and 40% of the Bloomberg Barclays U.S. Aggregate Bond Index. The index is consistent with the Company's rate of return objective and indicates the Company's long-term asset allocation objective.

The Company applies a risk management framework for managing the risks associated with employee benefit plan trust assets. The guiding principles of this risk management framework are the clear articulation of roles and responsibilities, appropriate delegation of authority, and proper accountability and documentation. Trust investment policies and investment manager guidelines include provisions to ensure prudent diversification, manage risk through appropriate use of physical direct asset holdings and derivative securities, and identify permitted and prohibited investments.

**CALIFORNIA WATER SERVICE GROUP**  
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**11 EMPLOYEE BENEFIT PLANS (Continued)**

The Company's target asset allocation percentages for major categories of the pension plan are reflected in the table below:

|                                  | <b>Minimum Exposure</b> | <b>Target</b> | <b>Maximum Exposure</b> |
|----------------------------------|-------------------------|---------------|-------------------------|
| Fixed Income . . . . .           | 35%                     | 40%           | 45%                     |
| Total Domestic Equity: . . . . . | 40%                     | 50%           | 60%                     |
| Small/Mid Cap Stocks . . . . .   | 10%                     | 15%           | 20%                     |
| Large Cap Stocks . . . . .       | 30%                     | 35%           | 45%                     |
| Non-U.S. Equities . . . . .      | 5%                      | 10%           | 15%                     |

The fixed income category includes money market funds, short-term bond funds, and cash. The majority of fixed income investments range in maturities from less than 1 to 5 years.

The Company's target allocation percentages for the PBOP trust is similar to the pension plan.

The Company uses the following criteria to select investment funds:

- Fund past performance;
- Fund meets criteria of Employee Retirements Income Security Act (ERISA);
- Timeliness and completeness of fund communications and reporting to investors;
- Stability of fund management company;
- Fund management fees; and
- Administrative costs incurred by the Plan.

***Plan Fair Value Measurements***

The fair value measurements standard establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under the standard are described below:

*Level 1*—Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

*Level 2*—Inputs to the valuation methodology include:

- Quoted market prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and



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**11 EMPLOYEE BENEFIT PLANS (Continued)**

- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

*Level 3*—Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following tables present the fair value of plan assets by major asset category at December 31, 2019 and 2018:

|   | December 31, 2019 |            |            |                  |                  |            |            |                  |
|---|-------------------|------------|------------|------------------|------------------|------------|------------|------------------|
|   | Pension Benefits  |            |            |                  | Other Benefits   |            |            |                  |
|   | Level 1           | Level 2    | Level 3    | Total            | Level 1          | Level 2    | Level 3    | Total            |
| Fixed Income . . . . .                                | \$ 91,231         | \$—        | \$—        | \$ 91,231        | \$ 50,277        | \$—        | \$—        | \$ 50,277        |
| Domestic Equity: Small/<br>Mid Cap Stocks . . . . .   | 43,238            | —          | —          | 43,238           | —                | —          | —          | —                |
| Domestic Equity: Large<br>Cap Stocks . . . . .        | 155,645           | —          | —          | 155,645          | 78,277           | —          | —          | 78,277           |
| Non U.S. Equities . . . . .                           | 28,874            | —          | —          | 28,874           | —                | —          | —          | —                |
| Assets measured at net<br>asset value (NAV) . . . . . |                   |            |            | 254,587          |                  |            |            | —                |
| Total Plan Assets . . . . .                           | <u>\$318,988</u>  | <u>\$—</u> | <u>\$—</u> | <u>\$573,575</u> | <u>\$128,554</u> | <u>\$—</u> | <u>\$—</u> | <u>\$128,554</u> |
|   | December 31, 2018 |            |            |                  |                  |            |            |                  |
|   | Pension Benefits  |            |            |                  | Other Benefits   |            |            |                  |
|   | Level 1           | Level 2    | Level 3    | Total            | Level 1          | Level 2    | Level 3    | Total            |
| Fixed Income . . . . .                                | \$188,934         | \$—        | \$—        | \$188,934        | \$ 45,446        | \$—        | \$—        | \$ 45,446        |
| Domestic Equity: Small/<br>Mid Cap Stocks . . . . .   | 68,843            | —          | —          | 68,843           | —                | —          | —          | —                |
| Domestic Equity: Large<br>Cap Stocks . . . . .        | 165,862           | —          | —          | 165,862          | 57,179           | —          | —          | 57,179           |
| Non U.S. Equities . . . . .                           | 46,135            | —          | —          | 46,135           | —                | —          | —          | —                |
| Assets measured at NAV . . . . .                      |                   |            |            | —                |                  |            |            | —                |
| Total Plan Assets . . . . .                           | <u>\$469,774</u>  | <u>\$—</u> | <u>\$—</u> | <u>\$469,774</u> | <u>\$102,625</u> | <u>\$—</u> | <u>\$—</u> | <u>\$102,625</u> |

The pension benefits fixed income category includes \$8.9 million and \$5.0 million of money market fund investments as of December 31, 2019 and 2018, respectively. The other benefits fixed income category includes \$4.5 million and \$9.8 million of money market fund investments as of December 31, 2019 and 2018, respectively.

Assets measured at NAV include investments in commingled funds that are comprised of fixed income and equity securities. These commingled funds are not publicly traded, and therefore no

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**11 EMPLOYEE BENEFIT PLANS (Continued)**

publicly quoted market price is readily available. The values of the commingled funds are measured at estimated fair value, which is determined based on the unit value of the funds and have not been classified in the fair value hierarchy tables above. There are no restrictions on the terms and conditions upon which the investments may be redeemed.

***Changes in Plan Assets, Benefits Obligations, and Funded Status***

The following table reconciles the funded status of the plans with the accrued pension liability and the net postretirement benefit liability as of December 31, 2019 and 2018:

|   | <u>Pension Benefits</u> |                    | <u>Other Benefits</u> |                   |
|---|-------------------------|--------------------|-----------------------|-------------------|
|   | <u>2019</u>             | <u>2018</u>        | <u>2019</u>           | <u>2018</u>       |
| Change in projected benefit obligation:                   |                         |                    |                       |                   |
| Beginning of year . . . . .                               | \$ 639,921              | \$ 671,334         | \$127,204             | \$143,368         |
| Service cost . . . . .                                    | 26,718                  | 29,027             | 7,475                 | 8,317             |
| Interest cost . . . . .                                   | 26,966                  | 23,994             | 5,441                 | 4,873             |
| Assumption change . . . . .                               | 122,779                 | (80,192)           | 13,695                | (21,672)          |
| Plan amendment . . . . .                                  | —                       | —                  | —                     | 2,203             |
| Experience loss (gain) . . . . .                          | 10,451                  | 8,523              | (1,994)               | (8,226)           |
| Benefits paid, net of retiree premiums . . . . .          | (14,806)                | (12,765)           | (1,306)               | (1,659)           |
| End of year . . . . .                                     | <u>\$ 812,029</u>       | <u>\$ 639,921</u>  | <u>\$150,515</u>      | <u>\$127,204</u>  |
| Change in plan assets:                                    |                         |                    |                       |                   |
| Fair value of plan assets at beginning of year . . . . .  | \$ 469,774              | \$ 460,878         | \$102,625             | \$100,563         |
| Actual return on plan assets . . .                        | 97,811                  | (22,576)           | 19,730                | (4,320)           |
| Employer contributions . . . . .                          | 20,796                  | 44,237             | 7,505                 | 8,041             |
| Retiree contributions and Medicare part D subsidies . . . | —                       | —                  | 1,874                 | 2,025             |
| Benefits paid . . . . .                                   | (14,806)                | (12,765)           | (3,180)               | (3,684)           |
| Fair value of plan assets at end of year . . . . .        | <u>\$ 573,575</u>       | <u>\$ 469,774</u>  | <u>\$128,554</u>      | <u>\$102,625</u>  |
| Funded status(1) . . . . .                                | <u>\$(238,454)</u>      | <u>\$(170,147)</u> | <u>\$(21,961)</u>     | <u>\$(24,579)</u> |
| Unrecognized actuarial loss . . . .                       | 177,750                 | 117,973            | 15,822                | 18,618            |
| Unrecognized prior service cost . .                       | 10,242                  | 15,290             | 2,129                 | 2,326             |
| Net amount recognized . . . . .                           | <u>\$ (50,462)</u>      | <u>\$ (36,884)</u> | <u>\$ (4,010)</u>     | <u>\$ (3,635)</u> |

(1) The short-term portion of the pension benefits was \$2.1 million as of December 31, 2019 and \$1.9 million as of December 31, 2018 and is recorded as part of other accrued liabilities on the Company's 2019 and 2018 Consolidated Balance Sheets.

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**11 EMPLOYEE BENEFIT PLANS (Continued)**

Amounts recognized on the balance sheet consist of:

|                                     | <b>Pension Benefits</b> |                    | <b>Other Benefits</b> |                   |
|-------------------------------------|-------------------------|--------------------|-----------------------|-------------------|
|                                     | <b>2019</b>             | <b>2018</b>        | <b>2019</b>           | <b>2018</b>       |
| Accrued benefit costs . . . . .     | \$ 62                   | \$ 62              | \$ (2,441)            | \$ (2,802)        |
| Accrued benefit liability . . . . . | (238,454)               | (170,147)          | (21,961)              | (24,579)          |
| Regulatory asset . . . . .          | 187,930                 | 133,201            | 20,392                | 23,746            |
| Net amount recognized . . . . .     | <u>\$ (50,462)</u>      | <u>\$ (36,884)</u> | <u>\$ (4,010)</u>     | <u>\$ (3,635)</u> |

**Valuation Assumptions**

Below are the actuarial assumptions used in determining the benefit obligation for the benefit plans:

|   | <b>Pension Benefits</b> |             | <b>Other Benefits</b> |             |
|---|-------------------------|-------------|-----------------------|-------------|
|   | <b>2019</b>             | <b>2018</b> | <b>2019</b>           | <b>2018</b> |
| Weighted average assumptions as of December 31:       |                         |             |                       |             |
| Discount rate . . . . .                               | 3.20%                   | 4.20%       | 3.25%                 | 4.25%       |
| Long-term rate of return on plan assets . . . . .     | 6.25%                   | 6.50%       | 5.50%                 | 5.50%       |
| Rate of compensation increases—pension plan . . . . . | 3.25%                   | 3.25%       | —                     | —           |
| Rate of compensation increases—SERP . . . . .         | 3.75%                   | 3.75%       | —                     | —           |
| Cost of living adjustment . . . . .                   | 2.50%                   | 2.50%       | —                     | —           |

The discount rate was derived from the FTSE Pension Discount Curve using the expected payouts for the plan. The long-term rate of return assumption is the expected rate of return on a balanced portfolio invested roughly 60% in equities and 40% in fixed income securities. Returns on equity investments were estimated based on estimates of dividend yield and real earnings added to a 2.50% long-term inflation rate. For the pension plans, the assumed returns were 7.25% for domestic equities and 8.56% for foreign equities. For the other benefits plan, the assumed returns was 6.88% for domestic equities. Returns on fixed-income investments were projected based on investment maturities and credit spreads added to a 2.50% long-term inflation rate. For the pension and other benefit plans, the assumed returns were 3.97% for fixed income investments and 2.34% for short-term cash investments. The average return for the pension and other benefit plans for the last 5 and 10 years was 7.60% and 8.60%, respectively. The Company is using a long-term rate of return of 6.25% for the pension plan and 5.50% for the other benefit plan, which is between the 25th and 75th percentile of expected results.

In 2019, the Company used the Society of Actuaries' Pri-2012 Total Dataset Mortality Tables for private-sector retirement plans in the United States and Mortality Improvement Scale (MP-2019) for measuring retirement plan obligations.

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**11 EMPLOYEE BENEFIT PLANS (Continued)**

**Components of Net Periodic Benefit Cost**

Net periodic benefit costs for the pension and other postretirement plans for the years ended December 31, 2019 and 2018, included the following components:

|                                      | Pension Plan     |                  |                  | Other Benefits  |                 |                 |
|--------------------------------------|------------------|------------------|------------------|-----------------|-----------------|-----------------|
|                                      | 2019             | 2018             | 2017             | 2019            | 2018            | 2017            |
| Service cost . . . . .               | \$ 26,718        | \$ 29,027        | \$ 23,801        | \$ 7,475        | \$ 8,317        | \$ 7,152        |
| Interest cost . . . . .              | 26,966           | 23,994           | 23,256           | 5,441           | 4,873           | 4,988           |
| Expected return on plan assets . . . | (30,285)         | (27,702)         | (24,119)         | (5,794)         | (5,639)         | (4,875)         |
| Net amortization and deferral . . .  | 10,975           | 16,233           | 12,962           | 758             | 1,281           | 1,186           |
| Net periodic benefit cost . . . . .  | <u>\$ 34,374</u> | <u>\$ 41,552</u> | <u>\$ 35,900</u> | <u>\$ 7,880</u> | <u>\$ 8,832</u> | <u>\$ 8,451</u> |

Service cost portion of the pension plan and other postretirement benefits is recognized in administrative and general within the Consolidated Statements of Income. Other components of net periodic benefit costs include interest costs, expected return on plan assets, amortization of prior service costs, and recognized net actuarial loss and are reported together as other components of net periodic benefit cost within the Consolidated Statements of Income.

Below are the actuarial assumptions used in determining the net periodic benefit costs for the benefit plans, which uses the end of the prior year as the measurement date:

|   | Pension Benefits |       | Other Benefits |       |
|---|------------------|-------|----------------|-------|
|   | 2019             | 2018  | 2019           | 2018  |
| Weighted average assumptions as of December 31:   |                  |       |                |       |
| Discount rate . . . . .                           | 4.20%            | 3.60% | 4.25%          | 3.65% |
| Long-term rate of return on plan assets . . . . . | 6.50%            | 6.50% | 5.50%          | 5.50% |
| Rate of compensation increases—pension plan . .   | 3.25%            | 3.25% | —              | —     |
| Rate of compensation increases—SERP . . . . .     | 3.75%            | 3.75% | —              | —     |
| Cost of living adjustment . . . . .               | 2.50%            | 2.50% |                |       |

The health care cost trend rate assumption has a significant effect on the amounts reported. For 2019 measurement purposes, the Company assumed a 7.0% annual rate of increase in the per capita cost of covered benefits with the rate decreasing to 5.3% by 2022, then gradually grading down to 4.3% over the next 50 years. A 1-percentage point change in assumed health care cost trends is estimated to have the following effect:

|   | 1-Percentage Point Increase | 1-Percentage Point (Decrease) |
|---|-----------------------------|-------------------------------|
| Effect on total service and interest costs . . . . .              | \$ 3,610                    | \$ (2,650)                    |
| Effect on accumulated postretirement benefit obligation . . . . . | \$33,945                    | \$(25,757)                    |

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**11 EMPLOYEE BENEFIT PLANS (Continued)**

The Company intends to make annual contributions that meet the funding requirements of ERISA. The Company estimates in 2020 that the annual contribution to the pension plans will be \$38.0 million and the annual contribution to the other postretirement plan will be \$7.5 million.

**12 STOCK-BASED COMPENSATION PLANS**

The Company's equity incentive plan was approved and amended by stockholders on April 27, 2005 and May 20, 2014. The Company is authorized to issue awards up to 2,000,000 shares of common stock.

The following table lists the number of annual RSAs granted and canceled in 2019 and 2018:

|                         | <u>2019</u> | <u>2018</u> |
|-------------------------|-------------|-------------|
| RSAs granted . . . . .  | 36,691      | 47,273      |
| RSAs canceled . . . . . | 17,134      | 19,742      |

Officer RSAs granted in 2019 and 2018 vest over 36 months with the first year cliff vesting. Director RSAs generally vest at the end of 12 months. During 2019 and 2018, the RSAs granted were valued at \$52.83 and \$35.40 per share, respectively, based upon the fair market value of the Company's common stock on the date of grant.

The following table lists the number of performance-based RSUs granted, issued, and canceled in 2019 and 2018:

|                         | <u>2019</u> | <u>2018</u> |
|-------------------------|-------------|-------------|
| RSUs granted . . . . .  | 26,473      | 28,594      |
| RSUs issued . . . . .   | 62,726      | 48,753      |
| RSUs canceled . . . . . | 31,177      | 24,009      |

Each award reflects a target number of common shares that may be issued to the award recipient. The 2019 and 2018 awards may be earned upon the completion of a 3-year performance period. Whether RSUs are earned at the end of the performance period will be determined based on the achievement of certain performance objectives set by the Board of Director Compensation Committee in connection with the issuance of the RSUs. The performance objectives are based on the Company's business plan covering the performance period. The performance objectives include achieving the budgeted return on equity, budgeted investment in utility plant, customer service standards, employee safety standards and water quality standards. Depending on the results achieved during the 3-year performance period, the actual number of shares that a grant recipient receives at the end of the performance period may range from 0% to 200% of the target shares granted, provided that the grantee is continuously employed by the Company through the vesting date. If prior to the vesting date employment is terminated by reason of death, disability or normal retirement, then a pro rata portion of this award will vest. RSUs are not included in diluted shares until earned. The RSUs are recognized as expense ratably over the 3 year performance period using a fair market value of \$52.83 per share for the 2019 RSUs and \$35.40 per share for the 2018 RSUs based on an estimate of RSUs earned during the performance period.

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**12 STOCK-BASED COMPENSATION PLANS (Continued)**

The Company has recorded compensation costs for the RSAs and RSUs which are included in administrative and general operating expenses in the amount of \$6.5 million for 2019 and \$3.1 million for 2018 and 2017.

**13 FAIR VALUE OF FINANCIAL INSTRUMENTS**

The accounting guidance for fair value measurements and disclosures provides a single definition of fair value and requires certain disclosures about assets and liabilities measured at fair value. A hierarchical framework for disclosing the observability of the inputs utilized in measuring assets and liabilities at fair value is established by this guidance. The three levels in the hierarchy are described in Note 11—Employee Benefit Plans.

Specific valuation methods include the following:

Accounts receivable and accounts payable carrying amounts approximated the fair value because of the short-term maturity of the instruments.

Long-term debt fair values were estimated using the published quoted market price, if available, or the discounted cash flow analysis, based on the current rates available using a risk-free rate (a U.S. Treasury securities yield curve) plus a risk premium of 1.83%.

Advances for construction fair values were estimated using broker quotes from companies that frequently purchase these investments.

|   | <b>December 31, 2019</b> |                   |                  |                |                  |
|---|--------------------------|-------------------|------------------|----------------|------------------|
|   | <b>Cost</b>              | <b>Fair Value</b> |                  |                | <b>Total</b>     |
|   |                          | <b>Level 1</b>    | <b>Level 2</b>   | <b>Level 3</b> |                  |
| Long-term debt, including current maturities, net . . . . . | \$808,622                | \$—               | \$873,454        | \$—            | \$873,454        |
| Advances for construction . . . . .                         | 191,062                  | —                 | 79,550           | —              | 79,550           |
| <b>Total . . . . .</b>                                      | <b>\$999,684</b>         | <b>\$—</b>        | <b>\$953,004</b> | <b>\$—</b>     | <b>\$953,004</b> |

|   | <b>December 31, 2018</b> |                   |                  |                |                  |
|---|--------------------------|-------------------|------------------|----------------|------------------|
|   | <b>Cost</b>              | <b>Fair Value</b> |                  |                | <b>Total</b>     |
|   |                          | <b>Level 1</b>    | <b>Level 2</b>   | <b>Level 3</b> |                  |
| Long-term debt, including current maturities, net . . . . . | \$ 814,938               | \$—               | \$849,551        | \$—            | \$849,551        |
| Advances for construction . . . . .                         | 186,342                  | —                 | 77,204           | —              | 77,204           |
| <b>Total . . . . .</b>                                      | <b>\$1,001,280</b>       | <b>\$—</b>        | <b>\$926,755</b> | <b>\$—</b>     | <b>\$926,755</b> |

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**14 COMMITMENTS AND CONTINGENCIES**

***Commitments***

*Water Supply Contracts*

The Company has long-term commitments to purchase water from water wholesalers. The commitments are noted in the table below.

|                  | <b>Water Supply<br/>Contracts*</b> |
|------------------|------------------------------------|
| 2020 .....       | \$ 34,550                          |
| 2021 .....       | 34,550                             |
| 2022 .....       | 34,551                             |
| 2023 .....       | 34,551                             |
| 2024 .....       | 34,549                             |
| Thereafter ..... | 604,342                            |

\* Estimated annual contractual obligations are based on the same payment levels as 2019.

*Water Supply Contracts*

The Company has a long-term contract with the Santa Clara Valley Water District that requires the Company to purchase minimum annual water quantities. Purchases are priced at the districts then-current wholesale water rate. The Company operates to purchase sufficient water to equal or exceed the minimum quantities under the contract. The total paid to Santa Clara Valley Water District was \$13.6 million in 2019, \$9.7 million in 2018, and \$9.1 million in 2017.

The Company also has a water supply contract with Stockton East Water District (SEWD) that requires a fixed monthly payment. Each year, the fixed monthly payment is adjusted for changes to SEWD's costs. The total paid under the contract was \$13.3 million in 2019, \$13.7 million in 2018, and \$14.1 million in 2017.

On September 21, 2005, the Company entered into an agreement with Kern County Water Agency (Agency) to obtain treated water for the Company's operations. The term of the agreement is to January 1, 2035, or until the repayment of the Agency's bonds (described hereafter) occurs. Under the terms of the agreement, the Company is obligated to purchase approximately 20,500 acre feet of treated water per year. The Company is obligated to pay the Capital Facilities Charge and the Treated Water Charge regardless of whether it can use the water in its operation, and is obligated for these charges even if the Agency cannot produce an adequate amount to supply the 20,500 acre feet in the year. This agreement supersedes a prior agreement with Kern County Water Agency for the supply of 11,500 acre feet of water per year.

Three other parties, including the City of Bakersfield, are also obligated to purchase a total of 32,500 acre feet per year under separate agreements with the Agency. Further, the Agency has the right to proportionally reduce the water supply provided to all of the participants if it cannot

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**14 COMMITMENTS AND CONTINGENCIES (Continued)**

produce adequate supplies. If any of the other parties does not use its allocation, that party is obligated to pay its contracted amount.

If any of the parties were to default on making payments of the Capital Facilities Charge, then the other parties are obligated to pay for the defaulting party's share on a pro-rata basis. If there is a payment default by a party and the remaining parties have to make payments, they are also entitled to a pro-rata share of the defaulting party's water allocation.

The Company expects to use all its entitled water in its operations every year. In addition, if the Company were to pay for and receive additional amounts of water due to a default of another participating party; the Company believes it could use this additional water in its operations without incurring substantial incremental cost increases. If additional treated water is available, all parties have an option to purchase this additional treated water, subject to the Agency's right to allocate the water among the parties.

The total obligation of all parties, excluding the Company, is approximately \$82.4 million to the Agency. Based on the credit worthiness of the other participants, which are government entities, it is believed to be highly unlikely that the Company would be required to assume any other parties' obligations under the contract due to their default.

The Company pays a capital facilities charge and charges related to treated water that together total \$9.1 million annually, which equates to \$442.88 dollars per acre foot. Total treated water charge for 2019 was \$3.6 million. As treated water is being delivered, the Company will also be obligated for the Company's portion of the operating costs; that portion is currently estimated to be \$22.05 dollars per acre foot. The actual amount will vary due to variations from estimates, inflation, and other changes in the cost structure. Our overall estimated cost of \$442.88 dollars per acre foot is less than the estimated cost of procuring untreated water (assuming water rights could be obtained) and then providing treatment.

Leases

The Company has operating and finance leases for water systems, offices, land easements, licenses, equipment, and other facilities. The leases generally have remaining lease terms of 1 year to 50 years, some of which include options to extend the lease for up to 25 years. The exercise of lease renewal options is at the Company's sole discretion. Most of the Company's lease agreements contain mutual termination options that require prior written notice by either lessee or lessor. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants. Certain leases include options to purchase the leased property. The depreciable life of the assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option that is reasonably certain of exercise. Leases with an initial term of 12 months or less are not recorded on the balance sheet as the Company applied the short-term lease exception allowed by the FASB guidance. Lease expense for these leases is recognized on a straight-line basis over the lease term. A subset of the Company's leases contains variable lease payments that depend on changes in the CPI.



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**14 COMMITMENTS AND CONTINGENCIES (Continued)**

The Company determines if an arrangement is a lease at contract inception. Generally, a lease agreement exists if the Company determines that the arrangement gives the Company control over the use of an identified asset and obtains substantially all of the benefits from the identified asset.

The right-of-use (ROU) assets that are recorded represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the Company's operating leases do not provide an implicit rate, the Company uses an incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The ROU asset and lease liability may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Variable lease payments that are based on changes in CPI are included in the measurement of ROU asset and lease liability on the basis of the rate at lease commencement. Subsequent changes to the payments as a result of changes to the CPI rate are recognized in the period in which the obligation of these payments is incurred.

Supplemental balance sheet information related to leases was as follows:

|   | <b>As of<br/>December 31, 2019</b> |
|---|------------------------------------|
| <i>Operating leases</i>                             |                                    |
| Other assets: Other . . . . .                       | \$ 14,402                          |
| Other accrued liabilities . . . . .                 | \$ 1,452                           |
| Other long-term liabilities . . . . .               | 12,928                             |
| Total operating lease liabilities . . . . .         | <u>\$ 14,380</u>                   |
| <i>Finance leases</i>                               |                                    |
| Depreciable plant and equipment . . . . .           | \$ 18,207                          |
| Accumulated depreciation and amortization . . . . . | (9,644)                            |
| Net utility plant . . . . .                         | <u>\$ 8,563</u>                    |
| Current maturities of long-term debt, net . . . . . | \$ 680                             |
| Long-term debt, net . . . . .                       | 5,205                              |
| Total finance lease liabilities . . . . .           | <u>\$ 5,885</u>                    |
| <i>Weighted average remaining lease term</i>        |                                    |
| Operating leases . . . . .                          | 152 months                         |
| Finance leases . . . . .                            | 76 months                          |
| <i>Weighted average discount rate</i>               |                                    |
| Operating leases . . . . .                          | 3.7%                               |
| Finance leases . . . . .                            | 5.5%                               |

**CALIFORNIA WATER SERVICE GROUP**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2019, 2018, and 2017**  
**Dollar amounts in thousands unless otherwise stated**

**14 COMMITMENTS AND CONTINGENCIES (Continued)**

The components of lease expense were as follows:

|   | <b>2019</b>    |
|---|----------------|
| Operating lease cost . . . . .                | \$ 1,874       |
| Finance lease cost:                           |                |
| Amortization of right-of-use assets . . . . . | \$ 1,210       |
| Interest on lease liabilities . . . . .       | 347            |
| Total finance lease cost . . . . .            | \$ 1,557       |
| Short-term lease cost . . . . .               | \$ 1,700       |
| Variable lease cost . . . . .                 | 264            |
| <b>Total lease cost . . . . .</b>             | <b>\$5,395</b> |

Supplemental cash flow information related to leases was as follows:

|  | <b>2019</b> |
|--|-------------|
| Cash paid for amounts included in the measurement of lease liabilities:              |             |
| Operating cash flows from operating leases . . . . .                                 | \$1,820     |
| Operating cash flows from finance leases . . . . .                                   | 347         |
| Financing cash flows from finance leases . . . . .                                   | 672         |
| Non-cash activities: right-of-use assets obtained in exchange for lease obligations: |             |
| Operating leases . . . . .   | 2,109       |
| Finance leases . . . . .   | 672         |

Maturities of lease liabilities as of December 31, 2019 are as follows:

| <b>Year Ending December 31,</b> | <b>Operating Leases</b> | <b>Finance Leases</b> |
|---------------------------------|-------------------------|-----------------------|
| 2020 . . . . .                  | \$ 1,951                | \$ 986                |
| 2021 . . . . .                  | 1,734                   | 987                   |
| 2022 . . . . .                  | 1,578                   | 987                   |
| 2023 . . . . .                  | 1,459                   | 1,506                 |
| 2024 . . . . .                  | 1,318                   | 940                   |
| Thereafter . . . . .            | 10,205                  | 1,645                 |
| Total lease payments . . . . .  | \$ 18,245               | \$ 7,051              |
| Less imputed interest . . . . . | \$ (3,865)              | \$(1,166)             |
| <b>Total . . . . .</b>          | <b>\$14,380</b>         | <b>\$5,885</b>        |

**CALIFORNIA WATER SERVICE GROUP**  
**Notes to Consolidated Financial Statements (Continued)**  
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**14 COMMITMENTS AND CONTINGENCIES (Continued)**

As previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2018 and under the previous lease accounting standard, minimum lease payments, as of December 31, 2018, under non-cancelable operating leases by period were expected to be as follows:

|                      | <b>Operating<br/>Leases</b> |
|----------------------|-----------------------------|
| 2019 . . . . .       | \$ 1,771                    |
| 2020 . . . . .       | 1,709                       |
| 2021 . . . . .       | 1,485                       |
| 2022 . . . . .       | 1,355                       |
| 2023 . . . . .       | 1,261                       |
| Thereafter . . . . . | 10,538                      |
| Total . . . . .      | <u>\$18,119</u>             |

Rent expense under the previous lease accounting standard for operating leases was \$2.0 million in 2018 and 2017.

***Contingencies***

*Groundwater Contamination*

The Company has undertaken 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. The CPUC's general policy requires all proceeds from contamination litigation to be used first to pay transactional expenses, then to make customers whole for water treatment costs to comply with the CPUC's water quality standards. The CPUC allows for a risk-based consideration of contamination proceeds which exceed the costs of the remediation described above and may result in some sharing of proceeds with the shareholder, determined on a case by case basis. The CPUC has authorized various memorandum accounts that allow the Company to track significant litigation costs to request recovery of these costs in future filings and uses of proceeds to comply with CPUC's general policy.

As previously reported, Cal Water has filed with the City of Bakersfield, in the Superior Court of California, a lawsuit that names potentially PRPs, who manufactured and distributed products containing TCP in California. TCP has been detected in the ground water. The lawsuit seeks to recover treatment costs necessary to remove TCP. On December 20, 2017, Cal Water entered into an \$85.0 million settlement agreement and release of claims with the PRPs, in *California Water Service Company and City of Bakersfield v. The Dow Chemical Company, et al., Civil Case No. CIV-470999* (TCP Action). The TCP Action seeks damages and other relief related to the PRPs' alleged contamination of drinking water supply and water wells with the chemical TCP. The proceeds from the settlement, after payment of the legal fees, was \$56.0 million and will be used to reimburse a portion of the capital costs associated with Cal Water's remediation efforts related to such alleged TCP contamination. As of December 31, 2019, Cal Water has used \$47.6 million of the proceeds on

Form 10-K

**CALIFORNIA WATER SERVICE GROUP**  
**Notes to Consolidated Financial Statements (Continued)**  
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**14 COMMITMENTS AND CONTINGENCIES (Continued)**

remediation efforts related to the alleged TCP contamination. Under the terms of the Agreement, the PRPs are released from all claims regarding 47 of the 57 total claimed wells, and Cal Water agrees to file a dismissal with prejudice of the TCP Action. The PRPs are also released from future claims regarding TCP contamination of any other wells, unless and until Cal Water has installed granular activated carbon filtration systems or other then-approved Sate treatment technology for TCP on, or replaced, 36 wells due to TCP contamination. As of December 31, 2019, Cal Water believes the proceeds are non-taxable based upon its intent to reinvest them in qualifying assets.

Other Legal Matters

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. The Company has recognized a liability of \$2.5 million for all known legal matters as of December 31, 2019 primarily due to potable water main leaks and other work related legal matters. 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 on the nature of the settlement.

**15 QUARTERLY FINANCIAL DATA (UNAUDITED)**

The Company's common stock is traded on the New York Stock Exchange under the symbol "CWT".

| <b>2019</b>                                 | <b>First</b> | <b>Second</b> | <b>Third</b> | <b>Fourth</b> |
|---|--------------|---------------|--------------|---------------|
| Operating revenue . . . . .                 | \$126,111    | \$179,031     | \$232,537    | \$176,878     |
| Net operating income . . . . .              | 476          | 27,013        | 51,567       | 20,356        |
| Net (loss) income . . . . .                 | (7,640)      | 16,996        | 42,424       | 11,336        |
| Diluted (loss) earnings per share . . . . . | (0.16)       | 0.35          | 0.88         | 0.24          |
| Common stock market price range:            |              |               |              |               |
| High . . . . .                              | 55.05        | 54.56         | 57.48        | 56.49         |
| Low . . . . .                               | 44.60        | 48.00         | 49.52        | 48.78         |
| Dividends paid per common share . . . . .   | 0.1975       | 0.1975        | 0.1975       | 0.1975        |

**CALIFORNIA WATER SERVICE GROUP**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2019, 2018, and 2017**  
**Dollar amounts in thousands unless otherwise stated**

**15 QUARTERLY FINANCIAL DATA (UNAUDITED) (Continued)**

| <u>2018</u>                                 | <u>First</u> | <u>Second</u> | <u>Third</u> | <u>Fourth</u> |
|---|--------------|---------------|--------------|---------------|
| Operating revenue . . . . .                 | \$134,553    | \$174,938     | \$221,288    | \$167,417     |
| Net operating income . . . . .              | 9,836        | 26,839        | 47,329       | 26,536        |
| Net (loss) income . . . . .                 | (762)        | 14,805        | 36,173       | 15,368        |
| Diluted (loss) earnings per share . . . . . | (0.02)       | 0.31          | 0.75         | 0.32          |
| Common stock market price range:            |              |               |              |               |
| High . . . . .                              | 45.85        | 41.65         | 42.95        | 49.07         |
| Low . . . . .                               | 35.25        | 35.60         | 38.85        | 40.10         |
| Dividends paid per common share . . . . .   | 0.1875       | 0.1875        | 0.1875       | 0.1875        |

**16 CONDENSED CONSOLIDATING FINANCIAL STATEMENTS**

On November 17, 2010, Cal Water issued \$100.0 million aggregate principal amount of 5.500% First Mortgage Bonds due 2040, all of which is fully and unconditionally guaranteed by the Company. As a result of this guarantee arrangement, the Company is required to present the following condensed consolidating financial information. The investments in affiliates are accounted for and presented using the “equity method” of accounting

The following tables present the Condensed Consolidating Balance Sheets as of December 31, 2019 and 2018, the Condensed Consolidating Statements of Income for the years ended December 31, 2019, 2018, and 2017, and the Condensed Consolidating Statements of Cash Flows for the years ended December 31, 2019, 2018, and 2017, of (i) California Water Service Group, the guarantor of the First Mortgage Bonds and the parent company; (ii) California Water Service Company, the issuer of the First Mortgage Bonds and a 100% owned consolidated subsidiary of California Water Service Group; and (iii) the other 100% owned non-guarantor consolidated subsidiaries of California Water Service Group. No other subsidiary of the Company guarantees the securities. The condensed consolidating statement of cash flows for the year ended December 31, 2017 reflects the retrospective adoption of ASU 2016-09, which affected California Water Service Company and the other subsidiaries. The Condensed Consolidating Statement of Income for the year ended December 31, 2017 reflects the retrospective adoption of ASU 2017-07, which affected California Water Service Company and the other subsidiaries.

**CALIFORNIA WATER SERVICE GROUP**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2019, 2018, and 2017**  
**Dollar amounts in thousands unless otherwise stated**

**16 CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)**

**CALIFORNIA WATER SERVICE GROUP**  
**CONDENSED CONSOLIDATING BALANCE SHEET**  
**As of December 31, 2019**

|  | <u>Parent<br/>Company</u> | <u>Cal Water</u>    | <u>All Other<br/>Subsidiaries</u> | <u>Consolidating<br/>Adjustments</u> | <u>Consolidated</u> |
|--|---------------------------|---------------------|-----------------------------------|--------------------------------------|---------------------|
|  | (In thousands)            |                     |                                   |                                      |                     |
| <b>ASSETS</b>  |                           |                     |                                   |                                      |                     |
| <b>Utility plant:</b>  |                           |                     |                                   |                                      |                     |
| Utility plant . . . . .  | \$ 1,318                  | \$ 3,332,331        | \$224,033                         | \$ (7,197)                           | \$ 3,550,485        |
| Less accumulated depreciation and<br>amortization . . . . .                  | (1,107)                   | (1,079,627)         | (65,561)                          | 2,180                                | (1,144,115)         |
| <b>Net utility plant</b> . . . . .   | <u>211</u>                | <u>2,252,704</u>    | <u>158,472</u>                    | <u>(5,017)</u>                       | <u>2,406,370</u>    |
| <b>Current assets:</b>   |                           |                     |                                   |                                      |                     |
| Cash and cash equivalents . . . . .  | 3,096                     | 29,098              | 10,459                            | —                                    | 42,653              |
| Receivables and unbilled revenue . . . . .                                   | —                         | 114,999             | 4,350                             | —                                    | 119,349             |
| Receivables from affiliates . . . . .  | 25,803                    | 3,621               | 209                               | (29,633)                             | —                   |
| Other current assets . . . . .   | 90                        | 20,615              | 2,005                             | —                                    | 22,710              |
| <b>Total current assets</b> . . . . .  | <u>28,989</u>             | <u>168,333</u>      | <u>17,023</u>                     | <u>(29,633)</u>                      | <u>184,712</u>      |
| <b>Other assets:</b>   |                           |                     |                                   |                                      |                     |
| Regulatory assets . . . . .  | —                         | 428,639             | 4,683                             | —                                    | 433,322             |
| Investments in affiliates . . . . .  | 777,170                   | —                   | —                                 | (777,170)                            | —                   |
| Long-term affiliate notes receivable . . . . .                               | 30,060                    | —                   | —                                 | (30,060)                             | —                   |
| Other assets . . . . .   | 409                       | 81,591              | 5,125                             | (221)                                | 86,904              |
| <b>Total other assets</b> . . . . .  | <u>807,639</u>            | <u>510,230</u>      | <u>9,808</u>                      | <u>(807,451)</u>                     | <u>520,226</u>      |
| <b>TOTAL ASSETS</b> . . . . .  | <u>\$836,839</u>          | <u>\$ 2,931,267</u> | <u>\$185,303</u>                  | <u>\$(842,101)</u>                   | <u>\$ 3,111,308</u> |
| <b>CAPITALIZATION AND LIABILITIES</b>  |                           |                     |                                   |                                      |                     |
| <b>Capitalization:</b>   |                           |                     |                                   |                                      |                     |
| Common stockholders' equity . . . . .  | \$779,906                 | \$ 700,784          | \$ 81,604                         | \$(782,388)                          | \$ 779,906          |
| Affiliate long-term debt . . . . .   | —                         | —                   | 30,060                            | (30,060)                             | —                   |
| Long-term debt, net . . . . .  | —                         | 786,310             | 444                               | —                                    | 786,754             |
| <b>Total capitalization</b> . . . . .  | <u>779,906</u>            | <u>1,487,094</u>    | <u>112,108</u>                    | <u>(812,448)</u>                     | <u>1,566,660</u>    |
| <b>Current liabilities:</b>  |                           |                     |                                   |                                      |                     |
| Current maturities of long-term debt, net . . . . .                          | —                         | 21,732              | 136                               | —                                    | 21,868              |
| Short-term borrowings . . . . .  | 55,100                    | 120,000             | —                                 | —                                    | 175,100             |
| Payables to affiliates . . . . .   | —                         | 6,115               | 23,518                            | (29,633)                             | —                   |
| Accounts payable . . . . .   | —                         | 104,419             | 4,044                             | —                                    | 108,463             |
| Accrued expenses and other liabilities . . . . .                             | 313                       | 50,569              | 2,408                             | —                                    | 53,290              |
| <b>Total current liabilities</b> . . . . .                                   | <u>55,413</u>             | <u>302,835</u>      | <u>30,106</u>                     | <u>(29,633)</u>                      | <u>358,721</u>      |
| <b>Unamortized investment tax credits</b> . . . . .                          | —                         | 1,575               | —                                 | —                                    | 1,575               |
| <b>Deferred income taxes</b> . . . . .                                       | 1,520                     | 217,847             | 3,243                             | (20)                                 | 222,590             |
| <b>Pension and postretirement benefits<br/>other than pensions</b> . . . . . | —                         | 258,907             | —                                 | —                                    | 258,907             |
| <b>Regulatory and other long-term liabilities</b> . . . . .                  | —                         | 262,859             | 7,397                             | —                                    | 270,256             |
| <b>Advances for construction</b> . . . . .                                   | —                         | 190,568             | 494                               | —                                    | 191,062             |
| <b>Contributions in aid of construction</b> . . . . .                        | —                         | 209,582             | 31,955                            | —                                    | 241,537             |
| <b>TOTAL CAPITALIZATION AND LIABILITIES</b> . . . . .                        | <u>\$836,839</u>          | <u>\$ 2,931,267</u> | <u>\$185,303</u>                  | <u>\$(842,101)</u>                   | <u>\$ 3,111,308</u> |

**CALIFORNIA WATER SERVICE GROUP**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2019, 2018, and 2017**  
**Dollar amounts in thousands unless otherwise stated**

**16 CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)**

**CALIFORNIA WATER SERVICE GROUP**  
**CONDENSED CONSOLIDATING BALANCE SHEET**  
**As of December 31, 2018**

|  | <u>Parent<br/>Company</u> | <u>Cal Water</u>   | <u>All Other<br/>Subsidiaries</u> | <u>Consolidating<br/>Adjustments</u> | <u>Consolidated</u> |
|--|---------------------------|--------------------|-----------------------------------|--------------------------------------|---------------------|
|  | (In thousands)            |                    |                                   |                                      |                     |
| <b>ASSETS</b>  |                           |                    |                                   |                                      |                     |
| <b>Utility plant:</b>  |                           |                    |                                   |                                      |                     |
| Utility plant . . . . .  | \$ 1,318                  | \$3,021,437        | \$213,888                         | \$ (7,197)                           | \$3,229,446         |
| Less accumulated depreciation and<br>amortization . . . . .                  | (1,013)                   | (938,072)          | (59,735)                          | 2,097                                | (996,723)           |
| <b>Net utility plant</b> . . . . .   | <u>305</u>                | <u>2,083,365</u>   | <u>154,153</u>                    | <u>(5,100)</u>                       | <u>2,232,723</u>    |
| <b>Current assets:</b>   |                           |                    |                                   |                                      |                     |
| Cash and cash equivalents . . . . .  | 3,779                     | 33,763             | 9,634                             | —                                    | 47,176              |
| Receivables and unbilled revenue . . . . .                                   | 126                       | 118,632            | 4,201                             | —                                    | 122,959             |
| Receivables from affiliates . . . . .  | 21,318                    | 4,074              | 61                                | (25,453)                             | —                   |
| Other current assets . . . . .   | 80                        | 16,907             | 1,580                             | —                                    | 18,567              |
| <b>Total current assets</b> . . . . .  | <u>25,303</u>             | <u>173,376</u>     | <u>15,476</u>                     | <u>(25,453)</u>                      | <u>188,702</u>      |
| <b>Other assets:</b>   |                           |                    |                                   |                                      |                     |
| Regulatory assets . . . . .  | —                         | 349,414            | 4,155                             | —                                    | 353,569             |
| Investments in affiliates . . . . .  | 733,156                   | —                  | —                                 | (733,156)                            | —                   |
| Long-term affiliate notes receivable . . . . .                               | 27,829                    | —                  | —                                 | (27,829)                             | —                   |
| Other assets . . . . .   | 133                       | 58,959             | 3,821                             | (203)                                | 62,710              |
| <b>Total other assets</b> . . . . .  | <u>761,118</u>            | <u>408,373</u>     | <u>7,976</u>                      | <u>(761,188)</u>                     | <u>416,279</u>      |
| <b>TOTAL ASSETS</b> . . . . .  | <u>\$786,726</u>          | <u>\$2,665,114</u> | <u>\$177,605</u>                  | <u>\$(791,741)</u>                   | <u>\$2,837,704</u>  |
| <b>CAPITALIZATION AND LIABILITIES</b>  |                           |                    |                                   |                                      |                     |
| <b>Capitalization:</b>   |                           |                    |                                   |                                      |                     |
| Common stockholders' equity . . . . .  | \$730,157                 | \$ 659,340         | \$ 79,093                         | \$(738,433)                          | \$ 730,157          |
| Affiliate long-term debt . . . . .   | —                         | —                  | 27,828                            | (27,828)                             | —                   |
| Long-term debt, net . . . . .  | —                         | 709,444            | 583                               | —                                    | 710,027             |
| <b>Total capitalization</b> . . . . .  | <u>730,157</u>            | <u>1,368,784</u>   | <u>107,504</u>                    | <u>(766,261)</u>                     | <u>1,440,184</u>    |
| <b>Current liabilities:</b>  |                           |                    |                                   |                                      |                     |
| Current maturities of long-term debt, net . . . . .                          | —                         | 104,664            | 247                               | —                                    | 104,911             |
| Short-term borrowings . . . . .  | 55,100                    | 10,000             | —                                 | —                                    | 65,100              |
| Payables to affiliates . . . . .   | 17                        | 488                | 24,948                            | (25,453)                             | —                   |
| Accounts payable . . . . .   | —                         | 92,310             | 3,270                             | —                                    | 95,580              |
| Accrued expenses and other liabilities . . . . .                             | 107                       | 53,655             | 1,813                             | —                                    | 55,575              |
| <b>Total current liabilities</b> . . . . .                                   | <u>55,224</u>             | <u>261,117</u>     | <u>30,278</u>                     | <u>(25,453)</u>                      | <u>321,166</u>      |
| <b>Unamortized investment tax credits</b> . . . . .                          | —                         | 1,649              | —                                 | —                                    | 1,649               |
| <b>Deferred income taxes</b> . . . . .                                       | 1,376                     | 210,052            | 1,648                             | (43)                                 | 213,033             |
| <b>Pension and postretirement benefits other<br/>than pensions</b> . . . . . | —                         | 193,538            | —                                 | —                                    | 193,538             |
| <b>Regulatory and other long-term liabilities</b> . . . . .                  | (31)                      | 250,720            | 5,817                             | 16                                   | 256,522             |
| <b>Advances for construction</b> . . . . .                                   | —                         | 185,843            | 499                               | —                                    | 186,342             |
| <b>Contributions in aid of construction</b> . . . . .                        | —                         | 193,411            | 31,859                            | —                                    | 225,270             |
| <b>TOTAL CAPITALIZATION AND LIABILITIES</b> . . . . .                        | <u>\$786,726</u>          | <u>\$2,665,114</u> | <u>\$177,605</u>                  | <u>\$(791,741)</u>                   | <u>\$2,837,704</u>  |

**CALIFORNIA WATER SERVICE GROUP**  
**Notes to Consolidated Financial Statements (Continued)**  
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**16 CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)**

**CALIFORNIA WATER SERVICE GROUP**  
**CONDENSED CONSOLIDATING STATEMENT OF INCOME**  
**For the Year Ended December 31, 2019**

|  | <u>Parent<br/>Company</u> | <u>Cal Water</u> | <u>All Other<br/>Subsidiaries</u> | <u>Consolidating<br/>Adjustments</u> | <u>Consolidated</u> |
|--|---------------------------|------------------|-----------------------------------|--------------------------------------|---------------------|
|  | (In thousands)            |                  |                                   |                                      |                     |
| <b>Operating revenue</b> . . . . .                                 | \$ —                      | \$669,769        | \$44,788                          | \$ —                                 | \$714,557           |
| <b>Operating expenses:</b>   |                           |                  |                                   |                                      |                     |
| Operations:  |                           |                  |                                   |                                      |                     |
| Purchased water . . . . .  | —                         | 211,998          | 463                               | —                                    | 212,461             |
| Purchased power . . . . .  | —                         | 22,338           | 9,024                             | —                                    | 31,362              |
| Pump taxes . . . . .   | —                         | 11,518           | —                                 | —                                    | 11,518              |
| Administrative and general . . . . .                               | 23                        | 98,675           | 9,919                             | —                                    | 108,617             |
| Other operations . . . . .   | —                         | 83,148           | 7,496                             | (583)                                | 90,061              |
| Maintenance . . . . .  | —                         | 25,720           | 1,114                             | —                                    | 26,834              |
| Depreciation and amortization . . . . .                            | 94                        | 83,183           | 6,025                             | (82)                                 | 89,220              |
| Income tax (benefit) expense . . . . .                             | (528)                     | 14,677           | 1,273                             | 858                                  | 16,280              |
| Property and other taxes . . . . .                                 | —                         | 25,601           | 3,191                             | —                                    | 28,792              |
| <b>Total operating (income) expenses</b> . . . . .                 | (411)                     | 576,858          | 38,505                            | 193                                  | 615,145             |
| <b>Net operating income</b> . . . . .                              | 411                       | 92,911           | 6,283                             | (193)                                | 99,412              |
| <b>Other income and expenses:</b>                                  |                           |                  |                                   |                                      |                     |
| Non-regulated revenue . . . . .                                    | 2,401                     | 18,080           | 1,707                             | (2,983)                              | 19,205              |
| Non-regulated expenses . . . . .                                   | —                         | (12,526)         | (1,343)                           | —                                    | (13,869)            |
| Other components of net periodic<br>benefit cost . . . . .         | —                         | (5,559)          | (174)                             | —                                    | (5,733)             |
| Allowance for equity funds used<br>during construction . . . . .   | —                         | 6,685            | —                                 | —                                    | 6,685               |
| Gain on non-utility properties . . . . .                           | —                         | 28               | —                                 | —                                    | 28                  |
| Income tax expense on other income<br>and expenses . . . . .       | (672)                     | (1,476)          | (78)                              | 835                                  | (1,391)             |
| <b>Net other income</b> . . . . .                                  | 1,729                     | 5,232            | 112                               | (2,148)                              | 4,925               |
| <b>Interest:</b>   |                           |                  |                                   |                                      |                     |
| Interest expense . . . . .   | 1,769                     | 43,104           | 2,419                             | (2,401)                              | 44,891              |
| Allowance for borrowed funds used<br>during construction . . . . . | —                         | (3,408)          | (262)                             | —                                    | (3,670)             |
| <b>Net interest expense</b> . . . . .                              | 1,769                     | 39,696           | 2,157                             | (2,401)                              | 41,221              |
| <b>Equity earnings of subsidiaries</b> . . . . .                   | 62,745                    | —                | —                                 | (62,745)                             | —                   |
| <b>Net income</b> . . . . .  | \$63,116                  | \$ 58,447        | \$ 4,238                          | \$(62,685)                           | \$ 63,116           |



**CALIFORNIA WATER SERVICE GROUP**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2019, 2018, and 2017**  
**Dollar amounts in thousands unless otherwise stated**

**16 CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)**

**CALIFORNIA WATER SERVICE GROUP**  
**CONDENSED CONSOLIDATING STATEMENT OF INCOME**  
**For the Year Ended December 31, 2018**

|  | <u>Parent<br/>Company</u> | <u>Cal Water</u> | <u>All Other<br/>Subsidiaries</u> | <u>Consolidating<br/>Adjustments</u> | <u>Consolidated</u> |
|--|---------------------------|------------------|-----------------------------------|--------------------------------------|---------------------|
|  | (In thousands)            |                  |                                   |                                      |                     |
| <b>Operating revenue</b> . . . . .                                     | \$ —                      | \$656,939        | \$41,257                          | \$ —                                 | \$698,196           |
| <b>Operating expenses:</b>   |                           |                  |                                   |                                      |                     |
| Operations:  |                           |                  |                                   |                                      |                     |
| Purchased water . . . . .  | —                         | 206,675          | 428                               | —                                    | 207,103             |
| Purchased power . . . . .  | —                         | 22,460           | 8,620                             | —                                    | 31,080              |
| Pump taxes . . . . .   | —                         | 14,664           | —                                 | —                                    | 14,664              |
| Administrative and general . . . . .                                   | —                         | 90,563           | 10,218                            | —                                    | 100,781             |
| Other operations . . . . .   | —                         | 73,521           | 6,930                             | (583)                                | 79,868              |
| Maintenance . . . . .  | —                         | 23,573           | 921                               | —                                    | 24,494              |
| Depreciation and amortization . . . . .                                | 94                        | 78,601           | 5,173                             | (87)                                 | 83,781              |
| Income tax (benefit) expense . . . . .                                 | (960)                     | 17,678           | 948                               | 923                                  | 18,589              |
| Property and other taxes . . . . .                                     | —                         | 24,190           | 3,106                             | —                                    | 27,296              |
| <b>Total operating (income) expenses</b> . . . . .                     | (866)                     | 551,925          | 36,344                            | 253                                  | 587,656             |
| <b>Net operating income</b> . . . . .                                  | 866                       | 105,014          | 4,913                             | (253)                                | 110,540             |
| <b>Other Income and Expenses:</b>                                      |                           |                  |                                   |                                      |                     |
| Non-regulated revenue . . . . .  | 2,333                     | 17,658           | 1,197                             | (2,916)                              | 18,272              |
| Non-regulated expenses . . . . .                                       | —                         | (22,122)         | (665)                             | —                                    | (22,787)            |
| Other components of net periodic<br>benefit cost . . . . .             | —                         | (8,886)          | (422)                             | —                                    | (9,308)             |
| Allowance for equity funds used<br>during construction . . . . .       | —                         | 3,954            | —                                 | —                                    | 3,954               |
| Gain on sale of non-utility properties . . . . .                       | —                         | 50               | —                                 | —                                    | 50                  |
| Income tax (expense) benefit on other<br>income and expenses . . . . . | (652)                     | 2,616            | (63)                              | 816                                  | 2,717               |
| <b>Net other income (loss)</b> . . . . .                               | 1,681                     | (6,730)          | 47                                | (2,100)                              | (7,102)             |
| <b>Interest:</b>   |                           |                  |                                   |                                      |                     |
| Interest expense . . . . .   | 1,711                     | 38,288           | 2,251                             | (2,333)                              | 39,917              |
| Allowance for borrowed funds used<br>during construction . . . . .     | —                         | (1,909)          | (154)                             | —                                    | (2,063)             |
| <b>Net interest expense</b> . . . . .                                  | 1,711                     | 36,379           | 2,097                             | (2,333)                              | 37,854              |
| <b>Equity earnings of subsidiaries</b> . . . . .                       | 64,748                    | —                | —                                 | (64,748)                             | —                   |
| <b>Net income</b> . . . . .  | \$65,584                  | \$ 61,905        | \$ 2,863                          | \$(64,768)                           | \$ 65,584           |

Form 10-K

**CALIFORNIA WATER SERVICE GROUP**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2019, 2018, and 2017**  
**Dollar amounts in thousands unless otherwise stated**

**16 CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)**

**CALIFORNIA WATER SERVICE GROUP**  
**CONDENSED CONSOLIDATING STATEMENT OF INCOME**  
**For the Year Ended December 31, 2017**

|  | <u>Parent<br/>Company</u> | <u>Cal Water</u> | <u>All Other<br/>Subsidiaries</u> | <u>Consolidating<br/>Adjustments</u> | <u>Consolidated</u> |
|--|---------------------------|------------------|-----------------------------------|--------------------------------------|---------------------|
|  | (In thousands)            |                  |                                   |                                      |                     |
| <b>Operating revenue</b> . . . . .                                 | \$ —                      | \$635,604        | \$40,509                          | \$ —                                 | \$676,113           |
| <b>Operating expenses:</b>   |                           |                  |                                   |                                      |                     |
| Operations:  |                           |                  |                                   |                                      |                     |
| Purchased water . . . . .  | —                         | 198,682          | 399                               | —                                    | 199,081             |
| Purchased power . . . . .  | —                         | 21,021           | 7,841                             | —                                    | 28,862              |
| Pump taxes . . . . .   | —                         | 13,924           | —                                 | —                                    | 13,924              |
| Administrative and general . . . . .                               | —                         | 83,163           | 10,163                            | —                                    | 93,326              |
| Other operations . . . . .   | —                         | 67,069           | 7,903                             | (524)                                | 74,448              |
| Maintenance . . . . .  | —                         | 21,595           | 935                               | —                                    | 22,530              |
| Depreciation and amortization . . . . .                            | 94                        | 72,327           | 4,453                             | (91)                                 | 76,783              |
| Income tax (benefit) expense . . . . .                             | (498)                     | 33,313           | 1,405                             | 1,059                                | 35,279              |
| Property and other taxes . . . . .                                 | (4)                       | 21,778           | 3,023                             | —                                    | 24,797              |
| <b>Total operating (income) expenses</b> . . . . .                 | (408)                     | 532,872          | 36,122                            | 444                                  | 569,030             |
| <b>Net operating income</b> . . . . .                              | 408                       | 102,732          | 4,387                             | (444)                                | 107,083             |
| <b>Other Income and Expenses:</b>                                  |                           |                  |                                   |                                      |                     |
| Non-regulated revenue . . . . .                                    | 1,985                     | 14,608           | 1,814                             | (2,509)                              | 15,898              |
| Non-regulated expenses . . . . .                                   | —                         | (8,139)          | (1,251)                           | —                                    | (9,390)             |
| Other components of net periodic<br>benefit cost . . . . .         | —                         | (9,032)          | (556)                             | —                                    | (9,588)             |
| Allowance for equity funds used<br>during construction . . . . .   | —                         | 3,750            | —                                 | —                                    | 3,750               |
| Gain on sale of non-utility properties . . . . .                   | —                         | 663              | —                                 | —                                    | 663                 |
| Income tax expense on other income<br>and expenses . . . . .       | (809)                     | (1,714)          | (47)                              | 1,022                                | (1,548)             |
| <b>Net other income (loss)</b> . . . . .                           | 1,176                     | 136              | (40)                              | (1,487)                              | (215)               |
| <b>Interest:</b>   |                           |                  |                                   |                                      |                     |
| Interest expense . . . . .   | 1,131                     | 35,116           | 2,026                             | (1,985)                              | 36,288              |
| Allowance for borrowed funds used<br>during construction . . . . . | —                         | (2,319)          | (41)                              | —                                    | (2,360)             |
| <b>Net interest expense</b> . . . . .                              | 1,131                     | 32,797           | 1,985                             | (1,985)                              | 33,928              |
| <b>Equity earnings of subsidiaries</b> . . . . .                   | 72,487                    | —                | —                                 | (72,487)                             | —                   |
| <b>Net income</b> . . . . .  | \$72,940                  | \$ 70,071        | \$ 2,362                          | \$(72,433)                           | \$ 72,940           |

**CALIFORNIA WATER SERVICE GROUP**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2019, 2018, and 2017**  
**Dollar amounts in thousands unless otherwise stated**

**16 CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)**

**CALIFORNIA WATER SERVICE GROUP**  
**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**  
**For the Year Ended December 31, 2019**

|   | Parent<br>Company | Cal Water        | All Other<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated     |
|---|-------------------|------------------|---------------------------|------------------------------|------------------|
|   | (In thousands)    |                  |                           |                              |                  |
| <b>Operating activities:</b>  |                   |                  |                           |                              |                  |
| Net income  | \$ 63,116         | \$ 58,447        | \$ 4,238                  | \$(62,685)                   | \$ 63,116        |
| Adjustments to reconcile net income to net cash provided by operating activities: |                   |                  |                           |                              |                  |
| Equity earnings of subsidiaries   | (62,745)          | —                | —                         | 62,745                       | —                |
| Dividends received from Affiliates  | 38,023            | —                | —                         | (38,023)                     | —                |
| Depreciation and amortization   | 94                | 85,175           | 6,101                     | (82)                         | 91,288           |
| Change in value of life insurance contract  | —                 | (5,104)          | —                         | —                            | (5,104)          |
| Stock-based compensation  | —                 | —                | 6,731                     | —                            | 6,731            |
| Gain on sale of non-utility properties  | —                 | (28)             | —                         | —                            | (28)             |
| Changes in normalized deferred income taxes                                       | —                 | 15,346           | —                         | —                            | 15,346           |
| Allowance for equity funds used during construction                               | —                 | (6,685)          | —                         | —                            | (6,685)          |
| Changes in operating assets and liabilities                                       | 321               | 1,883            | 220                       | —                            | 2,424            |
| Other changes in noncurrent assets and liabilities                                | 6,632             | (308)            | (4,640)                   | 22                           | 1,706            |
| <b>Net cash provided by operating activities</b>                                  | <u>45,441</u>     | <u>148,726</u>   | <u>12,650</u>             | <u>(38,023)</u>              | <u>168,794</u>   |
| <b>Investing activities:</b>  |                   |                  |                           |                              |                  |
| Utility plant expenditures  | —                 | (262,500)        | (11,270)                  | —                            | (273,770)        |
| Proceeds from sale of non-utility assets  | —                 | 28               | —                         | —                            | 28               |
| Investment in affiliates  | (19,294)          | —                | —                         | 19,294                       | —                |
| Change in affiliate advances  | (4,379)           | 453              | (174)                     | 4,100                        | —                |
| Issuance of affiliate short-term borrowings                                       | (4,300)           | —                | —                         | 4,300                        | —                |
| Collection of affiliate long-term debt  | 1,963             | —                | —                         | (1,963)                      | —                |
| Purchase of life insurance  | —                 | (2,216)          | —                         | —                            | (2,216)          |
| <b>Net cash used in investing activities</b>                                      | <u>(26,010)</u>   | <u>(264,235)</u> | <u>(11,444)</u>           | <u>25,731</u>                | <u>(275,958)</u> |
| <b>Financing Activities:</b>  |                   |                  |                           |                              |                  |
| Short-term borrowings   | —                 | 260,000          | —                         | —                            | 260,000          |
| Repayment of short-term borrowings  | —                 | (150,000)        | —                         | —                            | (150,000)        |
| Investment from affiliates  | —                 | 19,294           | —                         | (19,294)                     | —                |
| Change in affiliate advances  | (17)              | 5,627            | (1,510)                   | (4,100)                      | —                |
| Proceeds from affiliate short-term borrowings                                     | —                 | —                | 4,300                     | (4,300)                      | —                |
| Repayment of affiliates long-term debt  | —                 | —                | (1,963)                   | 1,963                        | —                |
| Issuance of long-term debt, net of debt issuance costs                            | —                 | 398,204          | —                         | —                            | 398,204          |
| Retirement of long-term debt  | —                 | (405,317)        | (251)                     | —                            | (405,568)        |
| Advances and contribution in aid of construction                                  | —                 | 27,005           | 769                       | —                            | 27,774           |
| Refunds of advances for construction  | —                 | (7,565)          | (1)                       | —                            | (7,566)          |
| Issuance of common stock  | 20,423            | —                | —                         | —                            | 20,423           |
| Repurchase of common stock  | (2,497)           | —                | —                         | —                            | (2,497)          |
| Dividends paid to non-affiliates  | (38,023)          | —                | —                         | —                            | (38,023)         |
| Dividends paid to affiliates  | —                 | (36,297)         | (1,726)                   | 38,023                       | —                |
| <b>Net cash (used in) provided by financing activities</b>                        | <u>(20,114)</u>   | <u>110,951</u>   | <u>(382)</u>              | <u>12,292</u>                | <u>102,747</u>   |
| <b>Change in cash, cash equivalents, and restricted cash</b>                      | <u>(683)</u>      | <u>(4,558)</u>   | <u>824</u>                | <u>—</u>                     | <u>(4,417)</u>   |
| <b>Cash, cash equivalents, and restricted cash at beginning of period</b>         | <u>3,779</u>      | <u>34,239</u>    | <u>9,697</u>              | <u>—</u>                     | <u>47,715</u>    |
| <b>Cash, cash equivalents, and restricted cash at end of year</b>                 | <u>\$ 3,096</u>   | <u>\$ 29,681</u> | <u>\$ 10,521</u>          | <u>\$ —</u>                  | <u>\$ 43,298</u> |

**CALIFORNIA WATER SERVICE GROUP**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2019, 2018, and 2017**  
**Dollar amounts in thousands unless otherwise stated**

**16 CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)**

**CALIFORNIA WATER SERVICE GROUP**  
**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**  
**For the Year Ended December 31, 2018**

|   | <u>Parent<br/>Company</u> | <u>Cal Water</u> | <u>All Other<br/>Subsidiaries</u> | <u>Consolidating<br/>Adjustments</u> | <u>Consolidated</u> |
|---|---------------------------|------------------|-----------------------------------|--------------------------------------|---------------------|
|   | (In thousands)            |                  |                                   |                                      |                     |
| <b>Operating activities:</b>  |                           |                  |                                   |                                      |                     |
| Net income . . . . .  | \$ 65,584                 | \$ 61,905        | \$ 2,863                          | \$(64,768)                           | \$ 65,584           |
| Adjustments to reconcile net income to net cash provided by operating activities:   |                           |                  |                                   |                                      |                     |
| Equity earnings of subsidiaries . . . . .   | (64,748)                  | —                | —                                 | 64,748                               | —                   |
| Dividends received from Affiliates . . . . .  | 36,043                    | —                | —                                 | (36,043)                             | —                   |
| Depreciation and amortization . . . . .   | 94                        | 80,442           | 5,258                             | (87)                                 | 85,707              |
| Change in value of life insurance contract . . . . .                                | —                         | 2,334            | —                                 | —                                    | 2,334               |
| Stock-based compensation . . . . .  | 3,141                     | —                | —                                 | —                                    | 3,141               |
| Gain on sale of non-utility properties . . . . .                                    | —                         | (50)             | —                                 | —                                    | (50)                |
| Changes in normalized deferred income taxes . . . . .                               | —                         | 20,909           | —                                 | —                                    | 20,909              |
| Allowance for equity funds used during construction . . . . .                       | —                         | (3,954)          | —                                 | —                                    | (3,954)             |
| Changes in operating assets and liabilities . . . . .                               | (290)                     | 16,943           | (170)                             | —                                    | 16,483              |
| Other changes in noncurrent assets and liabilities . . . . .                        | (348)                     | (12,284)         | 1,390                             | 107                                  | (11,135)            |
| <b>Net cash provided by operating activities . . . . .</b>                          | <u>39,476</u>             | <u>166,245</u>   | <u>9,341</u>                      | <u>(36,043)</u>                      | <u>179,019</u>      |
| <b>Investing activities:</b>  |                           |                  |                                   |                                      |                     |
| Utility plant expenditures . . . . .  | —                         | (261,456)        | (10,251)                          | —                                    | (271,707)           |
| Proceeds from sale of non-utility assets . . . . .                                  | —                         | 59               | —                                 | —                                    | 59                  |
| Change in affiliate advances . . . . .  | (689)                     | 19               | 53                                | 617                                  | —                   |
| Issuance of affiliate short-term borrowings . . . . .                               | (23,700)                  | —                | —                                 | 23,700                               | —                   |
| Collection of affiliate short-term debt . . . . .                                   | 20,000                    | —                | —                                 | (20,000)                             | —                   |
| Collection of affiliate long-term debt . . . . .                                    | 1,635                     | —                | —                                 | (1,635)                              | —                   |
| Life insurance benefits . . . . .   | —                         | 3,491            | —                                 | —                                    | 3,491               |
| Purchase of life insurance . . . . .  | —                         | (4,925)          | —                                 | —                                    | (4,925)             |
| <b>Net cash used in investing activities . . . . .</b>                              | <u>(2,754)</u>            | <u>(262,812)</u> | <u>(10,198)</u>                   | <u>2,682</u>                         | <u>(273,082)</u>    |
| <b>Financing Activities:</b>  |                           |                  |                                   |                                      |                     |
| Short-term borrowings . . . . .   | 20,000                    | 131,000          | —                                 | —                                    | 151,000             |
| Repayment of short-term borrowings . . . . .  | (20,000)                  | (341,000)        | —                                 | —                                    | (361,000)           |
| Change in affiliate advances . . . . .  | 17                        | (93)             | 693                               | (617)                                | —                   |
| Proceeds from affiliate short-term borrowings . . . . .                             | 20,000                    | —                | 3,700                             | (23,700)                             | —                   |
| Repayment of affiliates short-term debt . . . . .                                   | (20,000)                  | —                | —                                 | 20,000                               | —                   |
| Repayment of affiliates long-term debt . . . . .                                    | —                         | —                | (1,635)                           | 1,635                                | —                   |
| Issuance of long-term debt, net of debt issuance costs . . . . .                    | —                         | 299,383          | —                                 | —                                    | 299,383             |
| Retirement of long-term debt . . . . .  | —                         | (16,200)         | (332)                             | —                                    | (16,532)            |
| Advances and contribution in aid of construction . . . . .                          | —                         | 18,218           | 394                               | —                                    | 18,612              |
| Refunds of advances for construction . . . . .                                      | —                         | (7,279)          | (18)                              | —                                    | (7,297)             |
| Repurchase of common stock . . . . .  | (1,645)                   | —                | —                                 | —                                    | (1,645)             |
| Dividends paid to non-affiliates . . . . .  | (36,043)                  | —                | —                                 | —                                    | (36,043)            |
| Dividends paid to affiliates . . . . .  | —                         | (34,624)         | (1,419)                           | 36,043                               | —                   |
| <b>Net cash (used in) provided by financing activities . . . . .</b>                | <u>(37,671)</u>           | <u>49,405</u>    | <u>1,383</u>                      | <u>33,361</u>                        | <u>46,478</u>       |
| <b>Change in cash, cash equivalents, and restricted cash . . . . .</b>              | <u>(949)</u>              | <u>(47,162)</u>  | <u>526</u>                        | <u>—</u>                             | <u>(47,585)</u>     |
| <b>Cash, cash equivalents, and restricted cash at beginning of period . . . . .</b> | <u>4,728</u>              | <u>81,401</u>    | <u>9,171</u>                      | <u>—</u>                             | <u>95,300</u>       |
| <b>Cash, cash equivalents, and restricted cash at end of year . . . . .</b>         | <u>\$ 3,779</u>           | <u>\$ 34,239</u> | <u>\$ 9,697</u>                   | <u>\$ —</u>                          | <u>\$ 47,715</u>    |

**CALIFORNIA WATER SERVICE GROUP**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2019, 2018, and 2017**  
**Dollar amounts in thousands unless otherwise stated**

**16 CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)**

**California Water Service Group**  
**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**  
**For the Year Ended December 31, 2017**

|   | <u>Parent<br/>Company</u> | <u>Cal Water</u> | <u>All Other<br/>Subsidiaries</u> | <u>Consolidating<br/>Adjustments</u> | <u>Consolidated</u> |
|---|---------------------------|------------------|-----------------------------------|--------------------------------------|---------------------|
|   | (In thousands)            |                  |                                   |                                      |                     |
| <b>Operating activities:</b>  |                           |                  |                                   |                                      |                     |
| Net income  | \$ 72,940                 | \$ 70,071        | \$ 2,362                          | \$(72,433)                           | \$ 72,940           |
| Adjustments to reconcile net income to net cash provided by operating activities: |                           |                  |                                   |                                      |                     |
| Equity earnings of subsidiaries   | (72,487)                  | —                | —                                 | 72,487                               | —                   |
| Dividends received from Affiliates  | 34,563                    | —                | —                                 | (34,563)                             | —                   |
| Depreciation and amortization   | 94                        | 74,041           | 4,548                             | (91)                                 | 78,592              |
| Change in value of life insurance contract  | —                         | (3,058)          | —                                 | —                                    | (3,058)             |
| Stock-based compensation  | 3,118                     | —                | —                                 | —                                    | 3,118               |
| Gain on sale of non-utility properties  | —                         | (663)            | —                                 | —                                    | (663)               |
| Changes in normalized deferred income taxes                                       | —                         | 21,087           | —                                 | —                                    | 21,087              |
| Allowance for equity funds used during construction                               | —                         | (3,750)          | —                                 | —                                    | (3,750)             |
| Changes in operating assets and liabilities                                       | 184                       | (36,611)         | 38                                | —                                    | (36,389)            |
| Other changes in noncurrent assets and liabilities                                | 254                       | 13,101           | 2,573                             | 37                                   | 15,965              |
| <b>Net cash provided by operating activities</b>                                  | <u>38,666</u>             | <u>134,218</u>   | <u>9,521</u>                      | <u>(34,563)</u>                      | <u>147,842</u>      |
| <b>Investing activities:</b>  |                           |                  |                                   |                                      |                     |
| Utility plant expenditures  | (4)                       | (252,055)        | (7,135)                           | —                                    | (259,194)           |
| TCP settlement proceeds   | —                         | 56,004           | —                                 | —                                    | 56,004              |
| Proceeds from sale of non-utility assets  | —                         | 666              | —                                 | —                                    | 666                 |
| Change in affiliate advances  | 172                       | (485)            | (50)                              | 363                                  | —                   |
| Issuance of affiliate short-term borrowings                                       | (2,610)                   | —                | —                                 | 2,610                                | —                   |
| Collection of affiliate long-term debt  | 1,356                     | —                | —                                 | (1,356)                              | —                   |
| Life insurance benefits   | —                         | 1,558            | —                                 | —                                    | 1,558               |
| Purchase of life insurance  | —                         | (5,605)          | —                                 | —                                    | (5,605)             |
| <b>Net cash used in investing activities</b>                                      | <u>(1,086)</u>            | <u>(199,917)</u> | <u>(7,185)</u>                    | <u>1,617</u>                         | <u>(206,571)</u>    |
| <b>Financing Activities:</b>  |                           |                  |                                   |                                      |                     |
| Short-term borrowings   | —                         | 265,000          | —                                 | —                                    | 265,000             |
| Repayment of short-term borrowings  | (2,000)                   | (85,000)         | —                                 | —                                    | (87,000)            |
| Change in affiliate advances  | —                         | 41               | 322                               | (363)                                | —                   |
| Proceeds from affiliate short-term borrowings                                     | —                         | —                | 2,610                             | (2,610)                              | —                   |
| Repayment of affiliates long-term debt  | —                         | —                | (1,356)                           | 1,356                                | —                   |
| Retirement of long-term debt  | —                         | (26,223)         | (606)                             | —                                    | (26,829)            |
| Advances and contribution in aid of construction                                  | —                         | 21,075           | 294                               | —                                    | 21,369              |
| Refunds of advances for construction  | —                         | (8,373)          | (5)                               | —                                    | (8,378)             |
| Repurchase of common stock  | (1,505)                   | —                | —                                 | —                                    | (1,505)             |
| Dividends paid to non-affiliates  | (34,563)                  | —                | —                                 | —                                    | (34,563)            |
| Dividends paid to affiliates  | —                         | (33,015)         | (1,548)                           | 34,563                               | —                   |
| <b>Net cash (used in) provided by financing activities</b>                        | <u>(38,068)</u>           | <u>133,505</u>   | <u>(289)</u>                      | <u>32,946</u>                        | <u>128,094</u>      |
| <b>Change in cash, cash equivalents, and restricted cash</b>                      | (488)                     | 67,806           | 2,047                             | —                                    | 69,365              |
| <b>Cash, cash equivalents, and restricted cash at beginning of period</b>         | 5,216                     | 13,595           | 7,124                             | —                                    | 25,935              |
| <b>Cash, cash equivalents, and restricted cash at end of year</b>                 | <u>\$ 4,728</u>           | <u>\$ 81,401</u> | <u>\$ 9,171</u>                   | <u>\$ —</u>                          | <u>\$ 95,300</u>    |

**Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.***

None

**Item 9A. *Controls and Procedures.***

**Management’s Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934, as amended, 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 Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure.

In designing and evaluating the disclosure controls and procedures, management, including the Chief Executive Officer and Chief Financial Officer, 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 Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2019. Based on that evaluation, we concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

There was no change in our internal control over financial reporting during the quarter ended December 31, 2019, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Management’s Annual Report on Internal Control over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended). Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2019. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in “Internal Control—Integrated Framework (2013)”. Management has concluded that, as of December 31, 2019 our internal control over financial reporting is effective based on these criteria. Our independent registered public accounting firm, Deloitte & Touche LLP, has audited the effectiveness of our internal control over financial reporting as of December 31, 2019, as stated in their report, which is included in Item 8 and incorporated herein.

**Item 9B. *Other Information.***

None.

## PART III

### **Item 10. Directors and Executive Officers and Corporate Governance.**

The information required by this Item as to directors of the Company and the Company's Audit Committee is contained in the sections captioned "Board Structure," "Proposal No. 1—Election of Directors" and, as applicable, "Delinquent Section 16(a) Reports" of the definitive Proxy Statement for our Annual Meeting of Stockholders to be held on or about May 27, 2020 (the "2020 Proxy Statement"), and is incorporated herein by reference.

Information required by this Item regarding executive officers is included in a separate section captioned "Information About Our Executive Officers" contained in Part I of this annual report.

We have adopted a code of ethics that applies to all of our directors, officers, and employees, including our principal executive, financial and accounting officers, or persons performing similar functions. Our Code of Ethics is posted on our corporate governance website located at <http://www.calwatergroup.com>. In addition, amendments to the Code of Ethics and any grant of a waiver from a provision of the Code of Ethics requiring disclosure under applicable SEC and NYSE rules will be disclosed at the same location as the Code of Ethics on our corporate governance website located at <http://www.calwatergroup.com> within four business days of such amendment or waiver.

### **Item 11. Executive Compensation.**

The information required by this Item is contained under the captions "Compensation Discussion and Analysis," "Report of the Organization and Compensation Committee of the Board of Directors on Executive Compensation," and "Organization and Compensation Committee Interlocks and Insider Participation" of the 2020 Proxy Statement and is incorporated herein by reference.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

The information required by this Item regarding security ownership of certain beneficial owners and management is contained in the section captioned "Stock Ownership of Management and Certain Beneficial Owners" of the 2020 Proxy Statement and is incorporated herein by reference.

The following table represents securities authorized to be issued under our equity compensation plan:

| <b>Plan Category</b>   | <b>Number of Securities to be Issued Upon Exercise of Outstanding Rights (a)</b> | <b>Weighted-Average Exercise Price of Outstanding Rights</b> | <b>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plan (Excluding Securities Reflected in Column) (a)</b> |
|--|--|--|---|
| Equity compensation plans approved by security holders . . . . .     | 86,456   | \$52.83  | 2,057,343   |
| Equity compensation plans not approved by security holders . . . . . | —  | —  | —   |
| Total . . . . .  | 86,456   | \$52.83  | 2,057,343   |

**Item 13. *Certain Relationships and Related Transactions and Director Independence.***

The information required by this Item is contained in the sections captioned “Certain Related Persons Transactions” and “Board Structure” of the 2020 Proxy Statement and is incorporated herein by reference.

**Item 14. *Principal Accountant Fees and Services.***

The information required by this Item is contained in the section captioned “Report of the Audit Committee” and “Relationship with the Independent Registered Public Accounting Firm” of the 2020 Proxy Statement and is incorporated herein by reference.

**PART IV**

**Item 15. *Exhibits, Financial Statement Schedules.***

(a) As part of this Form 10-K, the following documents are being filed:

1. *Financial Statement:* See “Index to Consolidated Financial Statements” in Part II, Item 8 of this Form 10-K.
2. *Financial Statement Schedules:* No financial statement schedules are being included since the information otherwise required is included in the financial statements and the notes thereto.
3. *Exhibits:* The exhibits listed in the accompanying index to exhibits are filed or incorporated by reference.



## EXHIBIT INDEX

Unless filed with this Form 10-K, the documents listed are incorporated by reference to the filings referred to:

### Exhibit Number

- 1.1\*\* Equity Distribution Agreement, dated as of October 31, 2019, between California Water Service Group and Morgan Stanley & Co. LLC, Robert W. Baird & Co. Incorporated, Blaylock Van, LLC, and Wells Fargo Securities, LLC.
- 3.1 Certificate of Incorporation of California Water Service Group (Exhibit 3.1 to the Quarterly Report on Form 10-Q filed August 9, 2006)
- 3.2 Certificate of Amendment to Certificate of Incorporation of California Water Service Group (Exhibit 3.1 to the Current Report on Form 8-K filed June 10, 2011)
- 3.3 Amended and Restated Bylaws of California Water Service Group, as amended on October 28, 2015 (Exhibit 3 to the Quarterly Report on Form 10-Q filed October 29, 2015)
- 4.1 Certificate of Designations regarding Series D Participating Preferred Stock, as filed with Delaware Secretary of State on September 16, 1999 (Exhibit 4.2 to Annual Report on Form 10-K for the year ended December 31, 2003)
- 4.2 Certificate of Elimination of the Series D Participating Preferred Stock, as filed with Delaware Secretary of State on February 27, 2019 (Exhibit 4.2 to Annual Report on Form 10-K for the year ended December 31, 2018)
- 4.3 Thirty-Ninth Supplemental Indenture dated as of April 17, 2009, between California Water Service Company and U.S. Bank National Association, as Trustee (Exhibit 4.1 to Current Report on Form 8-K filed April 21, 2009)
- 4.4 Fortieth Supplemental Indenture dated as of April 17, 2009, between California Water Service Company and U.S. Bank National Association, as Trustee, covering 9.86% First Mortgage Bonds due 2020, Series CC. (Exhibit 4.2 to Current Report on Form 8-K filed April 21, 2009)
- 4.5 Forty-First Supplemental Indenture dated as of April 17, 2009, between California Water Service Company and U.S. Bank National Association, as Trustee, covering 5.875% First Mortgage Bonds due 2019, Series LL. (Exhibit 4.3 to Current Report on Form 8-K filed April 21, 2009)
- 4.6 Forty-Third Supplemental Indenture dated as of April 17, 2009, between California Water Service Company and U.S. Bank National Association, as Trustee, covering 7.28% First Mortgage Bonds due 2025, Series AAA. (Exhibit 4.5 to Current Report on Form 8-K filed April 21, 2009)
- 4.7 Forty-Fourth Supplemental Indenture dated as of April 17, 2009, between California Water Service Company and U.S. Bank National Association, as Trustee, covering 6.77% First Mortgage Bonds due 2028, Series BBB. (Exhibit 4.6 to Current Report on Form 8-K filed April 21, 2009)
- 4.8 Forty-Fifth Supplemental Indenture dated as of April 17, 2009, between California Water Service Company and U.S. Bank National Association, as Trustee, covering 8.15% First Mortgage Bonds due 2030, Series CCC. (Exhibit 4.7 to Current Report on Form 8-K filed April 21, 2009)

**Exhibit  
Number**

- 4.9 Forty-Sixth Supplemental Indenture dated as of April 17, 2009, between California Water Service Company and U.S. Bank National Association, as Trustee, covering 7.13% First Mortgage Bonds due 2031, Series DDD. (Exhibit 4.8 to Current Report on Form 8-K filed April 21, 2009)
- 4.10 Forty-Seventh Supplemental Indenture dated as of April 17, 2009, between California Water Service Company and U.S. Bank National Association, as Trustee, covering 7.11% First Mortgage Bonds due 2032, Series EEE. (Exhibit 4.9 to Current Report on Form 8-K filed April 21, 2009)
- 4.11 Forty-Ninth Supplemental Indenture dated as of April 17, 2009, between California Water Service Company and U.S. Bank National Association, as Trustee, covering 5.29% First Mortgage Bonds due 2022, Series GGG. (Exhibit 4.11 to Current Report on Form 8-K filed April 21, 2009)
- 4.12 Fiftieth Supplemental Indenture dated as of April 17, 2009, between California Water Service Company and U.S. Bank National Association, as Trustee, covering 5.29% First Mortgage Bonds due 2022, Series HHH. (Exhibit 4.12 to Current Report on Form 8-K filed April 21, 2009)
- 4.13 Fifty-First Supplemental Indenture dated as of April 17, 2009, between California Water Service Company and U.S. Bank National Association, as Trustee, covering 5.54% First Mortgage Bonds due 2023, Series III. (Exhibit 4.13 to Current Report on Form 8-K filed April 21, 2009)
- 4.14 Fifty-Second Supplemental Indenture dated as of April 17, 2009, between California Water Service Company and U.S. Bank National Association, as Trustee, covering 5.44% First Mortgage Bonds due 2018, Series JJJ. (Exhibit 4.14 to Current Report on Form 8-K filed April 21, 2009)
- 4.15 Fifty-Fourth Supplemental Indenture dated as of April 17, 2009, between California Water Service Company and U.S. Bank National Association, as Trustee, covering 5.48% First Mortgage Bonds due 2018, Series LLL. (Exhibit 4.16 to Current Report on Form 8-K filed April 21, 2009)
- 4.16 Fifty-Seventh Supplemental Indenture dated as of April 17, 2009, between California Water Service Company and U.S. Bank National Association, as Trustee, covering 6.02% First Mortgage Bonds due 2031, Series OOO. (Exhibit 4.19 to Current Report on Form 8-K filed April 21, 2009)
- 4.17 Fifty-Eighth Supplemental Indenture dated as of November 22, 2010, between California Water Service Company and U.S. Bank National Association, as Trustee, covering 5.50% First Mortgage Bonds due 2040, Series PPP. (Exhibit 4.1 to Current Report on form 8-K filed November 22, 2010).
- 4.18 Sixty-First Supplemental Indenture dated as of September 13, 2018, between California Water Service Company and U.S. Bank National Association, as Trustee, covering Floating Rate First Mortgage Bonds due 2020, Series UUU. (Exhibit 4.1 to Quarterly Report on form 10-Q filed November 1, 2018).

**Exhibit  
Number**

- 4.19 Sixty-Second Supplemental Indenture dated as of June 11, 2019, between California Water Service Company and U.S. Bank National Association, as Trustee, covering 3.40% First Mortgage Bonds due 2029, Series VVV, 4.07% First Mortgage Bonds due 2049, Series WWW, and 4.17% First Mortgage Bonds due 2059, Series YYY (Exhibit 10.1 to the Current Report on Form 8-K filed June 18, 2019)
- 4.20 The Company agrees to furnish upon request to the Securities and Exchange Commission a copy of each instrument defining the rights of holders of long-term debt of the Company.
- 4.21 Description of Securities.
- 10.1 Water Supply Contract between Cal Water and County of Butte relating to Cal Water's Oroville District; Water Supply Contract between Cal Water and the Kern County Water Agency relating to Cal Water's Bakersfield District; Water Supply Contract between Cal Water and Stockton East Water District relating to Cal Water's Stockton District. (Exhibits 5(g), 5(h), 5(i), 5(j), Registration Statement No. 2-53678, which exhibits are incorporated by reference to Annual Report on Form 10-K for the year ended December 31, 1974)
- 10.2 Water Supply Contract between the City and County of San Francisco and wholesale customers in Alameda County, San Mateo County and Santa Clara County for a term of twenty-five years beginning on July 1, 2009 and ending on June 30, 2034. The agreement was dated June 24, 2009. (Exhibit 10.3 to Quarterly Report on Form 10-Q for the quarter ending September 30, 2009).
- 10.3 Water Supply Contract dated July 1, 2009 between the City and County of San Francisco and California Water Service Company to provide water to Bear Gulch and Bayshore service areas for a term of twenty-five years beginning July 1, 2009 and ending June 30, 2034. (Exhibit 10.4 to Quarterly Report on Form 10-Q for the quarter ending September 30, 2009).
- 10.4 Water Supply Contract dated January 27, 1981, between Cal Water and the Santa Clara Valley Water District relating to Cal Water's Los Altos District (Exhibit 10.3 to Annual Report on Form 10-K for the year ended December 31, 1992)
- 10.5 Amendments No. 3, 6 and 7 and Amendment dated June 17, 1980, to Water Supply Contract between Cal Water and the County of Butte relating to Cal Water's Oroville District. (Exhibit 10.5 to Annual Report on Form 10-K for the year ended December 31, 1992)
- 10.6 Amendment dated May 31, 1977, to Water Supply Contract between Cal Water and Stockton East Water District relating to Cal Water's Stockton District. (Exhibit 10.6 to Annual Report on Form 10-K for the year ended December 31, 1992)
- 10.7 Second Amended Contract dated September 25, 1987, among Stockton East Water District, California Water Service Company, the City of Stockton, the Lincoln Village Maintenance District, and the Colonial Heights Maintenance District Providing for the Sale of Treated Water. (Exhibit 10.7 to Annual Report on Form 10-K for the year ended December 31, 1987)

**Exhibit  
Number**

- 10.8 Water Supply Contract dated April 19, 1927, and Supplemental Agreement dated June 5, 1953, between Cal Water and Pacific Gas and Electric Company relating to Cal Water's Oroville District. (Exhibit 10.9 to Annual Report on Form 10-K for the year ended December 31, 1992)
- 10.9 Water Supply Agreement dated September 25, 1996, between the City of Bakersfield and California Water Service Company. (Exhibit 10.18 to Quarterly Report on Form 10-Q for the quarter ended September 30, 1996)
- 10.10 Water Supply Contract dated November 16, 1994, between California Water Service Company and Alameda County Flood Control and Water Conservation District relating to Cal Water's Livermore District (Exhibit 10.15 to Annual Report on Form 10-K for the year ended December 31, 1994)
- 10.11 California Water Service Group Directors' Retirement Plan (As amended and restated on February 22, 2006) (Exhibit 10.14 to the Annual Report on Form 10-K for the year ended December 31, 2005)
- 10.12 Credit Agreement dated as of March 29, 2019 among California Water Service Group and certain of its subsidiaries from time to time party thereto, as borrowers, Bank of America, N.A., as administrative agent, swing line lender and letter of credit issuer, Merrill Lynch, Pierce, Fenner & Smith Incorporated, as sole lead arranger and sole bookrunner, CoBank, ACB, and U.S. Bank National Association as co-syndication agents, Bank of China, Los Angeles Branch and Wells Fargo Bank, National Association as co-documentation agents, and the other lender parties thereto. (Exhibit 10.1 to the Current Report on Form 8-K filed March 29, 2019)
- 10.13 Credit Agreement dated as of March 29, 2019 among California Water Service Company as borrower, Bank of America, N.A., as administrative agent, swing line lender and letter of credit issuer, Merrill Lynch, Pierce, Fenner & Smith Incorporated, as sole lead arranger and sole bookrunner, CoBank, ACB, and U.S. Bank National Association as co-syndication agents, Bank of China, Los Angeles Branch and Wells Fargo Bank, National Association as co-documentation agents, and the other lender parties thereto. (Exhibit 10.2 to the Current Report on Form 8-K filed March 29, 2019)
- 10.14 Executive Severance Plan (Exhibit 10.24 to Annual Report on Form 10-K for the year ended December 31, 1998)\*
- 10.15 California Water Service Group Deferred Compensation Plan effective January 1, 2001 (Exhibit 10.22 to Annual Report on Form 10-K for the year ended December 31, 2000)\*
- 10.16 California Water Service Company Supplemental Executive Retirement Plan effective January 1, 2001 (Exhibit 10.23 to Annual Report on Form 10-K for the year ended December 31, 2000)\*
- 10.17 Amendment No. 1 to California Water Service Company Supplemental Executive Retirement Plan effective January 1, 2001 (Exhibit 10.22 to Quarterly Report on Form 10-Q for the quarter ended September 30, 2004)\*
- 10.18 Water Supply Contract 99-73 between the City of Bakersfield and California Water Service Company, dated March 31, 1999 (Exhibit 10.25 to Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)

**Exhibit  
Number**

- 10.19 Amendment No. 1 to Water Supply Contract between the City of Bakersfield and California Water Service Company, dated October 3, 2001 (Exhibit 10.26 to Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)
- 10.20 Amendment No. 2 to California Water Service Company Supplemental Executive Retirement Plan effective January 1, 2001 (Exhibit 10.27 to Quarterly Report on Form 10-Q for the quarter ended September 30, 2004)\*
- 10.21 California Water Service Group Amended and Restated Equity Incentive Plan (filed as Appendix A of the California Water Service Group proxy statement dated April 8, 2014, for its Annual Meeting of Stockholders to be held on May 20, 2014, as filed with the SEC on April 8, 2014)\*
- 10.22 The registrant's policy on option repricing under its Equity Incentive Plan (incorporated by reference to Item 8.01 Other Events in the registrant's Current Report on Form 8-K dated April 7, 2005)\*
- 10.23 Water Supply Contract dated September 21, 2005, between Cal Water and the Kern County Water Agency. (Exhibit 10.1 to Current Report on Form 8-K filed on September 21, 2005)
- 10.24 Form of Restricted Stock Award Grant Notice under the California Water Service Group Equity Incentive Plan. (Exhibit 10.36 to the Annual Report on Form 10-K for the year ended December 31, 2005)
- 10.25 Form of Restricted Stock Award Agreement under the California Water Service Group Equity Incentive Plan with Assignment Separate From Certificate and Joint Escrow Instructions. (Exhibit 10.38 to the Annual Report on Form 10-K for the year ended December 31, 2005)
- 10.26 Form of Indemnification Agreement to be entered between California Water Service Group and its directors and officers. (Exhibit 10.44 to the Annual Report on Form 10-K for the year ended December 31, 2006)
- 21.0 Subsidiaries of the Registrant
- 23.1 Consent of Independent Registered Public Accounting Firm
- 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
- 32.0 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 The following materials from California Water Service Group's Annual Report on Form 10-K for the year ended December 31, 2019 formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Cash Flows, (iv) Consolidated Statements of Common Stockholders' Equity and (v) the Notes to the Consolidated Financial Statements.

**Exhibit  
Number**

104 The cover page from California Water Service Group's Annual Report on Form 10-K for the year ended December 31, 2019, formatted in iXBRL (included as exhibit 101).

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\* Management contract or compensatory plan or arrangement.

\*\* Refiled to correct non-substantive typographical and formatting errors.

**Item 16. Form 10-K Summary.**

None.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

By           /s/ MARTIN A. KROPELNICKI            
MARTIN A. KROPELNICKI,  
*President and Chief Executive Officer*

Date: February 27, 2020

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

|   |                              |                         |
|---|------------------------------|-------------------------|
| <u>          /s/ PETER C. NELSON          </u><br>PETER C. NELSON           | Chairman, Board of Directors | Date: February 27, 2020 |
| <u>          /s/ GREGORY E. ALIFF          </u><br>GREGORY E. ALIFF         | Member, Board of Directors   | Date: February 27, 2020 |
| <u>          /s/ TERRY P. BAYER          </u><br>TERRY P. BAYER             | Member, Board of Directors   | Date: February 27, 2020 |
| <u>          /s/ SHELLY M. ESQUE          </u><br>SHELLY M. ESQUE           | Member, Board of Directors   | Date: February 27, 2020 |
| <u>          /s/ THOMAS M. KRUMMEL          </u><br>THOMAS M. KRUMMEL, M.D. | Member, Board of Directors   | Date: February 27, 2020 |
| <u>          /s/ RICHARD P. MAGNUSON          </u><br>RICHARD P. MAGNUSON   | Member, Board of Directors   | Date: February 27, 2020 |
| <u>          /s/ SCOTT L. MORRIS          </u><br>SCOTT L. MORRIS           | Member, Board of Directors   | Date: February 27, 2020 |
| <u>          /s/ CAROL M. POTTENGER          </u><br>CAROL M. POTTENGER     | Member, Board of Directors   | Date: February 27, 2020 |

|   |   |                                |
|---|---|--------------------------------|
| <p>/s/ LESTER A. SNOW</p> <hr/> <p>LESTER A. SNOW</p>               | <p>Member, Board of Directors</p>   | <p>Date: February 27, 2020</p> |
| <p>/s/ PATRICIA K. WAGNER</p> <hr/> <p>PATRICIA K. WAGNER</p>       | <p>Member, Board of Directors</p>   | <p>Date: February 27, 2020</p> |
| <p>/s/ MARTIN A. KROPELNICKI</p> <hr/> <p>MARTIN A. KROPELNICKI</p> | <p>President and Chief Executive Officer; Principal Executive Officer; Member, Board of Directors</p> | <p>Date: February 27, 2020</p> |
| <p>/s/ THOMAS F. SMEGAL III</p> <hr/> <p>THOMAS F. SMEGAL III</p>   | <p>Vice President, Chief Financial Officer and Treasurer; Principal Financial Officer</p>             | <p>Date: February 27, 2020</p> |
| <p>/s/ DAVID B. HEALEY</p> <hr/> <p>DAVID B. HEALEY</p>             | <p>Vice President, Corporate Controller and Assistant Treasurer; Principal Accounting Officer</p>     | <p>Date: February 27, 2020</p> |



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CALIFORNIA  
**WATER SERVICE GROUP**  
INVESTING FOR LIFE



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