

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, 1997

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)

California 77-0448994

(State or other jurisdiction (I.R.S. Employer Identification No.)  
of Incorporation)

1720 North First Street San Jose, California 95112  
(Address of Principal Executive Offices) (Zip Code)  
1-408-367-8200

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:  
Title of Each Class Name of Each Exchange on Which Registered  
Common Stock, No Par Value New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:  
Cumulative Preferred Stock, Par Value, \$25  
(Title of Class)

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 X No .

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

The aggregate market value of the voting stock held by non-  
affiliates of the Registrant - \$380,152,000 at February 27, 1998.

Common stock outstanding at February 27, 1998 - 12,619,140  
shares.

EXHIBIT INDEX

The exhibit index to this Form 10-K is on page 28

DOCUMENTS INCORPORATED BY REFERENCE

Designated portions of Registrant's Annual Report to  
Shareholders for the calendar year ended December 31, 1997 ("1997  
Annual Report") are incorporated by reference in Part I (Item 1),  
Part II (Items 5, 6, 7 and 8) and in Part IV (Item 14(a)(1)).

Designated portions of the Registrant's Proxy Statement of  
California Water Service Group ("Proxy Statement"), dated March  
11, 1998, relating to the 1998 annual meeting of shareholders are  
incorporated by reference in Part III (Items 10, 11 and 12) as of  
the date the Proxy Statement was filed with the Securities and  
Exchange Commission. The Proxy Statement was filed under EDGAR on  
March 9, 1998.

PART I	
Item 1.	Business..... 5
a.	General Development of Business..... 5
	Rates and Regulation..... 6
b.	Financial Information about Industry Segments..... 9
c.	Narrative Description of Business... 9
	Geographical Service Areas and Number of Customers at year-end..... 10
	Water Supply..... 11
	Nonregulated Operations..... 14
	Utility Plant Construction Program and Acquisitions..... 15
	Quality of Supplies..... 16
	Competition and Condemnation..... 16
	Environmental Matters ..... 17
	Human Resources..... 17
d.	Financial Information about Foreign and Domestic Operations and Export Sales ..... 18
Item 2.	Properties ..... 18
Item 3.	Legal Proceedings..... 18
Item 4.	Submission of Matters to a Vote of Security Holders..... 19
	Executive Officers of the Registrant..... 20

PART II	
Item 5.	Market for Registrant's Common Equity and Related Stockholder Matters.... 21
Item 6.	Selected Financial Data..... 21
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations..... 22
Item 8.	Financial Statements and Supplementary Data..... 22
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure..... 22

PART III	
Item 10.	Directors and Executive Officers of the Registrant..... 22
Item 11.	Executive Compensation..... 22
Item 12.	Security Ownership of Certain Beneficial Owners and Management.. 23
Item 13.	Certain Relationships and Related Transactions..... 23

PART IV	
Item 14.	Exhibits, Financial Statement Schedules, and Reports on Form 8-K..... 23
	Signatures..... 24
	Independent Auditors' Report..... 26
	Schedules..... 27
	Exhibit Index..... 28

Item 1 Business.

Forward Looking Statements

Certain information presented in this report contains forward looking statements. Such statements are inherently based on currently available information and expectations, estimates, assumptions and projections, and management's judgment about the California Water Service Group and subsidiaries ("Group"), the water utility industry and general economic conditions. Words such as expects, intends, plans, believes, estimates, anticipates or variations of such words or similar expressions are intended to identify forward looking statements. The forward looking statements are not guarantees of future performance. Actual results may vary materially from what is contained in a forward looking statement. Factors which may cause a result different than expected include regulatory decisions, legislation and the impact of weather on operating results. The Group assumes no obligation to provide public updates of forward looking statements.

a. General Development of Business.

California Water Service Company (the "Company") was formed in 1926. In April 1997, shareholders of California Water Service Company voted to approve a holding company structure. After receiving final regulatory approval, California Water Service Group (the "Group") was formed on December 31, 1997. As a result of the holding company structure, the Company became one of the Group's two wholly-owned, operating subsidiaries. The Company will continue to operate as a regulated utility subject to the jurisdiction of the California Public Utilities Commission ("Commission or PUC"). Its assets and operating revenues comprise virtually all of the Group's assets and operating revenues.

The second subsidiary, CWS Utility Services ("Utility Services"), is a new entity that will provide nonregulated water operations and related services. Existing nonregulated contracts, currently performed by the Company, will be transferred to Utility Services as the contracts are renewed or at such time as agreed upon between the contracting parties. New nonregulated contracts will be conducted by Utility Services.

In conjunction with the formation of the holding company structure, each share of Company common stock was exchanged on a two-for-one basis for Group common stock. Per share data has been restated where necessary to reflect the effective two-for-one stock split. Each share of Company preferred stock was converted into one share of Group preferred stock. To maintain its relative voting strength, the number of votes to which each preferred share is entitled was doubled from eight to sixteen.

The Group's mailing address and principal executive offices are located at 1720 North First Street, San Jose, California; telephone number: 1-408-367-8200. The Company maintains a web site which can be accessed via the Internet at <http://www.calwater.com>.

During the year ended December 31, 1997, there were no significant changes in the kind of products produced or services rendered by the Group or its operating subsidiaries, or in its markets or methods of distribution.

The Company is the largest investor-owned water company in California and the third largest in the United States. It was incorporated under the laws of the State of California on December 21, 1926. It is a public water utility providing water service to approximately 379,500 residential, commercial and industrial customers in 57 California cities and communities through 21 separate water systems or districts. In the Group's 20 regulated systems, which serve 373,500 customers, rates and operations are subject to the jurisdiction of the Commission. An additional 6,000 customers receive service through a long-term lease of the City of Hawthorne water system, which is not subject to Commission regulation. The Company also has contracts with various municipalities and private entities to operate water systems and provide billing services to 35,500 other customers. These operations are described in more detail in section Item 1.c., "Narrative Description of the Business - Nonregulated Operations."

## Rates and Regulations

Rates, service and other matters for the regulated business of the Company are subject to the jurisdiction of the Commission. The Commission's decisions and the timing of those decisions can have an important impact on operations and results of operations.

The Company's 20 regulated systems, each of which is within the State of California, are operated as 20 separate districts. The systems are not integrated with one another. Except for allocation of general office expenses and the determination of cost of capital, the expenses and revenues of individual districts are not affected by operations in other districts. Cost of capital (i.e. return on debt and equity) is determined on a company-wide basis. Otherwise, the Commission requires that each district be considered a separate and distinct entity for ratemaking purposes.

The Commission requires that water rates for each operating district be determined independently. The Company's districts are on varying rate case cycles, each of which is for not less than three years. General rate case applications are filed annually for a portion of the districts. Thus, the number of customers affected by each filing, varies from year to year. For example, the 1995 rate filings covered 47 percent of the customer base, while the 1996 filing were for 11 percent and the 1997 filing for 7 percent. The decision to file a general rate case application for a particular district depends on various factors including the time since the last general rate case was filed, the rate of return being earned in each district, expected future returns, estimated future expenses and the need for plant additions.

According to the commission's rate case processing procedures for water utilities, the Company is scheduled to make its general rate case filings in July of each year. The Commission attempts to issue decisions within eight months of acceptance of the general rate case applications. Rates are set prospectively, generally for a three-year period, with a provision for annual step increases, which are designed to maintain the authorized rate of return between general rate case filings. Offset rate adjustments are allowed as required for changes in the costs of purchased water, power and pump taxes.

## 1998 Rate Application Filings

In 1998, 14 districts, representing about 80% of the regulated customer base, are eligible for general rate filings. Earnings levels in those districts will be reviewed and applications for additional rate consideration will be filed as deemed appropriate. The filings are expected to be made in July. Additionally, a rate increase will be initiated by the Company for the City of Hawthorne system. This application will be prepared and presented to the City in a manner similar to that by which the Company makes its Commission filings.

## 1997 Rate Application Filings

In July 1997, general rate increase applications were filed for four districts representing 27,900 customers or 7 percent of regulated customers. The applications requested additional first year annual revenue of \$650,000 and step rate increases of \$240,000 in each year 1999 through 2001. The Company's proposal also included continuation of the current rate of return on common equity ("ROE") at 10.35 percent. For the Oroville and Selma districts, the application proposed that rate increases for the succeeding five years be based on the increase in the Consumer Price Index ("CPI") for water/sewerage. The CPI based increases were requested to cover future operating expenses and plant investments.

In January 1998, agreement was reached with the Commission staff regarding the 1997 rate applications. The agreement recommends retaining the ROE at the current 10.35 percent. Assuming PUC approval, 1998 revenue is estimated to increase \$300,000 based on the agreement. Step rate increases effective January 1, 1999 are expected to add \$305,000. Rate changes after 1998 in the Oroville and Selma districts are expected to be based on a hybrid CPI. The CPI arrangement, which will cover increased expenses and capital improvements, will be effective for five-years.

#### 1996 Rate Application Filings

In July 1996, general rate cases were filed for two districts representing 11 percent of the regulated customers. An ROE of 12.05 percent was requested, while the Commission staff recommended 10.1 percent. In January 1997, the Company and Commission staff stipulated to an ROE of 10.35 percent. In February 1997, hearings before the Commission regarding the 1996 general rate applications were completed. The Commission's decision was issued in April. The decision, which authorized a 10.35 percent return on common equity, was estimated to increase 1997 revenue by about \$1.2 million. Additionally, step rate increases will become effective in each of the following three years.

#### 1995 Rate Application Filings

General rate case applications, which had been filed with the Commission during 1995 for five districts serving 47 percent of the Company's regulated customers, were finalized by the Commission in 1996. The applications requested an ROE of 12.1 percent and additional revenue of \$26.7 million over a three-year period. The Commission staff recommended a rate of return of 9.9 percent, however, a stipulation agreement was reached with the staff for a 10.3 percent ROE in January 1996. The Commission's decision for this rate case series was issued in June 1996. During the first full year, the decision provided \$5.4 million of added revenue, including \$1.2 million in step rate increases which were effective at the start of 1996. Over a four-year period, the decision is expected to provide about \$10.6 million in new revenue. The decision includes a provision to accelerate the recovery of the utility plant investment, resulting in an increase in the annualized depreciation rate for these districts of 2.6 percent compared to a 2.4 percent rate experienced in preceding years.

#### Second Amended Contract - Stockton East Water District

In January 1995, a consultant retained by the Commission's Organization of Ratepayer Advocates completed a report on the reasonableness of the Second Amended Contract. Parties to the contract are the Company, Stockton-East Water District, the City of Stockton and San Joaquin County. The contract pertains to the sale and delivery of water to the Company's Stockton District by the Stockton-East Water District. The report alleges that the Company was required to receive Commission approval prior to entering into the Second Amended Contract and furthermore challenges the reasonableness of the Second Amended Contract for ratemaking purposes. However, the report does not include specific ratemaking recommendations. It is difficult to assess the potential impact on the Company if the report were to be adopted by the Commission. If there is any adverse financial impact as a result of the report, such impact is expected to be prospective, affecting only future rates for the Stockton district. Hearings have not yet been scheduled to address the report. Following hearings at which the Company intends to present evidence to rebut the report, the assigned administrative law judge will render a proposed decision for comment and eventual Commission consideration. Management intends to vigorously defend its position that the Second Amended Contract did not require prior Commission approval and is reasonable for ratemaking purposes.

#### b. Financial Information about Industry Segments.

The Group has only one business segment.

#### c. Narrative Description of Business.

The Group is the sole shareholder of its two operating subsidiaries, California Water Service Company and CWS Utility Services.

The Group's business, which is carried on through its operating subsidiaries, consists of the production, purchase, storage, purification, distribution and sale of water for domestic, industrial, public and irrigation uses, and for fire protection. The water business fluctuates according to the demand for water, which is partially dictated by seasonal conditions, such as summer temperatures or the amount and timing of precipitation during the year. Franchises and permits are held in the cities and communities where water service is provided to the extent judged necessary to operate and maintain facilities in the public streets. Water is distributed to customers in accordance with accepted water utility methods.

The City of Hawthorne water system is operated under a 15-year lease which commenced in February 1996. Under other contracts, three municipally owned water systems and two reclaimed water distribution systems are operated. Billing services are also provided to other municipalities. These operations are discussed in more detail in a following section titled "Nonregulated Operations."

The Group intends to continue to explore opportunities to expand operating and other revenue sources. The opportunities could include system acquisitions, contracts similar to the City of Hawthorne arrangement, operating contracts, billing contracts and other utility related services. The Group believes that a holding company structure, as discussed above, will make the Company more competitive in providing nonregulated utility services, which would not be subject to Commission jurisdiction. The Group will be investigating new business opportunities outside of California. It will also assess the potential risk and return from business opportunities in Central and South America. There can be no assurance, however, that the Group will be able to expand operating and other revenue sources or that the Group will be able to consummate any transactions arising from any such opportunities.

Geographical Service Areas and Number of Customers at Year-end  
The principal markets for the Group's products are users of water within the Company's service areas. The Group's geographical service areas or districts for both the regulated and nonregulated operations and the approximate number of customers served in each district at December 31, 1997, are listed below.

#### SAN FRANCISCO BAY AREA

Mid-Peninsula (comprised of San Mateo and San Carlos)	35,600
South San Francisco (including Colma and Broadmoor)	15,700
Bear Gulch (serving Menlo Park, Atherton, Woodside and Portola Valley)	17,400
Los Altos (including portions of Cupertino, Los Altos Hills, Mountain View and Sunnyvale)	18,100
Livermore	16,000
	102,800

#### SACRAMENTO VALLEY

Chico (including Hamilton City)	21,600
Oroville	3,500
Marysville	3,700
Dixon	2,800
Willows	2,300
	33,900

#### SALINAS VALLEY

Salinas	24,300
King City	2,100
	26,400

#### SAN JOAQUIN VALLEY

Bakersfield	55,300
Stockton	41,100
Visalia	27,500
Selma	5,000
	128,900

#### LOS ANGELES AREA

East Los Angeles (including portions of the cities of Commerce and Montebello)	26,200
Hermosa Beach and Redondo Beach (including a portion of Torrance)	25,000
Palos Verdes (including Palos Verdes Estates, Rancho Palos Verdes, Rolling Hills Estates and Rolling Hills)	23,500
Westlake (a portion of Thousand Oaks)	6,800
Hawthorne (leased municipal system)	6,000
	87,500

TOTAL	379,500
-------	---------

#### Water Supply

The Company's water supply for its 21 operating districts is obtained from wells, surface runoff or diversion, and by purchase from public agencies and other wholesale suppliers. The effects

of the six-year California drought, which ended with the 1992-93 winter, and 1996-97 winter rains are discussed below. The Company's supply has been adequate to meet consumption demands, however, during periods of drought, some districts have required water rationing.

California's rainy season usually begins in November and continues through March with December, January and February receiving the most rainfall. During winter months reservoirs and underground aquifers are replenished by rainfall. Snow accumulated in the mountains provides an additional water source when spring and summer temperatures melt the snowpack producing runoff into streams and reservoirs, and also replenishing underground aquifers.

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. This was the case during 1995, when winter rains continued well into the spring along with cooler than normal temperatures. Likewise, an early start to the rainy season during the fall can cause a decline in customer usage and have a negative impact on revenue.

The Company's water business is seasonal in nature and weather conditions can have a pronounced effect on customer usage and thus operating revenues and net income. Customer demand for water generally is less during the normally cooler and rainy winter months, increasing in the spring when warmer weather gradually returns to California and the rains end. Temperatures are warm during the generally dry summer months, resulting in increased demand. Water usage declines during the fall as temperatures decrease and the rainy season approaches.

During years of less than normal rainfall, customer demand can increase as outdoor water usage continues. When rainfall is below average for consecutive years, drought conditions can result and certain customers may be required to reduce consumption to preserve existing water reserves. California experienced a six-year drought which ended with the winter of 1992-93. During that six-year period some districts had water rationing requirements imposed on customers. In certain districts, penalties were collected from customers who exceeded allotments. During past drought periods, the Commission has allowed modifications to consumer billings which provided for recovery of a portion of revenue that was deemed lost due to conservation measures.

Historically, about half of the water supply is purchased from wholesale suppliers with the balance pumped from wells. A small portion of the supply is received from surface runoff. During 1997, 110 billion gallons were delivered to customers. Approximately 52 percent of the supply was obtained from wells and 48 percent was purchased from the wholesale suppliers. The following table shows the 1997 source of supply for each operating district.

District	Supply Purchased	Wholesale Supplier
SAN FRANCISCO BAY AREA		
Mid-Peninsula	100%	San Francisco Water Department
South San Francisco	92%	San Francisco Water Department
Bear Gulch	90%	San Francisco Water Department
Los Altos District	73%	Santa Clara Valley Water
Livermore	65%	Alameda County Flood Control and Water Conservation District
SACRAMENTO VALLEY		
Oroville	77%	Pacific Gas and Electric Co.
	4%	County of Butte
SAN JOAQUIN VALLEY		
Bakersfield	19%	Kern County Water Agency
Stockton	63%	Stockton-East Water District

LOS ANGELES AREA

East Los Angeles	80%	Central Basin Municipal Water District
Hawthorne	95%	West Basin Municipal Water District
Hermosa Beach and Redondo Beach	97%	West Basin Municipal Water District
Palos Verdes	100%	West Basin Municipal Water District
Westlake	100%	Russell Valley Municipal Water District

The balance of the required supply for the above districts was obtained from wells, except for Bear Gulch where the balance is obtained from surface runoff from the local watershed and processed through the Company's treatment plant before being delivered to the distribution system.

Historically, groundwater has yielded 10 to 15 percent of the Hermosa-Redondo district supply and 15 to 20 percent of the South San Francisco district supply. During 1996, wells in those two districts, were out of service while treatment facilities were being installed. The treatment facilities were completed and became operational during 1997. Thus well production in those two districts increased during 1997. During 1998, it is anticipated that a larger portion of the supply will be provided by wells than in 1997. Water produced from wells is generally less expensive than water purchased from wholesale suppliers.

The Chico, Marysville, Dixon and Willows districts in the Sacramento Valley, the Salinas and King City districts in the Salinas Valley, and the Selma and Visalia districts in the San Joaquin Valley obtain their entire supply from wells.

Purchases for the Los Altos, Livermore, Oroville, Stockton and Bakersfield districts are pursuant to long-term contracts expiring on various dates after 2011. The purchased supplies for the East Los Angeles, Hermosa-Redondo, Palos Verdes and Westlake districts and the City of Hawthorne system are provided by public agencies pursuant to an obligation of continued nonpreferential service to persons within the agencies' boundaries.

Purchases for the South San Francisco, Mid-Peninsula and Bear Gulch districts are pursuant to long-term contracts with the San Francisco Water Department expiring June 30, 2009.

The price of wholesale water purchases are subject to pricing changes imposed by the various wholesale suppliers. Price changes are generally beyond the control of the Company. During 1997, two wholesale water suppliers refunded funds which had been overcollected from wholesale water purchasers. The Company received \$2.5 million which was credited as a reduction to purchased water expense.

California experienced above average rainfall in the 1996-97 measurement year. Rainfall to date for the 1997-98 season has already exceeded the annual average. Groundwater levels in underground aquifers which provide supply to districts served by well water improved in 1997 due to the above average rainfall. Most regions have recorded positive changes in groundwater levels as compared to 1996. Regional groundwater management planning continues throughout the State as required. Existing laws provide a mechanism for local agencies to maintain control of their groundwater supply. The Group continually updates long range projections and works with local wholesale suppliers to ensure an adequate future supply to meet customer needs.

The water supply outlook for 1998 is good, however, California faces long-term water supply challenges. The Company is actively working to meet the challenges by continuing to educate customers on responsible water use practices, particularly in the districts with conservation programs approved by the Commission.

Progress has been made by Consolidated Irrigation District (Selma) and Kaweah Delta Water Conservation District (Visalia) towards the implementation of a water management plan. The Group is participating in the formulation of these plans.

On an ongoing basis, the Group is actively participating with the



Salinas Valley water users and the Monterey County Water Resources Agency (MCWRA) to address the seawater intrusion concern to the water supply for the Salinas district. MCWRA started construction on the Castroville Seawater Intrusion Project in 1995 and deliveries are expected to commence in 1998. When completed, this project will deliver up to 20,000 acre feet of recycled water annually to agricultural users in the nearby Castroville area and is designed to help mitigate seawater intrusion into the region by reducing the need to pump groundwater.

The Group is participating with the City and County of San Francisco, and the cities of San Bruno and Daly City to prepare a groundwater management plan for the Westside Basin from which the South San Francisco district pumps a portion of its supply. Additionally, the Group is working with the City of San Francisco in their development of a long-range water supply master plan for the entire area to which the San Francisco Water Department is the wholesale water supplier. In addition to the South San Francisco district, the Mid-Peninsula and Bear Gulch districts are included in this service area.

#### Nonregulated Operations

Revenue from nonregulated water system operations is generally determined on a per customer basis. With the exception of the City of Hawthorne water system, revenue and expenses from nonregulated operations is accounted for in other income on a pretax basis. Revenue and expenses for the City of Hawthorne lease are included in operating revenue and operating expenses because the Group is entitled to retain all customer billings and is responsible generally for all operating expenses.

Municipally owned water systems are operated under contract for the cities of Bakersfield, Commerce and Montebello, and four private water company systems in the Bakersfield, Livermore and Salinas districts. The Company also operates under contract a wastewater collection system in Livermore. The total number of services operated under the contracts is about 29,500. With the exception of the 15-year Hawthorne lease discussed below, the terms of the operating agreements range from one-year to three-year periods with provisions for renewals. The first operating agreement was signed with the City of Bakersfield in 1977. Upon expiration, each agreement has been renewed.

Recycled water distribution systems located in the Los Angeles Basin are operated for the West Basin and Central Basin municipal water districts. Some engineering department services are also provided for these two recycled water systems.

The Company provides meter reading, billing and customer service for the City of Menlo Park's 4,000 water customers. Additionally, sewer and/or refuse billing services are provided to six municipalities.

Since February 1996, the Group has leased the City of Hawthorne's 6,000 account water system under terms of a 15-year agreement. The system which is near the Hermosa-Redondo district serves about half of Hawthorne's population. Terms of the lease, required an up-front \$6.5 million lease payment to the City which is being amortized over the lease term. Additionally, annual lease payments to the City of \$100,000 indexed to changes in water rates are required. The Group is responsible for all aspects of system operation and capital improvements, although title to the system and system improvements resides with the City. At the end of the lease, the Group will be reimbursed for the unamortized value of capital improvements. In exchange, the Group receives all system revenues which are about \$4 million annually.

During 1997, the Group signed an agreement with the Rural North Vacaville Water District in Solano County to design and build a water distribution system. The new system will initially provide water to about 400 services. The Group also expects to enter an agreement for future operation and maintenance of the system.

Various antenna sites are leased to telecommunication companies. Individual lease payments range from \$750 to \$2,200 per month. The antennas are used in cellular phone and personal communication applications. Other leases are being negotiated for similar uses. Currently there are 30 such leases.

The Group also provides laboratory services to San Jose Water Company.

Utility Plant Construction Program and Acquisitions

The Group is continually extending, enlarging and replacing its facilities as required to meet increasing demands and to maintain its systems. Capital expenditures, including developer financed projects, for additional facilities and for the replacement of existing facilities amounted to approximately \$32.9 million in 1997. Financing was provided by funds from operations and short-term bank borrowings, advances for construction, and contributions in aid of construction as set forth in the "Statement of Cash Flows" on pages 44 and 45 of the Group's 1997 Annual Report which is incorporated herein by reference. Group funded expenditures were \$25.5 million. Developer payments accounted for \$7.4 million. Advances for construction of main extensions are payments or facilities received from subdivision developers under the Commission's rules. These advances are refundable without interest over a period of 40 years. Contributions in aid of construction consist of nonrefundable cash deposits or facilities received from developers, primarily for fire protection. The amount received from developers varies from year to year as the level of development activity varies. It is impacted by the demand for housing and commercial development and general business conditions, including interest rates.

The 1998 construction budget for additions and improvements to facilities is approximately \$31 million, exclusive of additions and improvements financed through advances for construction and contributions in aid of construction. Financing is expected to be from internally generated funds, short-term borrowings and long-term debt.

#### Quality of Supplies

Procedures are maintained to produce potable water in accordance with accepted water utility practice. Water entering the distribution systems from surface sources is treated in compliance with Safe Drinking Water Act standards. Samples of water from each water system are analyzed regularly by the Group's state certified water quality laboratory.

In recent years, federal and state water quality regulations have continued to increase. Changes in the federal Safe Drinking Water Act, which the Group believes will bring treatment costs more in line with the actual health threat posed by contaminants, were enacted by Congress during 1996. The Group continues to monitor water quality and upgrade its treatment capabilities to maintain compliance with the various regulations. These activities include:

- - maintaining a State approved compliance monitoring program required by the Safe Drinking Water Act
- - upgrading laboratory equipment and enhancing analytical testing capabilities
- - installation of disinfection treatment at all well sources
- - installation of and operating several granular activated carbon (GAC) filtration systems for removal of hydrogen sulfide or volatile organic chemicals
- - treatment systems at two Los Angeles Basin wells and wells at the South San Francisco well field which have elevated levels of iron and manganese; the treatment allowed the wells to be returned to production during 1997; thus, less costly well water, rather than purchased water supplies became available
- - construction of a new iron and manganese treatment plant in the leased Hawthorne system; completion of this project is scheduled for mid 1998
- - monitoring of all sources for MTBE, the gasoline additive widely used throughout the State
- - completion of mandatory Information Collection Rule monitoring for specified water systems

#### Competition and Condemnation

The Company is a public utility regulated by the Commission. The Company provides service within filed service areas approved by the Commission. Under the laws of the State of California, no privately owned public utility may compete with the Company in any territory already served by the Company without first obtaining a certificate of public convenience and necessity from the PUC. Under PUC practices, such certificate will be issued only upon showing that the Company's service in such territory is deficient.

California law also 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. For such taking the public utility is to be paid just compensation. Under the constitution and statutes of the State of California, municipalities, water districts and

other public agencies have been authorized to engage in the ownership and operation of water systems. Such agencies are empowered to condemn properties already operated by privately owned public utilities upon payment of just compensation and are further authorized to issue bonds, including revenue bonds, for the purpose of acquiring or constructing water systems. To the Group's knowledge, no municipality, water district or other public agency has any pending action to acquire or condemn any of the Group's systems.

The water industry is experiencing competitive changes and the potential exists for new growth. The Group has in the past participated in public/private partnerships, such as the lease of a water system, system operation agreements, or billing service contracts, and anticipates future opportunities for further participation and development. The formation of the holding company structure is expected to enhance financing, accounting and operation of the nonregulated business activities.

#### Environmental Matters

The Group is subject to environmental regulation by various governmental authorities. Compliance with federal, state and local provisions which have been enacted or adopted regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, has not had, as of the date of filing of this Form 10-K, any material effect on the Group's capital expenditures, earnings or competitive position. The Group is unaware of any pending environmental matters which will have a material effect on its operations. Refer to Item 3, Legal Proceedings, for additional information.

The environmental affairs program is designed to provide compliance with underground storage tank regulations, hazardous materials management plans, air quality permitting requirements, local and toxic discharge limitations, and employee safety issues related to hazardous materials. The Company has been actively involved in the formulation of air quality standards related to water utilities. Also, the Company is proactive in looking to alternative technologies in meeting environmental regulations and continuing the traditional practices of water quality.

#### Human Resources

At December 31, 1997, the Company had 649 employees, of whom 178 were executive, administrative and supervisory employees, and 471 were members of unions. In December 1997, two-year collective bargaining agreements, expiring December 31, 1999, were successfully negotiated with the Utility Workers Union of America, AFL-CIO, representing the majority of the Company's field and clerical union employees. In January 1998, a new two-year collective bargaining agreement was negotiated with the International Federation of Professional and Technical Engineers, AFL-CIO, representing certain engineering department and water quality laboratory employees. Both agreements were ratified by the union members in January 1998. As in the past, the agreements were successfully renewed without a labor interruption.

#### d. Financial Information about Foreign and Domestic Operations and Export Sales.

The Group makes no export sales.

#### Item 2. Properties.

The Group's physical properties consist of offices and water systems to accomplish the production, storage, purification, and distribution of water. These properties are located in or near the Geographic Service Areas listed above under section Item 1.c. entitled "Narrative Description of the Business." The Group's general office, which houses accounting, engineering, information systems, human resources, purchasing, rate making, water quality and executive staffs are located in San Jose, California. All properties are maintained in good operating condition.

All principal properties are held in fee simple title, subject to the lien of the indenture securing the Company's first mortgage bonds, of which \$119,205,000 remained outstanding at December 31, 1997.

The Group owns 525 wells and operates six leased wells. There were 290 storage tanks with a capacity of 216 million gallons and one reservoir located in the Bear Gulch district with a 210 million gallon capacity. There are 4,615 miles of supply and distribution mains in the various systems. There are two

treatment plants, one in the Bear Gulch district, the other in Oroville. Both treatment plants are designed to process six million gallons per day. During 1997, the average daily water production was 301 million gallons, while the maximum production on one day was 513 million gallons. By comparison, during 1996 the average daily water production was 283 million gallons, while the maximum production on one day was 497 million gallons. In 1995, the average daily water production was 273 million gallons and the maximum production on one day was 493 million gallons. The trend of increasing customer consumption reflects the impact of weather patterns during the past three years on customer usage.

In the leased systems or in systems which 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.

The State of California's Department of Toxic Substances Control (DTSC) alleges that the Company is a potential responsible party for cleanup of a toxic contamination in the Chico groundwater. The DTSC has prepared a draft report titled "Preliminary Nonbinding Allocation of Financial Responsibility" for the cleanup which asserts that the Company's share should be 10 percent. The DTSC estimates the total cleanup cost to be \$8.69 million. The toxic spill occurred when cleaning solvents, which were discharged into the city's sewer system by local dry cleaners, leaked into the underground water supply due to breaks in sewer pipes. The DTSC contends that the Company's responsibility stems from the Company's operation of wells in the surrounding vicinity which caused the contamination plume to spread. The Company denies any responsibility for the contamination or the resulting cleanup and intends to vigorously resist any action which may be brought against it. The Company believes that it has insurance coverage for this claim and that if it were ultimately held responsible for a portion of the cleanup costs, there would not be a material adverse effect on the Group's financial position or results of operations.

In December 1997, the Group along with the City of Stockton and San Joaquin County ("the Contractors") filed a lawsuit against the Stockton East Water District (SEWD). The Contractors are SEWD's sole customers for wholesale potable water. SEWD also serves raw water to agricultural customers. To enable SEWD to meet its financial obligations, the Contractors agreed to specific Base Monthly Payments which as of June 30, 1997 had generated \$5.4 million in surplus funds. The Contractors contend that a portion of the funds paid by the Contractors have been or will be used for purposes other than to meet SEWD's agreed financial obligations. Presently, all parties to the lawsuit have entered into a Stipulated Preliminary Injunction. A favorable settlement is anticipated.

The Group is not a party to any other legal matters, other than those which are incidental to its business.

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

No matters were submitted to a vote of security holders in the fourth quarter of year 1997.

Executive Officers of the Registrant

Name	Positions and Offices with the Group	Age
Robert W. Foy (1)	Chairman of the Board since January 1, 1996. A Director since 1977. Formerly President and Chief Executive Officer of Pacific Storage Company, Stockton, Modesto, Sacramento and San Jose, California, a diversified transportation and warehousing company, where he had been employed for 32 years.	61
Peter C. Nelson (1)	President and Chief Executive Officer since February 1, 1996. Formerly Vice President, Division Operations (1994-1995) and Region Vice President (1989-1994), Pacific Gas & Electric Company, a gas and electric public utility.	50
Gerald F. Feeney	Vice President, Chief Financial Officer and	53

(1) Treasurer since November 1994; Controller, Assistant Secretary and Assistant Treasurer from 1976 to 1994. From 1970 to 1976, an audit manager with Peat Marwick Mitchell & Co.

Calvin L. Breed (2) Controller, Assistant Secretary and Assistant Treasurer since November 1994. Previously Treasurer of TCI International, Inc.; from 1980 to 1983, a certified public accountant with Arthur Andersen & Co. 42

Paul G. Ekstrom (1) Corporate Secretary since August 1996; Operations Coordinator, 1993 to 1996; District Manager, Livermore, 1988 to 1993; previously served in various field management positions since 1979; an employee since 1972. 45

(1) holds the same position with California Water Service Company and CWS Utility Services

(2) holds the same position with California Water Service Company

Name	Positions and Offices with the Company	Age
Francis S. Ferraro	Vice President, Regulatory Matters since August 1989. Employed by the California Public Utilities Commission for 15 years, from 1985 through 1989, as an administrative law judge.	48
James L. Good (1)	Vice President, Corporate Communications and Marketing since January 1995. Previously Director of Congressional Relations for the National Association of Water Companies from 1991 to 1994.	34
Robert R. Guzzetta	Vice President, Engineering and Water Quality since August 1996; Chief Engineer, 1990 to 1996; Assistant Chief Engineer, 1988 to 1990; various engineering department positions since 1977.	44
Christine L. McFarlane	Vice President, Human Resources since August 1996; Director of Human Resources, 1991 to 1996; Assistant Director of Personnel, 1989 to 1991; an employee since 1969.	51
Raymond H. Taylor	Vice President, Operations since April 1995; Vice President and Director of Water Quality, 1990 to 1995; Director of Water Quality, 1986 to 1990; prior to 1982 an employee of the United States Environmental Protection Agency.	52
Raymond L. Worrell	Vice President, Chief Information Officer since August 1996; Director of Information Systems, 1991 to 1996; Assistant Manager of Data Processing, 1970 to 1991; Data Processing Supervisor, 1967 to 1970.	58
John S. Simpson	Assistant Secretary, Manager of New Business since 1991; Manager of New Business development for the past thirteen years; served in various management positions since 1967.	53

(1) Also, Vice President, Marketing with CWS Utility Services.

No officer or director has any family relationship to any other executive officer or director. No executive officer is appointed for any set term. There are no agreements or understandings between any executive officer and any other person pursuant to which he was selected as an executive officer, other than those with directors or officers of the Group acting solely in their capacities as such.

## PART II

### Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

The information required by this item is contained in the Section captioned "Quarterly Financial and Common Stock Market Data" on pages 58 and 59 of the Group's 1997 Annual Report and is incorporated herein by reference. The number of shareholders listed in such section includes the Group's record shareholders and an estimate of shareholders who hold stock in street name.

Item 6. Selected Financial Data.

The information required by this item is contained in the section captioned "Ten Year Financial Review" on pages 26, 27 and 28 of the Group's 1997 Annual Report and is incorporated herein by reference.

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

The information required by this item is contained in the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations," on pages 30 through 38 of the Company's 1997 Annual Report and is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data.

The information required by this item is contained in the sections captioned "Consolidated Balance Sheet", "Consolidated Statement of Income", "Consolidated Statement of Common Shareholders' Equity", "Consolidated Statement of Cash Flows", "Notes to Consolidated Financial Statements" and "Independent Auditors' Report" on pages 40 through 60 of the Group's 1997 Annual Report and is incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

PART III

Item 10. Directors and Executive Officers of the Registrant.

The information required by this item as to directors of the Group is contained in the sections captioned "Election of Directors", "Nominees for Directors" and "Board Committees" on pages 5 through 8 of the 1998 Proxy Statement and is incorporated herein by reference. Information regarding executive officers of the Group is included in a separate item captioned "Executive Officers of the Registrant" contained in Part I of this report.

Item 11. Executive Compensation.

The information required by this item as to directors of the Group is included under the caption "Compensation of Non-employee Directors" on page 9 of the 1998 Proxy Statement and is incorporated herein by reference. The information required by this item as to compensation of executive officers, including officers who are directors, is included under the caption "Compensation of Executive Officers" on page 12 through 15 of the 1998 Proxy Statement and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

The information required by this item is contained in the sections captioned "Beneficial Ownership of Director-Nominees" and "Security Ownership of Management" on pages 10 and 16, respectively, of the 1998 Proxy Statement and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions.

None.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

(a) (1) Financial Statements:

Consolidated Balance Sheet as of December 31, 1997 and 1996.

Consolidated Statement of Income for the years ended

December 31, 1997, 1996, and 1995.

Consolidated Statement of Common Shareholders' Equity for the years ended December 31, 1997, 1996, and 1995.

Consolidated Statement of Cash Flows for the years ended December 31, 1997, 1996, and 1995.

Notes to Consolidated Financial Statements, December 31, 1997, 1996, and 1995

The above financial statements are contained in sections bearing the same captions on pages 40 through 60 of the Group's 1997 Annual Report and are incorporated herein by reference.

(2) Financial Statement Schedule:

Schedule Number

Independent Auditors' Report dated January 23, 1998.

II Valuation and Qualifying Accounts and Reserves--years ending December 31, 1997, 1996, and 1995.

All other schedules are omitted as the required information is inapplicable or the information is presented in the financial statements or related notes.

(3) Exhibits required to be filed by Item 601 of Regulation S-K.

See Exhibit Index on page 28 of this document which is incorporated herein by reference.

The exhibits filed herewith are attached hereto (except as noted) and those indicated on the Exhibit Index which are not filed herewith were previously filed with the Securities and Exchange Commission as indicated. Except where stated otherwise, such exhibits are hereby incorporated by reference.

(B) Report on Form 8-K.

Form 8-K filed January 2, 1998 to report a Change in Control of Registrant pursuant to the formation on December 31, 1997 of the holding company, California Water Service Group, of which California Water Service Company became a wholly owned operating subsidiary. Refer to page 5 for a discussion concerning the Group's second subsidiary. In conjunction with the formation of the holding company, the Company common stock was exchanged for Group common stock on a two-for-one basis.

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

Date: March 25, 1998

By /s/ Peter C. Nelson  
PETER C. NELSON, President and  
Chief Executive Officer

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:

Date: March 25, 1998 /s/ Robert W. Foy  
ROBERT W. FOY, Chairman,  
Board of Directors

Date: March 25, 1998 /s/ Edward D. Harris, Jr.  
EDWARD D. HARRIS, JR., M.D., Member,

Board of Directors

Date: March 25, 1998 /s/ Robert K. Jaedicke  
ROBERT K. JAEDICKE, Member,  
Board of Directors

Date: March 25, 1998 /s/ Richard P. Magnuson  
RICHARD P. MAGNUSON, Member,  
Board of Directors

Date: March 25, 1998 /s/ Linda R. Meier  
LINDA R. MEIER, Member,  
Board of Directors

Date: March 25, 1998 /s/ Peter C. Nelson  
PETER C. NELSON  
President and Chief Executive Officer,  
Member, Board of Directors

Date: March 25, 1998 /s/ C. H. Stump  
C. H. STUMP, Member,  
Board of Directors

Date: March 25, 1998  
GEORGE A. VERA, Member  
Board of Directors

Date: March 25, 1998 /s/ J. W. Weinhardt  
J. W. WEINHARDT, Member,  
Board of Directors

Date: March 25, 1998 /s/ Gerald F. Feeney  
GERALD F. FEENEY,  
Vice President, Chief Financial  
Officer and Treasurer;  
Principal Financial Officer

Date: March 25, 1998 /s/ Calvin L. Breed  
CALVIN L. BREED, Controller,  
Assistant Secretary and Assistant  
Treasurer;  
Principal Accounting Officer

Independent Auditors' Report

Shareholders and Board of Directors  
California Water Service Group:

Under date of January 23, 1998, we reported on the consolidated balance sheet of California Water Service Group as of December 31, 1997 and 1996, and the related consolidated statements of income, common shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1997, as contained in the 1997 annual report to shareholders. These financial statements and our report thereon are incorporated by reference in the annual report on Form 10-K for the year 1997. In connection with our audits of the aforementioned financial statements, we also audited the related consolidated financial statement schedule as listed in the index appearing under Item 14(a)(2). This financial statement schedule is the responsibility of the Group's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits.

In our opinion, such financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

San Jose, California /s/ KPMG Peat Marwick LLP  
January 23, 1998  
<TABLE>

CALIFORNIA WATER SERVICE GROUP

Schedule II

Valuation and Qualifying Accounts  
Years Ended December 31, 1997, 1996 and 1995

Balance	Description	Additions		
at end	of period	Balance at	Charged to	Charged to
Deductions	of period	beginning costs and	other	accounts
<S>	<S>	of period	expenses	accounts
<S>	<S>	<C>	<C>	<C>
<C>	<C>	<C>	<C>	<C>



1997

(A) Reserves deducted in the balance sheet from assets to which they apply:				
Allowance for doubtful accounts	\$99,550	\$610,951	\$70,850	(3)
\$681,255(1)      \$100,096				
Allowance for obsolete materials and supplies	\$101,077	48,000		
19,884(2)      129,193				
(B) Reserves classified as liabilities in the balance sheet:				
Miscellaneous reserves:				
General Liability				
\$765,905(2)      \$900,425	\$997,834	\$668,496		
Employees' group health plan	\$467,986	3,140,000	14,539	
2,901,405(2)      721,120				
Retirees' group health plan	\$911,998	581,000	531,375	
581,000(2)      1,443,373				
Workers compensation	\$499,651	830,313		
668,135(2)      661,829				
Deferred revenue - contributions in aid of construction	\$1,799,573		126,547	
341,778(6)      1,584,342				
Disability insurance	\$50,371		103,167	
129,727(2)      23,811				
	\$4,727,413	\$5,219,809	\$775,628	\$5,387,950
\$5,334,900				
Contributions in aid of construction	\$43,066,585		\$2,447,231	(4)
\$1,243,733(5)      \$44,270,083				

1996

(A) Reserves deducted in the balance sheet from assets to which they apply:				
Allowance for doubtful accounts	\$76,197	\$530,691	\$65,445	(3)
\$572,783(1)      \$99,550				
Allowance for obsolete materials and supplies	74,675	48,000		
21,598(2)      101,077				
(B) Reserves classified as liabilities in the balance sheet:				
Miscellaneous reserves:				
General Liability				
\$569,131(2)      \$997,834	\$826,965	\$740,000		
Employees' group health plan	400,004	2,880,000	14,348	
2,826,366(2)      467,986				
Retirees' group health plan	670,998	523,000	241,000	
523,000(2)      911,998				
Workers compensation	260,170	835,430		
595,949(2)      499,651				
Deferred revenue - contributions in aid of construction	1,930,336		276,525	
407,288(6)      1,799,573				
Disability insurance	47,453		199,097	
196,179(2)      50,371				
	\$4,135,926	\$4,978,430	\$730,970	\$5,117,913
\$4,727,413				
Contributions in aid of construction	\$40,113,707		\$4,062,087	(4)
\$1,109,209(5)      \$43,066,585				

1995

(A) Reserves deducted in the balance sheet from assets to which they apply:				
Allowance for doubtful accounts	\$50,816	\$429,096	\$74,170	(3)
\$477,885(1)      \$76,197				
Allowance for obsolete materials and supplies	\$3,393	95,000		
23,718(2)      74,675				
(B) Reserves classified as liabilities in the balance sheet:				
Miscellaneous reserves:				
General Liability				
\$475,147(2)      \$826,965	\$962,152	\$339,960		
Employees' group health plan	\$200,387	2,907,000	14,928	
2,722,311(2)      400,004				
Retirees' group health plan	\$425,998	507,000	245,000	
507,000(2)      670,998				
Workers compensation	\$107,576	879,423		
726,829(2)      260,170				
Deferred revenue - contributions in aid of construction	\$1,917,386		368,180	355,230(6)
1,930,336				
Disability insurance	\$116,130		200,973	
269,650(2)      47,453				
	\$3,729,629	\$4,633,383	\$829,081	\$5,056,167
\$4,135,926				
Contributions in aid of construction	\$37,866,799		\$3,244,258	(4)
\$997,350(5)      \$40,113,707				

Notes:

(1) Accounts written off during the year.  
net transfer

(4) Properties acquired at no cost, cash contributions and

- (2) Expenditures and other charges made during the year. on non-refundable balances from advances to contributions.
- (3) Recovery of amounts previously charged to reserve. (5) Depreciation of utility plant acquired by contributions charged to a balance sheet account.
- (6) Amortized to revenue.

</TABLE>

EXHIBIT INDEX

Exhibit Number Sequential Page Numbers in this Report

Unless filed with this Form 10-K, the documents listed are incorporated by reference to the filings listed below.

3. Articles of Incorporation and by-laws:

3.1 Restated Articles of Incorporation of California Water Service Group and By-laws of California Water Service Group (Filed as Exhibits B and C, respectively, of the 1997 California Water Service Company Proxy Statement/Prospectus (Form S-4, Registration No. 333-22915). 28

3.2 Certificate of Determination of Preferences for the Group's Series D Preferred Stock (Exhibit A to the Shareholder Rights Plan, an agreement between California Water Service Group and BankBoston, N.A., rights agent, dated January 28, 1998 file as Exhibit 1 to Form 8-A and Exhibit 1 to Form 8-K dated February 13, 1998, File No. 0-464) 28

4. Instruments Defining the Rights of Security Holders of including Indentures of California Water Service Company: 28

4.1 Mortgage of Chattels and Trust Indenture dated April 1, 1928; Eighth Supplemental Indenture dated November 1, 1945, covering First Mortgage 3.25% Bonds, Series C; twenty-first Supplemental Indenture dated October 1, 1972, cover First Mortgage 7.875% Bonds, Series P; twenty-fourth Supplemental Indenture dated November 1, 1973, covering First Mortgage 8.50% Bonds, Series S (Exhibits 2(b), 2(c), 2(d), Registration Statement No. 2-53678, of which certain exhibits are incorporated by reference to Registration Statement Nos. 2-2187, 2-5923, 2-5923, 2-9681, 2-10517 and 2-11093.) 28

4.2 Thirty-third Supplemental Indenture dated as of May 1, 1988, covering First Mortgage 9.48% Bonds, Series BB. (Exhibit 4 to Form 10-Q dated September 30, 1988, File No. 0-464) 28

4.3 Thirty-fourth Supplemental Indenture dated as of November 1, 1990, covering First Mortgage 9.86% Bonds, Series CC. (Exhibit 4 to Form 10-K for fiscal year 1990, File No. 0-464) 28

4.4 Thirty-fifth Supplemental Indenture dated as of November 1, 1992, covering First Mortgage 8.63% Bonds, Series DD. (Exhibit 4 to Form 10-Q dated September 30, 1992, File No. 0-464) 28

4.5 Thirty-sixth Supplemental Indenture dated as of May 1, 1993, covering First Mortgage 7.90% Bonds Series EE (Exhibit 4 to Form 10-Q dated June 30, 1993, File No. 0-464) 29

4.6 Thirty-seventh Supplemental Indenture dated as of September 1, 1993, covering First Mortgage 6.95% Bonds, Series FF (Exhibit 4 to Form 10-Q dated September 30, 1993, File No. 0-464) 29

4.7 Thirty-eighth Supplemental Indenture dated as of October 15, 1993, covering First Mortgage 6.98% Bonds, Series GG (Exhibit 4 to Form 10-K for fiscal year 1994, File No. 0-464) 29

4.8 Note Agreement dated August 15, 1995, pertaining to issuance by California Water Service Company of \$20,000,000, 7.28% Series A Unsecured Senior Notes, 29

- 4.9 Shareholder Rights Plan; an agreement between California Water Service Group and BankBoston, N.A., rights agent, dated January 28, 1998 (Exhibit 1 for Form 8-A and Exhibit 1 to Form 8-K dated February 13, 1998) 29
10. Material Contracts.
- 10.1 Water Supply Contract between the California Water Service Company ("Company") and the County of Butte relating to the Company's Oroville District; Water Supply Contract between the Company and the Kern County Water Agency relating to the Company's Bakersfield District; Water Supply Contract between the Company and Stockton East Water District relating to the Company's Stockton District. (Exhibits 5(g), 5(h), 5(i), 5(j), Registration Statement No. 2-53678, which incorporates said exhibits by reference to Form 10-K for fiscal year 1974, File No. 0-464). 29
- 10.2 Settlement Agreement and Master Water Sales Contract between the City and County of San Francisco and Certain Suburban Purchasers dated August 8, 1984; Supplement to Settlement Agreement and Master Water Sales Contract, dated August 8, 1984; Water Supply Contract between the Company and the City and County of San Francisco relating to the Company's Bear Gulch District dated August 8, 1984; Water Supply Contract between the Company and the City and County of San Francisco relating to the Company's San Carlos District dated August 8, 1984; Water Supply Contract between the Company and the City and County of San Francisco relating to the Company's San Mateo District dated August 8, 1984; Water Supply Contract between the Company and the City and County of San Francisco relating to the Company's South San Francisco District dated August 8, 1984. (Exhibit 10.2 to Form 10-K for fiscal year 1984, File No. 0-464). 29
- 10.3 Water Supply Contract dated January 27, 1981, between the Company and the Santa Clara Valley Water District relating to the Company's Los Altos District (Exhibit 10.3 to Form 10-K for fiscal year 1992, File No. 0-464) 30
- 10.4 Amendments No. 3, 6 and 7 and Amendment dated June 17, 1980, to Water Supply Contract between the Company and the County of Butte relating to the Company's Oroville District. (Exhibit 10.5 to Form 10-K for fiscal year 1992, File No. 0-464) 30
- 10.5 Amendment dated May 31, 1977, to Water Supply Contract between the Company and Stockton-East Water District relating to the Company's Stockton District. (Exhibit 10.6 to Form 10-K for fiscal year 1992, File No. 0-464) 30
- 10.6 Second Amended Contract dated September 25, 1987 among the Stockton East Water District, the 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 Form 10-K for fiscal year 1987, File No. 0-464). 30
- 10.7 Water Supply Contract dated April 19, 1927, and Supplemental Agreement dated June 5, 1953, between the Company and Pacific Gas and Electric Company relating to the Company's Oroville District. (Exhibit 10.9 to Form 10-K for fiscal year 1992, File No. 30

10.8	California Water Service Company Pension Plan (Exhibit 10.10 to Form 10-K for fiscal year 1992, File No. 0-464)	30
10.9	California Water Service Company Supplemental Executive Retirement Plan. (Exhibit 10.11 to Form 10-K for fiscal year 1992, File No. 0-464)	30
10.10	Agreement between the City of Hawthorne and California Water Service Company for the 15 year lease of the City's water system. (Exhibit 10.17 to Form 10-Q dated March 31, 1996)	31
10.11	Water Supply Agreement dated September 25, 1996 between the City of Bakersfield and California Water Service Company. (Exhibit 10.18 to Form 10-Q dated September 30, 1996)	31
10.12	Agreement of Merger dated March 6, 1997 by and among California Water Service Company, CWSG Merger Company and California Water Service Group. (Filed as Exhibit A of the 1997 California Water Service Company Proxy Statement/Prospectus which was incorporated by reference in the Form 10-K for 1997)	31
10.13	Dividend Reinvestment and Stock Purchase Plan dated February 17, 1998 (Filed on Form S-3, Registration Statement No. 333-46447)	31
10.14	California Water Service Company Employees Savings Plan. (Exhibit 10.14 to Form 10-K for fiscal year 1997)	
10.15	California Water Service Group Directors Deferred Compensation Plan (Exhibit 10.15 to Form 10-K for fiscal year 1997)	
10.16	California Water Service Group Directors Retirement Plan (Exhibit 10.16 to Form 10-K for fiscal year 1997)	
10.17	\$50,000,000 Business Loan Agreements between California Water Service Group, California Water Service Company and CWS Utility Services and Bank of America dated March 16, 1998, expiring April 30, 1999 (Exhibit 10.17 to Form 10-K for the year 1997)	
13.	Annual Report to Security Holders, Form 10-Q or Quarterly Report to Security Holders:  1997 Annual Report. Certain sections of the 1997 Annual Report are incorporated by reference in this 10-K filing. This includes those sections referred to in Part II, Item 5, Market for Registrant's Common Equity and Related Shareholder Matters; Part II, Item 6, Selected Financial Data; Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations; and Part II, Item 8, Financial Statement and Supplementary Data.	
27.	Financial Data Schedule as of December 31, 1997	

EXHIBIT 10.14

CALIFORNIA WATER SERVICE COMPANY  
SAVINGS PLAN AND TRUST AGREEMENT  
(May 1994 Revision)

CALIFORNIA WATER SERVICE COMPANY  
SAVINGS PLAN AND TRUST AGREEMENT  
(1994 Revision)

Background

California Water Service company initially established a retirement savings plan in which all employees were eligible to participate. That plan was then split into two plans: this Plan for salaried employees and the Union Plan for the Employer's employees who are Union members. Cash or deferred features were added to each of those plans. Effective December 31, 1987, the Employer terminated its PAYSOP and on January 1, 1988 transferred to each of the savings plans, assets allocated to the accounts of certain PAYSOP participants. Effective January 1, 1994, the Union Plan is merged into this Plan. This 1994 revision amends and restates the Plan to reflect changes required by the Tax Reform Act of 1986 and other statutes and regulations and reflects the merger of Union Plan into this Plan. This revision also constitutes the trust agreement for Plan assets other than Employer Stock. There is a separate trust agreement for Employer Stock. This revision is effective on January 1, 1988 and such other dates indicated herein and is a profit-sharing plan with a cash or deferred feature. Capitalized terms are defined in Section 1.

Section 1. Definitions

1.1 General Rules

Section headings are for convenience only and, in case of conflict, the text of the Plan controls. The singular includes the plural unless the context indicates otherwise.

1.2 Definitions

Capitalized terms in this plan have the following definitions:

ALTERNATE PAYEE means a person described as such in Section 414(p) of the Internal Revenue Code and Section 206(d) (3) (B) of ERISA.

BENEFICIARY -- See Paragraph (c) of Subsection 6.5 of Section 6.

BOARD OF DIRECTORS means the Board of Directors of the California Water Service Company.

COMMITTEE -- See Subsection 9.1 of Section 9.

DISABILITY means a physical or mental condition which prevents the Participant from engaging in his or her usual occupation and which is presumed to be permanent. Disability is established by certification of a licensed physician appointed by or otherwise acceptable to the Employer. The certification of the physician is conclusive and binding on all parties.

EARNINGS means a Participant's current salary before reduction for the amount of contribution under this Plan as listed on the Employer's payroll records. Effective January 1, 1989 up to and including December 31, 1993, the annual Earnings for each Participant taken into account under the Plan for any year will not exceed \$200,000. This limitation will be adjusted by the Commissioner of Internal Revenue at the same time and in the same manner as under Section 415(d) of the Internal Revenue Code, except that the dollar increase in effect on January 1 of any calendar year is effective for Plan Years beginning in that calendar year and the first adjustment to the \$200,000 limitation is effective January 1, 1990. In determining Earnings for a Participant for purposes of the \$200,000 limitation, the rules of Section 414(q) (6) of the Internal Revenue Code apply, except the term "family" includes only the spouse of the Participant and any lineal descendants of the Participant who have not attained age 19 before the close of the Plan Year. If, as a result of the application of those rules, the adjusted \$200,000 limitation is exceeded, then the limitation is prorated among the affected individuals in proportion to each such individual's Earnings as determined under the Plan prior to application of the \$200,000 limitation. Effective January 1, 1994, the annual Earnings of each Participant taken into account under the Plan must not exceed

\$150,000, as adjusted by the Commissioner of Internal Revenue in accordance with Section 401(a)(17)(B) of the Internal Revenue Code. The adjustment in effect for a calendar year applies to any period, not exceeding 12 months, over which Earnings are determined (determination period) beginning in such calendar year. If a determination period consists of fewer than 12 months, the annual compensation limit described in the two preceding sentences will be multiplied by a fraction the numerator of which is the number of months in the determination period and the denominator of which is 12.

EMPLOYEE means, up to and including December 31, 1993, any person who is in the employ of the Employer and whose terms and conditions of employment are neither governed by nor set forth in a collective bargaining agreement. Effective January 1, 1994, Employee means any person who is in the employ of the Employer.

EMPLOYEE CONTRIBUTION ACCOUNT -- See Subsection 3.1.

EMPLOYEE CONTRIBUTIONS -- See Subsection 3.1.

EMPLOYER means California Water Service Company, a California corporation and any subsidiary of or company affiliated with the Employer which subsidiary or affiliated company is hereafter authorized by the Board of Directors to participate in the Plan.

EMPLOYER CONTRIBUTION ACCOUNT -- See Subsection 3.3.

EMPLOYER CONTRIBUTIONS -- See Subsection 3.3.

EMPLOYER STOCK means the common stock of California Water Service Company.

EMPLOYER STOCK ACCOUNT means the account established for each Participant or Former Participant who has made an election to invest in Employer Stock and for each Participant or Former Participant in respect to whom a transfer was made to this Plan or the Union Plan from the PAYSOP.

ERISA means the Employee Retirement Income Security Act of 1974.

FORMER PARTICIPANT means a Participant whose employment with the Employer has terminated but who has an account balance under the Plan which has not been paid in full.

FUNDS means the investment funds established by the Committee in accordance with Paragraph (a) of Subsection 4.2.

NORMAL RETIREMENT DATE means the Participant or Former Participant's 65th birthday.

Participant means an Employee who participates in the Plan as described in Section 2.

PARTICIPANT ACCOUNTS means all accounts maintained under this Plan on behalf of a Participant or Former Participant, Beneficiary or Alternate Payee.

PAYSOP means the Payroll-Based Tax Credit Employee Stock Ownership Plan of California Water Service Company which was terminated effective December 31, 1987.

PLAN means, up to and including December 31, 1993, this California Water Service Company Salaried Employees' Savings Plan; effective January 1, 1994, the Plan is named the California Water Service Company Savings Plan.

PLAN YEAR means the calendar year.

PRIOR PLAN means the California Water Service Company Retirement Savings Plan, as amended and restated and in effect on June 30, 1982.

PRIOR PLAN ACCOUNT means the account to which a Participant's or Former Participant's account from the Prior Plan was transferred.

QUALIFIED DOMESTIC RELATIONS ORDER means an order described in Section 206(d)(3)(B) of ERISA and Section 414(p) of the Internal Revenue Code.

SALARIED SAVINGS PLAN COMMITTEE -- See Subsection 9.1 of Section 9.

TRUST FUND means the fund established in accordance with Section 8.

UNION means the Utility Workers of America and the International Federation of Professional and Technical Engineers, both affiliated with the AFL-CIO.

UNION EMPLOYEE means an employee of the Employer whose terms and conditions of employment are governed by or set forth in a collective bargaining agreement.

UNION PLAN means the California Water Service Company Union Employees' Savings Plan.

UNION PLAN PARTICIPANT means any participant in the Union Plan.

UNION SAVINGS PLAN COMMITTEE -- See Subsection 9.1 of Section 9.

YEAR means the Plan Year.

Section 2. Participation

2.1 Eligible Class of Employees

All Employees are eligible to participate in the Plan.

2.2 When an Employee Becomes a Participant - General Rule

Each Employee not described in Subsection 2.3 becomes a Participant on the first day of the Year following the date of his

or her commencement of employment, provided he or she is an Employee on that date. Notwithstanding the preceding sentence, no person becomes a Participant prior to his or her proper completion and return to the Employer of a form authorizing deferrals under the Plan and specifying investments as provided in Subsection 4.2.

#### 2.3 When an Employee Becomes a Participant - Special Rules

- (a) Each person who was a Participant on December 31, 1987 continues to participate in the Plan as a Participant on January 1, 1988.
- (b) Each person who was a Former Participant on December 31, 1987 continues to participate in the Plan as a Former Participant on January 1, 1988.
- (c) Each person who, on December 31, 1993, was a participant in the Union Plan becomes a Participant in this Plan on January 1, 1994.
- (d) Each person who, on December 31, 1993, was a former participant in the Union Plan becomes a Former Participant in this Plan on January 1, 1994.
- (e) Each person who, on December 31, 1987, (i) was an Employee (as defined in this Plan on that date), (ii) was a participant in the PAYSOP and (iii) was not a Participant in this Plan, becomes a Participant on January 1, 1988.
- (f) Each person who, on December 31, 1987, (i) was not employed by the Employer, (ii) was a former participant in the PAYSOP and (iii) was not a Participant in this Plan, becomes a Former Participant on January 1, 1988.

#### 2.4 Rehired Employees

- (a) A Former Participant with a Participant Account in the Plan who resumes employment as an Employee participates in the Plan immediately upon reemployment. That Former Participant may authorize deferrals as provided in Subsection 3.1 and by specifying investments as provided in Subsection 4.2.
- (b) A Former Participant who has received distribution of the balance of his or her Participant Accounts in the Plan may elect to participate in the Plan immediately after becoming an Employee. He or she becomes a Participant by proper completion and return to the Employer of a form authorizing deferrals as provided in Subsection 3.1 and by specifying investments as provided in Subsection 4.2.
- (c) A former Employee who did not participate in the Plan may elect, in writing, to participate in the Plan on the date of his or her rehire as an Employee. He or she becomes a Participant by proper completion and return to the Employer of a form authorizing deferrals as provided in Subsection 3.1 and by specifying investments as provided in Subsection 4.2.

#### 2.5 Change in Employee Classification

- (a) This section is effective only up to and including December 31, 1993.
- (b) If a person employed by the Employer becomes an Employee eligible to participate in the Plan because his or her terms and conditions of employment with the Employer cease to be governed by or set forth in a collective bargaining agreement, he or she commences participation in the Plan as of the date of the change in his employee classification by proper completion and return to the Employer of a form authorizing deferrals under the Plan and specifying investments as provided in Subsection 4.2.
- (c) If a person ceases to be an Employee eligible to participate in the Plan because his or her terms and conditions of employment with the Employer become governed by or set forth in a collective bargaining agreement, he or she ceases participation in the Plan as of the date of the change in his or her employee classification. His or her Participant Account will be transferred to the Union Plan as provided in Subsection 8.9.

### Section 3. Contributions

#### 3.1 Participant Contributions - Deferrals

- (a) Each Participant (including Participants who are at or beyond their Normal Retirement Age and still employed by the Employer) may elect to defer one percent, or any full percent up to and including 14%, of his or her Earnings. Effective January 1, 1994, the maximum percentage of Earnings deferred is 15%. Deferrals begin within 15 days of receipt by the Employer of the form authorizing deferrals under the Plan. Upon receipt of a deferral election, but subject to Paragraph (b) of this Subsection 3.1, Subsection 3.2, and Subsection 3.5, the Employer reduces the Earnings of the Participant by the percentage specified and contributes that amount to an account for that Participant which is known as his or her Employee Contribution Account, and contributions to which are known as Employee Contributions.
- (b) In addition to and not in lieu of any other limitation contained in this Plan, the total amount deferred pursuant to the deferral election of any Participant will not exceed \$7,000 (or such other amount as determined in applicable Treasury Regulations) for any taxable year of the Participant.

#### 3.2 Changes to Deferral Elections

(a) A Participant may change (i.e., increase or decrease) his or her existing deferral election by supplying a revised election form to the Employer at any time during a calendar quarter, effective for the next pay period. No more than one change may be made in any calendar quarter.

(b) A deferral election may be suspended (i.e., reduced to 0) at the option of the Participant by delivering a written notice to the Employer at least 30 days prior to the effective date of suspension and subject to the next paragraph. This suspension provision applies only if the Participant does not change his or her election in accordance with the provisions of Paragraph (a) concerning quarterly changes to the deferral election.

(c) In the event a Participant suspends deferrals under Paragraph (b), he or she may, effective no less than 12 months after the effective date of the suspension, again elect to make deferrals by furnishing the Employer with a completed deferral authorization form requesting deductions to be made from his or her Earnings.

(d) A Participant who takes a leave of absence exceeding 30 days is prohibited from deferring any Earnings during the period of his or her leave of absence or for a period of six months, whichever is longer.

(e) Participants who make hardship withdrawals are subject to suspension and limitations on making further deferrals. See Appendix B.

(f) A Participant who makes a withdrawal from his Prior Plan Account which is attributable to regular contributions to the Prior Plan is prohibited from deferring any Earnings for 12 months from the date of withdrawal. A distribution is deemed attributable to additional contributions to the Prior Plan until such time as the Participant has withdrawn the aggregate amount of additional contributions to the Prior Plan. Thereafter, all distributions are deemed to be attributable to regular contributions.

### 3.3 Employer Contributions

Each Year the Employer will make an Employer Contribution to the Plan for allocation to the Employer Contribution Account of each Participant who has made a deferral election described in Subsection 3.1. The amount of the Employer Contribution for each such Participant is equal to 50% of the Participant's Employee Contribution for the Year which is not in excess of 6% of his or her Earnings for that Year. In no event will any Employer Contribution under this subsection be made on behalf of a Participant while that Participant's deferrals are suspended pursuant to Subsection 3.2. In addition, should the plan be top-heavy, the Employer will make a minimum top-heavy contribution. See Appendix C.

### 3.4 Payment of Contributions

(a) The Employer contributes Employee Contributions to the Trust Fund no later than the earliest date by which the deferral can be segregated from the Employer's general assets, but in no event more than 90 days from the date on which the Participant's deferred Earnings would have been payable to him or her had the Participant not made a deferral election.

(b) The Employer makes all contributions other than Employee Contributions to the Trust Fund no later than the last day (as extended) for the filing of the Employer's federal income tax return.

(c) The Committee will arrange to have all contributions allocated to Participant Accounts as provided in Section 4.

### 3.5 Limitation on Contributions

Deferrals under Section 3.1 and Employer Contributions under Section 3.3 are limited as provided under the nondiscrimination rules of Sections 401(k) and 401(m) of the Internal Revenue Code. See Appendix A.

## Section 4. Accounts

### 4.1 Participant Accounts

The Committee has established Participant Accounts for each Participant or Former Participant. It has established an Employee Contribution Account and Employer Contribution Account for each Participant or Former Participant who has made a deferral of Earnings. It has established a Prior Plan Account for each Participant or Former Participant in respect to whom a transfer was made to this Plan from the Prior Plan. It has established an Employer Stock Account for each Participant or Former Participant who has made an election to invest in Employer Stock and for each Participant or Former Participant in respect to whom a transfer was made to this Plan from the PAYSOP. The Committee will establish similar accounts for Beneficiaries and Alternate Payees with a segregated interest in the Plan.

### 4.2 Investment of Contributions

(a) The Committee will establish at least three



investment Funds which provide Participants with a broad range of investment alternatives as described in Department of Labor Regulations 2550.404c-1(3). The Committee may establish additional Funds in its discretion.

(b) Employee Contribution Accounts and Prior Plan Accounts may be invested in the Funds or may be divided among those Funds, as elected by the Participant, Former Participant, Beneficiary or Alternate Payee in accordance with rules adopted by the Committee. The election must be delivered to the Employer in writing. The Employer is the fiduciary designated to receive investment instructions as described in Department of Labor Regulations 2550.404c-1(b)(2)(A). If an individual has an Employee Contribution Account and a Prior Plan Account, a single election governs investment of both accounts. Under no circumstances may an Employee Contribution Account or a Prior Plan Account be invested in Employer Stock.

(c) Employer Contributions Accounts may be invested entirely in Employer Stock or diversified among the Funds as provided in Paragraph (b) of this Subsection 4.2.

(d) The Employer Stock Account may be invested only in Employer Stock.

(e) The Plan permits an individual to direct that future contributions be invested in and existing Participant Accounts be transferred to or among investment Funds and, in the case of Paragraph (c), the Employer Stock Account, provided, however, that under no circumstances may an Employee Contribution Account or a Prior Plan Account be invested in the Employer Stock Account. The direction described in the preceding sentence must be in writing, delivered to the Employer and may be made in a manner prescribed by the Committee, but in any event, the Participant, Former Participant or Beneficiary will be able to change investments at least once in any three-month period. The written election must be for a specific percentage of the account balance or a flat dollar amount but may not be less than \$1,000, unless the entire balance in the appropriate account is less than \$1,000.

#### 4.3 Allocation to Accounts

(a) See Subsections 3.1 and 3.3 concerning allocation of contributions to Employee Contribution Accounts and Employer Contribution Accounts.

(b) As of the last day of the Year and at such additional times as the Committee determines, the Participant Accounts will be adjusted and valued to reflect gains or losses of the investments of the funds in which invested. The gains and losses of the investment Funds for the Year are allocated based on the relative Participant Account values of each of the Participant Accounts invested in that fund on the first day of that Year, provided that the Committee may, in its discretion, establish equitable rules to reflect contributions or withdrawals from Participant Accounts during the year. The gains and losses in Employer Stock are allocated to the Employer Stock Account holding that stock.

#### 4.4 Section 415 Limitation

(a) The Plan Year is the limitation year. During any limitation year, no amount will be allocated to Participants' Accounts in excess of the limitations established by Section 415 of the Internal Revenue Code and Treasury Regulations issued under that section. That section and those regulations are incorporated in this Plan by reference, provided that in applying the limitations of Section 415(e), if the Plan is top-heavy as defined in Appendix C, then Paragraphs (2)(B) and (3)(B) of Section 415(e) will be applied by substituting "1.0" for "1.25."

(b) In the case that the limitations in the preceding paragraph are exceeded in respect to a Participant, the Plan will return to the Participant his or her deferrals described in Subsection 3.1. Should that distribution fail to bring the allocations within the limitations contained in the previous paragraph, allocations to Participants' Accounts will be reduced to comply with this section. The reduction of allocations is held in an unallocated suspense account to be allocated and reallocated to the Accounts of all Participants in succeeding Plan Years in accordance with, and subject to, the limitations of the Plan and the provisions of applicable Treasury Regulations. No profits or losses will be allocated to the suspense account. Until all amounts in the suspense account can be allocated, the Employer will make no contributions to the Plan and amounts in the suspense account will be used to reduce Employer contributions and will not be distributed to Participants. Reduction in allocations under this Plan and in allocations or benefit accruals under any other plan maintained by any Employer in which the Participant participates will be made in the following order:

- (i) Reduction in allocation of Employer Contributions;
- (ii) Reduction in benefit accruals under the California Water Service Pension Plan;

(iii) Reduction in allocations or benefits under any other plan of an Employer of which the Participant is a member.

#### 4.5 Statement of Accounts

Each Participant, Former Participant, Beneficiary or Alternate Payee who has an account in the Plan will receive a statement showing the status of his or her Participant Accounts as required by ERISA.

#### 4.6 Vesting

All Participant Accounts are at all times 100% vested.

### Section 5. Applying for Benefits

#### 5.1 Application for Benefits

An application for Plan benefits must be in writing. The application must be filed at the time and in the manner specified by the Committee. Where the application is made under Subsections 5.4 or 5.5 or 5.6 and requests withdrawal of less than the balance to the credit of the Participant or Former Participant in the Plan, the application must specify the Fund or Funds or Employer Stock Account from which the withdrawal is to be made. No more than one withdrawal under Subsections 5.4, 5.5 and/or 5.6 may be made in any 12-month period, except that a Participant who is required to make a withdrawal under Subsection 5.4 as a condition to making a withdrawal under Subsection 5.5 may make both such withdrawals simultaneously.

#### 5.2 Termination of Employment

A living Participant who terminates employment for any reason may apply for benefits under this Plan. Benefits on termination of employment will be in the form of a single sum of cash, except that if the Participant has whole shares of Employer Stock in his or her Employer Stock Account, those whole shares will be distributed in kind.

#### 5.3 Beneficiaries and Alternate Payees

A Beneficiary, Prior Participant or Alternate Payee may withdraw all, but not less than all, of his or her interest in the Plan at any time. Distribution will be in the form of a single sum of cash, except that if the Beneficiary, Prior Participant or Alternate Payee has whole shares of Employer Stock in his or her Employer Stock Account, those whole shares will be distributed in kind.

#### 5.4 Prior Plan Account

A Participant with a Prior Plan Account may at any time apply to withdraw from that account an amount not in excess of the aggregate total contributions made on his or her behalf to the Prior Plan less subsequent withdrawals. A Former Participant with a Prior Plan Account may not withdraw from that account, except as provided in Subsection 5.3.

#### 5.5 Hardship Withdrawals

A Participant may make a hardship withdrawal as provided in Appendix B. A Former Participant, Beneficiary or Alternate Payee may not make a hardship withdrawal.

#### 5.6 Disability Withdrawals

A Participant who is suffering from a Disability may make a withdrawal from his or her Participant Accounts.

#### 5.7 Excess Deferrals

If, for any taxable year of a Participant, the Participant defers an amount which is included in income because it is in excess of the limitation on exclusion for elective deferrals (as provided in Section 402(g) of the Internal Revenue Code), then the Participant may deliver to the Committee, not later than March 1 following the close of his or her taxable year, a written election to allocate for distribution all or a portion of that amount. The Committee may, at its discretion, cause to be distributed to the Participant the amount subject to the election, together with the earnings thereon.

### Section 6. Benefits for Which No Application is Necessary

#### 6.1 Form of Distribution

All distributions made under this Section 6 will be in the form of a single sum of cash, except that if the Participant or Former Participant has whole shares of Employer Stock in his or her Employer Stock Account, those whole shares will be distributed in kind.

#### 6.2 Cash Out of Small Amounts

Where a Participant terminates employment and the balance in his or her Participant Accounts is not and never has exceeded \$3,500, the Plan will make a distribution to him or her as soon as possible after termination of employment of the balance in his Participant Accounts. Notwithstanding the foregoing, if the balance in the Participant Accounts of a Participant is or at any time has been in excess of \$3,500, no distribution will be made to him or her before Normal Retirement Date, unless the Participant

requests distribution at an earlier time in writing.

#### 6.3 Mandatory Distribution at Normal Retirement Date

If, upon reaching Normal Retirement Date, a Former Participant, Beneficiary or Alternate Payee has a balance in his or her Participant Accounts, the Plan will, as soon as possible, distribute that balance to him or her.

#### 6.4 Mandatory Distribution at Age 70-1/2

Notwithstanding any other provision of the Plan, if, upon reaching age 70-1/2, a Participant has a balance in his or her Participant Accounts, the Plan will, no later than April 1 of the calendar year following the calendar year in which the Participant reaches age 70-1/2, distribute to the Participant the balance to the credit in his or her Participant Accounts. If further contributions are thereafter made on the Participant's behalf, the Plan will annually distribute to the Participant the contributions and earnings thereon.

#### 6.5 Death Benefits

(a) If a Participant, Former Participant or Alternate Payee dies leaving a balance in his or her Participant Accounts, his or her Beneficiary will receive benefits upon written application filed with the Committee. The amount of such benefits is the unpaid balance of Participant Accounts. If no application for benefits is filed, the Committee will cause benefits to be paid on or before the last day of the Plan Year in which occurs the fifth anniversary of the death of the Participant, Former Participant or Alternate Payee. Notwithstanding the foregoing, if no application for benefits is filed and the Beneficiary is the former spouse of the Participant or Former Participant, the Committee will cause benefits to be paid on the date specified in the preceding sentence or the date the Participant or Former Participant would have attained age 70-1/2, whichever is later.

(b) If a Beneficiary dies leaving a balance in his or her Accounts, his or her estate will receive benefits as of the date of death. The amount of such benefits is the unpaid balance of Participant Accounts.

(c) The Beneficiary of a Participant or Former Participant is the spouse of the Participant or Former Participant, provided that the Participant or Former Participant may designate a Beneficiary other than his or her spouse in a writing filed with the Committee. No designation or change in designation is effective until received by the Committee, but, once it has been so received, it takes effect as of the date the notice was signed, subject to any payment made or other action taken before receipt. To be valid, the designation must be consented to by the spouse unless the Participant or Former Participant establishes to the satisfaction of the Committee that: (i) he or she has no spouse; (ii) his or her spouse cannot be located; or (iii) other circumstances exist under which no consent is required under applicable Treasury or Department of Labor Regulations. The required spousal consent must be in writing, must acknowledge its effect and be executed in the presence of a notary public who is not employed by the Employer. Any designation will be valid only with respect to the spouse who signs it. Any designation may be changed in writing and the revised designation requires spousal consent unless, in an earlier consent, the spouse relinquished the right to require consent to subsequent designations. An election may be revoked in writing without any spousal consent.

(d) The Beneficiary of an Alternate Payee is the person designated in a writing file , d by the Alternate Payee with the Committee. If that person does not survive the Alternate Payee or no person has been designated, the Beneficiary is the Alternate Payee's estate.

#### 6.6 Amounts Which Violate Special Anti-discrimination Rules

See Paragraph (a) of Section A-1 of Appendix A.

#### 6.7 Excess Section 415 Allocations

See Paragraph (b) of Section 4.4.

### Section 7. Statutory Distribution Rules

#### 7.1 Internal Revenue Code Limitation on Distributions.

(a) All distributions under this Plan will be made in accordance with proposed Income Tax Regulations 1.401(a)(9)-1 and following sections (including the minimum distribution incidental benefit requirement of 1.401(a)(9)-2), and the final version of those regulations when they are issued.

(b) See Subsection 6.3 concerning mandatory distributions at Normal Retirement Date for Former Participants, Alternate Payees and Beneficiaries and Subsection 6.4 concerning mandatory distributions at April 1st of the calendar year following the calendar year in which a Participant reaches age 70-1/2.

(c) All distributions under the Plan are made in a single sum. Therefore if a Participant dies after distribution of his or her interest in the Plan has begun, no distribution will be made to the Participant's Beneficiary.

(d) If a Participant dies before distribution of his or her interest in the Plan begins, distributions to the Participant's Beneficiary will be made in a single payment and will be completed by December 31 of the calendar year containing the fifth anniversary of the Participant's death.

#### 7.2 ERISA Distribution Limitations.

Unless a Participant or Former Participant otherwise elects, benefits from the Plan will begin no later than the 60th day after the latest of the close of the Plan Year in which occurs:

- i) the date on which he or she attains age 65, which is Normal Retirement Date,
- ii) the 10th anniversary of the year in which he or she commenced participation in the Plan, or
- iii) (iii) the Participant's termination of service with any Employer.

### Section 8. Plan Assets

#### 8.1 Trust Fund

California Water Service Company has established the Trust Fund, which is held in two separate trusts, as described in Subsection 8.2. Contributions under the Plan and all other assets of the Plan are held in the Trust Fund. In addition, up to and including December 31, 1993, the assets held under this Plan may be commingled for investment purposes only (and held in one trust fund and/or insurance company contract or contracts) with the assets of the Union Plan. Under these circumstances, separate records of Participant Accounts under each of the plans will be maintained by the respective administrative committees of each plan. Effective January 1, 1994, the Union Plan is merged into this Plan.

#### 8.2 Separate Trusts

The assets of the Plan are held in two separate trusts which collectively are called the Trust Fund. Employer Stock is held in a trust of which Bank of America, N.T.&S.A. is the trustee. The trust agreement of that trust is a part of the Plan and is incorporated herein by reference. All other assets of the Plan are held in the trust described in Subsection 8.3.

#### 8.3 Trust Provisions

(a) This Subsection 8.3. contains the provisions of the Plan concerning the trust which holds assets of the Plan other than Employer Stock and constitutes the trust agreement for that trust. The initial trustees of that trust are Harold Ulrich, Gerald Feeney and Harold Saunders and they will serve until they resign or are removed. The Board of Directors may remove and appoint trustees in its discretion. Any trustee may resign at any time upon at least 30 days' written notice to the Board of Directors.

(b) The trustees accept and will hold and administer the assets of the Plan held in trust that are now or will in the future be delivered to them under the Plan.

(c) The trustees invest all Plan assets not subject to control by the trust holding Employer Stock or by an investment manager.

(d) The trustees value the Plan assets which they hold at fair market value as of the last day of each Plan Year and at such other times as determined by the Committee. The trustees may retain one or more experts to value assets which they hold and which are not publicly traded and the valuation of the trustees acting on the advice of an expert is binding on all parties having an interest in the trust.

(e) The trustees, have no responsibility to determine whether Plan assets are sufficient to meet the liabilities under the Plan, and, absent a breach of their fiduciary duty, are not liable for payments or Plan liabilities in excess of trust assets.

(f) Payments from the trust are made by the trustees for any purpose authorized under the Plan on receipt of directions from the Committee. Payments by the trustees are delivered or mailed to the address supplied by the Committee and the trustees' obligation to make those payments is satisfied on delivery or mailing. The trustees have no obligation to determine the identity of any person entitled to benefits or his or her mailing address.

(g) If the trustees are employees of the Employer, they are entitled to no compensation for their services. A trustee or trustees not employed by the Employer is entitled to reasonable compensation for services in accordance with the written agreement between the trustee and the Employer. Any trustee, whether or not employed by the Employer, is entitled to reimbursement of reasonable expenses incurred in the administration of the trust. A trustee's compensation and expenses are paid by the Employer and if the Employer fails to make payment are paid by the trust.

(h) Except to the extent that these powers are given to an investment manager, the trustees are authorized in

their discretion as to Plan assets held in trust:

(A) To invest and reinvest Plan assets, together with earnings, in common stock (except Employer Stock), preferred stock, convertible preferred stock, shares of regulated investment companies (mutual funds), bonds, debentures, convertible debentures and bonds, mortgages, notes, time certificates of deposit, commercial paper and other evidences of indebtedness (including those issued by the trustee or its affiliates, if it is a bank), other securities, annuity contracts, options to buy or sell securities or other assets and property (personal, real, or mixed, and tangible or intangible);

(B) To deposit or invest all or any part of the assets of the Plan in savings accounts or certificates of deposit or other deposits which bear a reasonable interest rate in a bank or savings and loan association, including a trustee or its affiliates if it is a bank or savings or loan association, if such financial institution is supervised by the United States or a state;

(C) To hold, manage, improve, repair and control all property, real or personal, forming part of the Plan assets; to sell, convey, transfer, exchange, partition, lease for any term, even extending beyond the duration of the trust, and otherwise dispose of the same from time to time in such manner, for such consideration, and upon such terms and conditions as the trustees determine;

(D) To have, respecting securities, all the rights, powers and privileges of an owner, including the power to give proxies, pay assessments and other sums deemed by the trustees necessary for the protection of the trust; to vote any corporate stock either in person or by proxy, with or without power of substitution, for any purpose; to participate in voting trusts, pooling agreements, foreclosures, reorganizations, consolidations, mergers and liquidations, and in connection therewith to deposit securities with and transfer title to any protective or other committee under such terms as the trustees may deem advisable; to exercise or sell stock subscriptions or conversion rights;

(E) To hold in cash, without liability for interest, that portion of the trust which is reasonable under the circumstances, pending investments, or payment of expenses, or the distribution of benefits;

(F) To take those actions as may be necessary or desirable to protect the trust from loss due to the default on mortgages or deeds of trust held in the trust, including the appointment of agents or trustees in such jurisdictions as may seem desirable, to transfer property to agents or trustees, to grant to such agents such powers as are necessary or desirable to protect the trust or its assets, to direct such agent or trustee, or to delegate such power to direct, and to remove such agent or trustee;

(G) To employ, with the prior written consent of the Employer, such agents including custodians and counsel as may be necessary in the trustees' discretion and to pay them reasonable compensation; to settle, compromise or abandon all claims and demands in favor of or against the trust assets;

(H) To invest in any common or collective trust fund or pooled investment fund maintained by trustee, if it is a bank, in which case the instrument creating the fund is incorporated in this document by reference;

(I) To cause title to property of the trust to be issued, held or registered in the individual names of the trustees, in the name of its nominee(s) or agents in a securities depository, in federal reserve book-entry or bearer form or in such form that title will pass by delivery;

(J) To exercise all of the further rights, powers, options and privileges granted, provided for, or-vested in trustees generally under the laws of the State of California, so that the powers conferred upon the trustees are not in limitation of any authority conferred by law, but are in addition thereto; and

(K) To do all other acts necessary or desirable for the proper administration of the trust assets, as though the trustees were the absolute owners of those assets.

(a) Upon resignation or removal, any trustee has the right to a settlement of his, her or its account, which settlement may be made either by a judicial settlement in an action instituted by the trustee or by the Committee, or by an agreement of settlement between the trustee and the Committee.

#### 8.4 Prohibited Investments.

(a) No investment will be made in any security issued by the Employer, including Employer Stock (which is held in a separate trust). No investment will be made in any real property (or related personal property) which is leased to the Employer.

(b) No investment will be made in any work

of art, any rug or antique, any metal or gem, any stamp or coin, any alcoholic beverage or any other tangible personal property designated by the Internal Revenue Service as "collectible" within the meaning of Section 408(m) of the Internal Revenue Code.

#### 8.5 Indicia of Ownership.

The indicia of ownership of all Plan assets will be maintained within the jurisdiction of the District Courts of the United States, except to the extent permitted by Department of Labor Regulations.

#### 8.6 Spendthrift Provision.

Benefits under the Plan may not be assigned or alienated. No portion of the Plan's assets may be subject to levy or execution, except a levy by the Internal Revenue Service. The provisions of this Subsection 8.6 apply to a domestic relations order, but not to a Qualified Domestic Relations Order.

#### 8.7 Return of Contributions

(a) Except as provided in the Paragraphs

(b) and (c) of this Subsection 8.7, the assets of the Plan will never revert to the Employer, and are held for the exclusive purposes of providing benefits to Participants, Former Participants and their Beneficiaries, and for defraying the reasonable expenses of administering the Plan.

(b) In the case of a contribution which is made by virtue of a mistake of fact, the contribution may be returned to the Employer within one year after payment of the contribution.

(c) Contributions to the Plan are conditioned upon their deductibility under Section 404 of the Internal Revenue Code. To the extent the deduction for contributions is disallowed, contributions must be returned to the Employer within one year after the disallowance of the deduction.

(d) The amount which is returned to the Employer under Paragraph (b) or (c) is the excess of (i) the amount contributed over (ii) the amount that would have been contributed had there not occurred a mistake of fact or a mistake in determining the deduction. Earnings attributable to the excess contribution may not be returned to the Employer, but losses attributable thereto must reduce the amount to be so returned.

(e) Notwithstanding the foregoing, in the case of any amounts to be returned under Paragraph (b) or (c), refunded contributions from the Participant's Employee Contribution Account and earnings thereon will be paid by the Employer to the Participant, less appropriate withholding for Federal and State taxes.

#### 8.8 Rollovers

(a) Effective January 1, 1993, a Participant, Former Participant, Alternate Payee or Beneficiary may direct the Committee in writing to make a direct transfer of any distribution eligible for tax-free rollover under Section 402(c) of the Internal Revenue Code to (i) a defined contribution plan qualified under Section 401(a) of the Internal Revenue Code which will accept the rollover, (ii) an individual retirement account described in Section 408(a) of the Internal Revenue Code or (iii) an individual retirement annuity described in Section 408(b) of the Internal Revenue Code. The Committee will make a direct transfer described in clause (i) of the preceding sentence if the Participant, Former Participant, Alternate Payee or Beneficiary provides evidence satisfactory to the Committee that the plan is qualified under Section 401(a) and that it is willing to accept the transfer. The Committee will make a direct transfer described in clause (ii) or (iii) of the preceding sentence if the Participant, Former Participant, Alternate Payee or Beneficiary provides evidence satisfactory to the Committee that the individual retirement arrangement is an individual retirement account as described in Section 408(a) of the Internal Revenue Code or is an individual retirement annuity as described in Section 408(b) of the Internal Revenue Code, whichever is applicable.

(b) The Committee may, in its discretion, cause the Trust Fund to accept rollover contributions (as described in Section 402(c) of the Internal Revenue Code) to the Plan from a Participant or in a direct rollover in respect to the Participant from (i) another plan qualified under Section 401(a) of the Internal Revenue Code, or (ii) from a conduit individual retirement account described in Section 408(a) of the Internal Revenue Code. The Committee may require such documentation as, in its discretion, it deems appropriate to establish that the rollover is described in Section 402(c) of the Internal Revenue Code. No rollover will be accepted from or in respect to a Former Participant, Beneficiary or Alternate Payee.

#### 8.9 Transfers on Change of Employee Classification

This Subsection applies up to and including December 31,

1993. The Participant Account of a person whose employee classification changes from that of an Employee eligible to participate in the Plan to that of an employee whose terms and conditions of employment with the Employer become governed by or set forth in a collective bargaining agreement, will be transferred to the trust of the Union Plan by the trustees of this Plan as soon as administratively feasible. The Trust Fund is authorized to accept the transfer of the account balance of a person who becomes an Employee participating hereunder as a result of an employee classification change from the trustees of the Union Plan.

#### Section 9. Plan Administration

##### 9.1 Committee Administers Plan

(a) The Plan is administered -by a committee which is the Plan's named fiduciary, as provided in ERISA. The name of the committee up to and including December 31, 1993 is the Salaried Savings Plan Committee. The Salaried Savings Plan Committee is also referred to, up to and including December 31, 1993 as the "Committee." The Union Plan is administered, up to and including December 31, 1993 by the Union Savings Plan Committee. Effective January 1, 1994, the Salaried Savings Plan Committee and the Union Savings Plan Committee constitute the Savings Plan Committee which administers this Plan and is a named fiduciary. Effective January 1, 1994, the Savings Plan Committee is also referred to as the "Committee."

(b) Up to and including December 31, 1993, the Salaried Savings Plan Committee consists of three members appointed by the Board of Directors. The Board of Directors may remove those members at its discretion. Effective January 1, 1994, the Savings Plan Committee consists of the Savings Plan Salaried Sub-committee of three members appointed by the Board of Directors and of the Savings Plan Union Sub-committee consisting of two members appointed by the Board of Directors and of two members appointed by the Utility Workers of America. The Board of Directors may remove those members of the Committee appointed by it at its discretion. The Utility Workers of America may remove those members of the Committee appointed by it at its discretion.

(c) This paragraph is effective January 1, 1994. The Savings Plan Union Sub-committee decides all matters involving Participant or Former Participant whose terms and conditions of employment are or were governed by or set forth in a collective bargaining agreement and his or her Beneficiary or Alternate Payee. The Savings Plan Salaried Sub-committee decides all matters involving a Participant or Former Participant whose terms and conditions of employment are not or were not governed by or set forth in a collective bargaining agreement and his or her Beneficiary or Alternate Payee. If a Participant or Former Participant was, at various times, both a salaried Employee and an Employee who was a member of a Union, his or her status at the time closest to the time of Committee action governs. The Committee as a whole, consisting of both sub-committees, decides all matters not involving a specific individual, for example the establishment of Plan Rules or investment Funds.

(d) The Committee, and each sub-committee, acts by a majority of its members, unless it has less than three members, in which case it acts unanimously. The Committee and each sub-committee, may act by meeting, unanimous written consent, phone meeting or unanimous consent by facsimile or wire. Each member of the Committee or a sub-committee has one vote.

(e) No member of the Committee may vote on any question affecting his or her specific individual benefit under the Plan. If, for this or any other reason, there are no members eligible to act, the functions of the Committee may be exercised by the Board of Directors.

(f) The expenses of the members of the Committee for attending Committee meetings are borne by the Employer. The Committee members receive no compensation for attending meetings or other work performed as Committee members.

##### 9.2 Duties and Powers of the Committee

The Committee has full power to administer the Plan and to construe and apply all of its provisions. The Plan affords the Committee complete discretion in its actions. In amplification of its powers and duties, but not by way of limitation, the Committee:

(a) Is responsible for the compilation and maintenance of all records necessary for the Plan except those records maintained by the trustees of the Trust Fund or Employer;

(b) Authorizes the payment of all benefits as they become payable under the Plan, and directs the trustees of the Trust Fund to provide those benefits;

(c) Makes rules and regulations for the administration of the Plan not inconsistent with the Plan;

(d) Engages such legal, actuarial, accounting and other professional services as it may deem proper, unless those services have been provided for at the request of the Employer;

(e) Appoints in its discretion, an investment manager or managers (as that term is defined in Section 3(38) of ERISA), in accordance with Section 402(c)(3) of ERISA to manage, acquire or dispose of the assets of the Plan;

(f) Does and performs such other matters as may be provided for in other parts of this Plan.

### 9.3 Reliance on Experts

The members of the Committee, the Employer and its officers and directors are entitled to rely conclusively upon all tables, valuations, certificates and reports furnished by any actuary or accountant employed by the Employer or Committee and upon all opinions of counsel or other experts and they and each of them are to be fully protected as to any action taken by them in good faith in reliance upon any such tables, valuations, certificates, reports or opinions.

### 9.4 Plan Expenses

The Employer will pay the reasonable costs of administering the Plan, including fees, if any, of the trustees or any investment manager appointed by the Committee.

### 9.5 Procedure for Domestic Relations Orders.

(a) Any Participant, Former Participant, Beneficiary, Alternate Payee or person claiming to be an Alternate Payee may file a writing with the Committee designating counsel to act on his or her behalf. The Committee will deal directly with designated counsel and provide the designated counsel with copies of all writings furnished to the Participant, Former Participant, Beneficiary, Alternate Payee or person claiming to be an Alternate Payee.

(b) The Plan encourages parties to domestic relations cases and their attorneys to resolve issues involving rights under the Plan without recourse to litigation. To the extent that the parties to a domestic relations case and any Alternate Payee under a previous Qualified Domestic Relations Order agree to a proposed order and the Committee or its counsel determines that the order, when entered, will be a Qualified Domestic Relations Order, then the procedures described in this Subsection 9.5 will not be used. If the parties do not agree or the Committee or its counsel does not determine that the order, when entered, will be a Qualified Domestic Relations Order, then the remaining procedures of this Subsection 9.5 will apply.

(c) Upon receipt of any domestic relations order by the trustees of the Trust Fund or agent for service of process, the recipient will promptly notify the Committee in writing. Upon receipt of any domestic relations order by the Committee, or receipt of written notification pursuant to the preceding sentence, the Committee will promptly give written notification to the Participant in respect to whom the domestic relations order is received and any Alternate Payee named in any earlier Qualified Domestic Relations Order received by the Committee. The notification will describe the procedures of this Subsection 9.5 for determining the qualified status of domestic relations orders and of the right of an Alternate Payee to designate a representative for receipt of copies of notices that are sent to the Alternate Payee with respect to domestic relations orders. All recipients of the written notification and their counsel are, within 14 days of receipt of the notice from the Committee, entitled to file written comments with the Committee concerning the qualified status of the domestic relations order.

(d) The Committee will, within 60 days of receipt of the domestic relations order, either (i) make a written determination as to whether the domestic relations order in question is a Qualified Domestic Relations order, or (ii) submit the issue to a court of competent jurisdiction for its decision. The Committee will give prompt written notification to the Participant in respect to whom the domestic relations order is received and to any Alternate Payee named in any earlier Qualified Domestic Relations Order received by the Committee of its determination as to whether the domestic relations order in question is a Qualified Domestic Relations Order or of the name and address of the court to which the issue has been submitted for decision.

(e) During any period in which the issue of whether a domestic relations order is a Qualified Domestic Relations order is being determined (by the Committee, by a court of competent jurisdiction or otherwise), the Committee will



separately account for the amounts which would have been payable to the Alternate Payee during such period if the order had been determined to be a Qualified Domestic Relations Order.

(f) If within 18 months, the order (or modification thereof) is determined to be a Qualified Domestic Relations Order, the Committee will pay or credit the amounts separately accounted for to the person or persons entitled thereto. If within 18 months it is determined that the order is not a Qualified Domestic Relations Order, or the issue as to whether such order is a Qualified Domestic Relations Order is not resolved, then the Committee will pay or credit the amounts separately accounted for (and any interest or earnings thereon) to the person or persons who would have been entitled to such amounts if there had been no order or, if the Committee has notice that either party to the domestic relations proceedings is attempting to rectify the order, it may delay payment of benefits until the end of such 18-month period. Any determination that an order is a Qualified Domestic Relations Order which is made after the close of the 18-month period, will be applied prospectively only. As used in this Subsection 9.5, the 18-month period begins on the date on which the first payment would be required to be made under the domestic relations order.

#### 9.6 Claims Procedure

(a) Claims for benefits under the Plan must be submitted in writing to the Committee. The Committee will act on the claim within 90 days of receipt, unless special circumstances require an extension of time, in which case the Committee will notify the claimant in writing that those circumstances exist and act on the claim within 180 days of receipt. If a claim for benefits is denied, in whole or in part, the Committee will furnish the claimant with a written notice of denial which (i) specifies the reasons for the denial, (ii) refers to the pertinent provisions of the Plan on which the denial is based, (iii) describes any additional material or information necessary for the perfection of the claim and explains why such material or information is necessary and (iv) explains the claim review procedures of Paragraph (b) of this Subsection 9-6.

(b) The claimant may, within 60 days of receipt of the notice of denial described in the preceding paragraph, make a written request for review of that denial. The written request must be in writing filed with the Committee. On receipt of a written request for review, the Committee will permit the claimant to review any documents in its possession or in the possession of the Employer which are reasonably pertinent to the claim. The claimant may submit to the Committee written comments on the denial of his or her claim for benefits. The Committee will act on the request for review within 60 days of receipt, unless special circumstances require an extension of time, in which case the Committee will notify the claimant in writing that those circumstances exist and act on the request for review within 120 days of receipt. If the request for review is denied, in whole or in part, the Committee will furnish the claimant with a written notice of denial which (i) specifies the reasons for the denial, (ii) refers to the pertinent provisions of the Plan on which the denial is based, (iii) describes any additional material or information necessary for the perfection of the claim and ,explains why such material or information is necessary.

#### 9.7 Service of Process.

Harold C. Ulrich and Christine McFarlane are designated as agents of the Plan for the service of legal process.

### Section 10. Changes to the Plan

#### 10.1 Amendments

The Plan may be amended in writing by any corporate officer of California Water Service Company to comply with the requirements of ERISA and/or the Internal Revenue Code. The Plan may be amended in writing for any other purpose by any two corporate officers of California Water Service Company. No amendment will permit any Plan assets to be used for or diverted to purposes other than for the exclusive benefit of Participants, Former Participants, Beneficiaries and Alternate Payees under the Plan, except as permitted by ERISA and the Internal Revenue Code. No amendment may decrease an accrued benefit, eliminate or reduce an early retirement benefit or a retirement-type subsidy, or eliminate an optional form of benefit,

#### 10.2 Merger, Consolidation or Transfer

In the event of any merger or consolidation with, or transfer of assets or liabilities to, any other plan, each Participant or Former Participant will be entitled to receive a benefit if the Plan were to terminate immediately after the merger, consolidation, or transfer, which is not less than the benefit he or she would have been entitled to receive if the Plan had terminated immediately before the merger, consolidation, or

transfer.

#### 10.3 Termination

The Plan is adopted with the intent of maintaining it permanently. Nevertheless, the Employer reserves the right to terminate the Plan (totally or partially) at any time and to discontinue or reduce contributions. In the event of a complete or partial termination or the permanent discontinuance of contributions, the interest of each affected Participant, Former Participant and Beneficiary remains fully vested. Plan termination, reduction or discontinuance of contributions is accomplished by the preparation of an amendment in writing. The amendment is executed as described in Section 10.1 and the signed amendment is filed with the Plan Records. Parties are notified in writing as required by ERISA.

#### Section 11. General Provisions

##### 11.1 Liability of Employer and Employment.

Neither the creation or maintenance of this Plan nor any amendment to it may be construed as giving any right to any Employee, Participant, Former Participant, Beneficiary or Alternate Payee against the Employer, its officers or employees, or against the trustees of the Trust Fund except as provided herein and by ERISA, and all liabilities under this Plan must be satisfied out of the Trust Fund. Participation in the Plan does not give any Participant any right to be retained in the employ of the Employer.

##### 11.2 Employer Records.

The records of the Employer with respect to age, service, employment history, compensation, absence, illnesses, and all other relevant matters are conclusive for purposes of the administration of this Plan.

#### SIGNATURE PAGE

IN WITNESS WHEREOF, the Employer has caused these presents to be duly executed on the 23rd day of May 1994.  
CALIFORNIA WATER SERVICE COMPANY

/s/ Harold C. Ulrich

By Harold C. Ulrich

Its V.P., C.F.O., Treasurer

#### Appendix A

to

California Water Service Company  
Savings Plan and Trust Agreement  
(1994 Revision)

#### Special Anti-discrimination Rules

for

Cash and Deferred Elections and Matching Contributions

#### Section A-1 Adjustments to Meet Limits on Cash or Deferred Elections

(a) The provisions of this section apply notwithstanding any contrary provision of this Plan. If, for any Plan Year, the aggregate amount of Earnings which is paid over to the Trust Fund pursuant to the cash or deferred election of a Participant exceeds either Limit A or Limit B of Section A-2 below, then within 2-1/2 months after the last day of that Plan Year the excess contributions and any income attributable thereto will be distributed as provided in the following paragraphs. In addition, Employer Contributions made in respect to excess contributions which are returned are forfeited and will be used to reduce further Employer Contributions to the Plan.

(b) The cash or deferred election of the Highly Compensated Participants will be reduced in order of their percentage elections (or dollar amount elections, if applicable) beginning with those with the highest elections. For example, if the applicable limit is 7.5% of compensation and Highly-Compensated Participants A, B and C have elected to defer 10%, 8% and 6% respectively, the reduction would be as follows: A's election is first reduced to 8%, the same percentage election as B who is the Highly-Compensated Participant next in order. Since the applicable limit is still exceeded, A's election is further reduced to 7.5%, as is the election of B. At this point, the applicable limit is met.

(c) An amount equal to the excess of the Earnings deferred under the initial election over the Earnings deferred under the reduced election, together with the income earned by the Plan thereon, will be returned to each Highly-Compensated Participant whose election is reduced. In the example in the preceding paragraph, A's election is reduced 2.5% (from 10% to 7.5%) and B's election is reduced .5% (from 8% to 7.50-0). Therefore, an amount equal to 2.5% of A's Earnings and .5% of B's Earnings is distributed, together with the income on the amounts distributed. The income on excess contributions for the Plan Year is that portion of the income of the Participant's Employee Contribution Account for the Plan Year in question multiplied by a fraction the numerator of which is the excess Earnings deferred and the denominator of which is the total balance in the Participant's Employee Contribution Account. The income on excess contributions for the period between the end of the Plan Year in which an excess contribution was made and the date of return is equal to 10% of the income for that Plan Year (as calculated under the preceding sentence) multiplied by the number of calendar months that have elapsed since the end of the Plan Year. For purposes of determining the number of calendar months that have elapsed, a distribution occurring on or before the 15th day of the month will be treated as having been made on the last day of the preceding month and a distribution occurring after such 15th day will be treated as having been made on the first day of the next month.

(d) In determining the excess deferrals of a highly Highly-Compensated Participant who is either a 5% owner or one of the ten most Highly-Compensated Participants and is thereby subject to the family aggregation rules of Section 414(q)(6) of the Internal Revenue Code,

(i) if the Highly-Compensated Participant's ADP is determined by combining the contributions and compensation of all family members, then the ADP is reduced to the extent required to (I) enable the Plan to satisfy Limit A or B, or (II) cause such Highly-Compensated Participant's ADP to equal the ratio of the Highly-Compensated Participant with the next highest ADP. This process is repeated until the Plan satisfies Limit A or B; or

(ii) if the ADP determined by combining the contributions and compensation of all eligible family members who are highly compensated without regard to family aggregation, the ADP is reduced in accordance with clause (i), but not below the ADP of eligible non-highly compensated family members; excess deferrals are determined by taking into account the contributions of the eligible family members who are highly compensated without regard to family aggregation and are allocated among such family members in proportion to their deferrals; if further reduction of the ADP is required, excess deferrals resulting from this reduction are determined by taking into account the deferrals of all eligible family members and are allocated among such family members in proportion to their deferrals; and

(iii) The amount of excess deferrals to be distributed will be reduced by excess deferrals previously distributed for the Participant's taxable year ending in the same Plan Year and excess deferrals to be distributed for the Plan Year beginning in the Participant's taxable year; and

(iv) For the purposes of the foregoing, a family member is the spouse and lineal ascendants and descendants (and spouses of such ascendants and descendants) of any Employee or former Employee, taking legal adoptions into account.

Section A-2 Limits on Cash or Deferred Elections

Section 401(k)(3) of the Internal Revenue Code and the regulations thereunder are incorporated in this Plan by reference. The limitation contained in Section 401(k)(3)(A)(ii)(I) is referred to in this Plan as Limit A and that contained in Section 401(k)(3)(A)(ii)(II) is referred to as Limit B. For purposes of calculating Limit A or B, the following rules apply:

(i) The ADP of all eligible Employees will be taken into account.

(ii) An eligible Employee is any Employee who is directly or indirectly eligible to make a cash or deferred election under the Plan and includes an Employee who would be a Participant but for the failure to make such an election, an Employee whose right to make such an election has been suspended because of an election (other than certain one-time elections) not to

participate, because of receipt of a distribution or because his or her compensation is below a stated amount.

(iii) A cash or deferred election under the Plan will be taken into account in calculating the ADP for a Plan Year only if it is allocated to the Participant's Employee Contribution Account as of a date within the Plan Year and only if the allocation is not contingent on participation in the Plan or performance of services after the date of allocation and is actually paid to the Trust Fund no later than 12 months after the end of the Plan Year to which the election relates.

(iv) In the case of an Employee who is eligible to participate in the Plan and who makes no cash or deferred election under the Plan, the contribution ratio that is to be included in the ADP is zero.

(v) All cash or deferred elections which are made under two or more plans that are aggregated for purposes of Sections 401(a)(4) and 410(b) (other than Section 410(b)(2)(A)(ii)) of the Internal Revenue Code are to be treated as made under a single plan and if two or more plans are permissively aggregated for purposes of Section 401(k) of the Internal Revenue Code, the aggregated plans must satisfy Sections 401(a)(4) and 410(b) of the Internal Revenue Code as though they were a single plan.

(vi) In the case of a highly Highly-Compensated Participant who is either a 5% owner or one of the ten most Highly-Compensated Participants and is thereby subject to the family aggregation rules of Section 414(q)(6) of the Internal Revenue Code, the ADP for the family group (which is treated as one Highly-Compensated Participant) is the greater of (a) the ADP determined by combining the contributions and compensation of all eligible family members who are highly compensated without regard to family aggregation or (b) the ADP determined by combining the contributions and compensation of all eligible family members. Except to the extent taken into account in the preceding sentence, the contributions and compensation of all family members are disregarded in determining the ADPs for the groups of Highly-Compensated Participants and those who are not Highly-Compensated Participants.

#### Section A-3 Adjustment to Meet Limits on Employer Matching Contributions

(a) The provisions of this section apply notwithstanding any contrary provision of this Plan. If, for any Plan Year, the aggregate amount of Employer Contributions which is paid over to the Trust Fund for any Participant exceeds either Limit C or Limit D of Section A-4 below, then within 2-1/2 months after the last day of that Plan Year, the excess contributions and any income attributable thereto will be distributed as provided in the following paragraphs.

(b) The adjustment made under this Section A-3 will be made following the adjustments, if any, made under Section A-1. The adjustment of the aggregate amount of Employer matching contributions of the Highly-Compensated Participants will be made in a manner similar to the reduction of cash or deferred elections under Section A-1.

(c) An amount equal to the excess Employer Contributions, together with the earnings thereon, will be returned to each Highly-Compensated Participant in respect of whom an adjustment is made under this Section A-3. The earnings on excess Employer Contributions for the Plan Year is that portion of the income of the Participant's Employer Contribution Account for the Plan Year in question multiplied by a fraction the numerator of which is the excess Employer Contributions and the denominator of which is the total balance in the Participant's Employer Contribution Account. The earnings on excess contributions for the period between the end of the Plan Year in which an excess contribution was made and the date of return is equal to 10% of the income for that Plan Year (as calculated under the preceding sentence) multiplied by the number of calendar months that have elapsed since the end of the Plan Year. For purposes of determining the number of calendar months that have elapsed, a

distribution occurring on or before the 15th day of the month will be treated as having been made on the last day of the preceding month and a distribution occurring after such 15th day will be treated as having been made on the first day of the next month.

(d) In determining excess Employer Contributions of a Highly-Compensated Participant who is either a 5% owner or one of the ten most Highly-Compensated Participants and is thereby subject to the family aggregation rules of Section 414(q)(6) of the Internal Revenue Code,

(i) if the Highly-Compensated Participant's ACP is determined by combining the contributions and compensation of all family members, then the ACP is reduced to the extent required to (I) enable the Plan to satisfy Limit C or D, or (II) cause such Highly-Compensated Participant's ACP to equal the ratio of the Highly-Compensated Participant with the next highest ACP. This process is repeated until the Plan satisfies Limit C or D; or

(ii) if the ACP determined by combining the contributions and compensation of all eligible family members who are highly compensated without regard to family aggregation, the ACP is reduced in accordance with clause (i), but not below the ACP of eligible non highly compensated family members; excess aggregate contributions are determined by taking into account the contributions of the eligible family members who are highly compensated without regard to family aggregation and are allocated among such family members in proportion to their contributions; if further reduction of the ACP is required, excess aggregate contributions resulting from this reduction are determined by taking into account the contributions of all eligible family members and are allocated among such family members in proportion to their contributions; and

(iii) For the purposes of the foregoing, a family member is the spouse and lineal ascendants and descendants (and spouses of such ascendants and descendants) of any Employee or former Employee, taking legal adoptions into account.

#### Section A-4.1 Limits on Employer Matching Contributions

Section 401(m)(2) of the Internal Revenue Code and the regulations thereunder are incorporated in this Plan by reference. The limitation contained in Section 401(m)(2)(A)(i) is referred to in this Plan as Limit C and that contained in Section 401(m)(2)(A)(ii) is referred to as Limit D. For purposes of calculating Limit C or D, the following rules apply:

(i) The ACP of all eligible Employees will be taken into account,

(ii) An eligible Employee is any Employee who is directly or indirectly eligible to receive an Employer Contribution and includes an Employee who would be a Participant or would receive an Employer Contribution but for the failure to make a cash or deferred election, an Employee whose right to make a cash or deferred election has been suspended because of an election (other than certain one-time elections) not to participate because of receipt of a distribution or because his or her compensation is below a stated amount.

(iii) In the case of an Employee who is eligible to participate in the Plan and who makes or receives no Employer Contribution, the contribution ratio that is to be included in the ACP is zero.

(iv) An Employer Contribution is taken into account for a Plan Year only if it is made on account of the Participant's cash or deferred election for the Plan Year, (II) allocated to the Participant's Employer Contribution Account during that Plan Year and (III) paid to the Trust Fund by the end of the 12th month following the close of the Plan Year.

(v) All Employer Contributions that are made under two or more plans that are aggregated for purposes of Sections 401(a)(4) and 410(b) (other than Section 410(b)(2)(A)) of the Internal Revenue Code are to be treated as made under a single plan and if two or more plans are permissively aggregated for purposes of Section 401(m) of the Internal Revenue Code, the aggregated plans must satisfy Sections 401(a)(4) and 410(b) of the Internal Revenue Code as though they were a single plan,

(vi) In the case of a highly Highly-Compensated Participant who is either a 5% owner or one of the ten

most Highly-Compensated Participants and is thereby subject to the family aggregation rules of Section 414(q) (6) of the Internal Revenue Code, the ACP for the family group (which is treated as one Highly-Compensated Participant) is the greater of (a) the ACP determined by combining the contributions and compensation of all eligible family members who are highly compensated without regard to family aggregation or (b) the ACP determined by combining the contributions and compensation of all eligible family members. Except to the extent taken into account in the preceding sentence, the contributions and compensation of all family members are disregarded in determining the actual contribution percentages for the groups of Highly-Compensated Participants and those who are not Highly Compensated Participants.

#### Section A-5 Multiple Use Limitations

For purposes of Section A-4, the provisions of Income Tax Regulations Section.401(m)-2 are incorporated herein by reference.

#### Section A-6 Definitions

For purposes of this Appendix A, the following words have the meanings set next to them:

(a) ACP means actual contribution percentage as defined in Section 401(m) (3) of the Internal Revenue Code.

(b) ADP means actual deferral percentage as defined in Section 401(k) (3) (B) of the Internal Revenue Code.

(c) Highly-Compensated Participant means any Participant who performs service during the Plan Year for which the determination is being made and who is:

(i) an employee who is a 5% owner, as defined in Section 416(i) (1) (iii) of the Internal Revenue Code, at any time during that or the preceding Plan Year; or

(ii) an employee who receives compensation,, (which for all purposes of this Appendix is as defined in Section 415(c) (3) of the Internal Revenue Code, i.e., compensation received by the employee from the Employer during the applicable period and also includes, for each employee, elective or salary reduction contributions to a cafeteria plan, cash or deferred arrangement or tax-sheltered annuity) in excess of \$75,000 (adjusted as provided in Treasury Regulations issued under Section 415(d) of the Internal Revenue Code) during the preceding Plan Year; or

(iii) an employee who receives compensation in excess of \$50,000 (adjusted as provided in Treasury Regulations issued under Section 415(d) of the Internal Revenue Code) during the preceding Plan Year and is a member of the top-paid group for the preceding Plan Year (which consists of the top 20% of employees ranked on the basis of compensation received during the Plan Year) and excluding employees who have not completed six months of service, those who normally work less than 17-1/2 hours per week, those normally working not more than six months during any year, those who have not attained age 21, those employees who are included in a unit of employees covered by an agreement which the Secretary of Labor finds to be a collective bargaining agreement between employee representatives and the Employer (which for all purposes of this Appendix A includes all entities aggregated with the Employer under Subsections (b), (c), (m) or (o) of Section 414 of the Internal Revenue Code), which agreement satisfies Section 7701(a) (46) and the Treasury Regulations thereunder, and nonresident aliens who have received no earned income (within the meaning of Section 911(d) (2) of the Internal Revenue Code) from the Employer which constitutes income from sources within the United States (within the meaning of Section 861(a) (3) of the Internal Revenue Code); or

(iv) an employee who is an officer (but not more than 50 employees (or, if less, the greater of three employees or 10%, of all employees) of the Employer, within the meaning of Section 416(i) of the Internal Revenue Code, during the preceding Plan Year and who receives compensation in the preceding Plan Year greater than 50% of the dollar limitation in effect under Section 415(b) (1) (A) of the Internal Revenue Code for the preceding Plan Year (or if no officer has compensation greater than that amount, the highest paid officer); or

(v) an employee who is both (I) described in clauses (ii), (iii) or (iv) above when those clauses

are modified to substitute the Plan Year for which the determination is being made for the preceding Plan Year and (II) one of the 100 employees who receive the most compensation from the Employer during the Plan Year for which the determination is being made; or

(vi) a former employee who, in the Plan Year he separated from service or in any Plan Year ending on or after his or her 55th birthday, was rendering service to the Employer and was a Highly-Compensated Participant as defined in this Section A-6.

(d) Non-Highly-Compensated Participant

means any Participant other than a Highly-Compensated Participant

## Appendix B

to  
California Water Service Company Savings Plan and Trust Agreement  
(1994 Revision)

### Hardship Withdrawals

1. Introduction. To assist you as a Participant in meeting immediate and heavy financial needs, the Plan allows withdrawals from your Participant Accounts (except earnings in your Employee Contribution Account) because of hardship. This Appendix describes who qualifies for hardship withdrawals and how to apply for them. No hardship distributions are made to Former Participants, Beneficiaries or Alternate Payees.

2. You Must Have an Immediate and Heavy Financial Need.

You have an immediate and heavy financial need only if you require money for any of the following reasons:

Funeral expenses for a member of your family; or

Medical expenses which you, your husband or wife or dependent incurs. A medical expense is the kind of expense for which you can take a deduction on your federal income tax return under Section 213(d) of the Internal Revenue Code and a dependent is someone for whom you are authorized to take a dependency exemption on your federal income tax return in accordance with Section 152 of the Internal Revenue Code; or

A downpayment when purchasing your principal residence (but not mortgage payments or a downpayment on a second or vacation home); or

Payment of tuition for the next 12 months at a college, trade, graduate or professional school which you, your husband or wife, child or dependent attends after high school (but not tuition at a private secondary school); or

A payment which is necessary to avoid eviction from your principal residence or to avoid foreclosure on the mortgage or deed of trust on your principal residence.

3. The Hardship Withdrawal Must Be Necessary to Satisfy Your Financial Need After You Have Used Up Your Other Resources. Before making a hardship withdrawal, you must have used all of your other financial resources which are reasonably available to you. The amount available for a hardship withdrawal is the amount you require to meet your immediate and heavy financial need plus an amount necessary to pay federal and state income tax on the distribution less any amounts available from other financial resources, including the financial resources of your husband or wife and your minor children to the extent that they are reasonably available. For example, you must first use a vacation home which is owned by you and your husband or wife as a source of funds, although you need not use funds held for your children in an irrevocable trust or under the Uniform Gifts to Minors Act. You must show that you cannot meet your immediate and heavy financial needs from any of the following sources:

Reimbursement for your financial need or compensation from insurance or other sources (for example if you incur medical expenses from an auto accident you must show that payment of those expenses is not available from insurance or from another party who is at fault); and

Reasonable sale of your assets (and those of your husband or wife or minor children), but only if the sale itself would not cause an immediate and heavy financial need (for example, you are not required to

sell your home at a substantial loss in a falling real estate market to meet your financial need and you are not required to sell it if you then had to rent living accommodations at a rental which would cause you immediate and heavy financial need); and

Borrowing from a commercial source, such as a bank, savings and loan, credit union or loan company under commercially reasonable terms (unless it is clear that you cannot repay the loan); and

Stopping your before-tax (deferrals) contributions to this Plan; and

Taking distributions, whether or not they are taxable, which are available under this or any other plan in which you, your husband or wife or minor child participate; and

Taking a nontaxable loan available under any other plan in which you, your husband or wife or minor child participate.

4. You Must Have a Sufficient Amount Available for Distribution. You must have a sufficient amount in the Plan which is available for distribution. If there is not a sufficient amount, you do not qualify for a hardship withdrawal. Here are rules to determine whether your interest in the Plan is sufficient for a hardship withdrawal:

You cannot obtain a distribution in excess of your interest in the Plan;

You cannot obtain a distribution of any portion of your interest in the Plan which is subject to a Qualified Domestic Relations Order;

You cannot withdraw from your Employee Contribution Account an amount in excess of the amount contributed and not previously distributed -- in other words, you generally cannot make a hardship withdrawal from earnings on your before-tax contributions (deferrals).

5. How to Apply for a Hardship Withdrawal. Before making an application for a hardship withdrawal, carefully read this Appendix. If you have any questions, such as the amount of your interest in the Plan which is available for a hardship withdrawal, you may call the Human Resources Department. If you believe that you qualify for a hardship withdrawal and have attempted to obtain funds from other sources as described above in paragraph 3, you may file a written application with the Committee. In your application, explain in your own words what your immediate and heavy financial need is, the amount of money required to meet that need and explain how you have attempted to obtain the funds from other sources (including each of those listed in paragraph 3) and have been unable to do so. If you are married, your husband or wife must consent to the hardship withdrawal on a form which you may obtain from the Human Resources Department and your husband or wife's signature must be witnessed by a notary public not employed by the Employer. When the Committee has received all necessary information, it will consider your application in an objective and nondiscriminatory manner under the rules of this Appendix, the Plan and applicable law and regulations. You will then be notified whether you qualify for a hardship distribution and the amount of that distribution. The Committee's decision is final.

6. Making a Hardship Withdrawal Will Affect Your Participation in the Plan. If you make a hardship withdrawal, you will be suspended from making before-tax (compensation deferral) contributions to the Plan for 12 months after you receive the withdrawal. The Plan provides that your before-tax contributions for each of your taxable years (normally the calendar year) are limited to \$7,000, or a higher amount permitted by regulations issued by the Internal Revenue Service. For your taxable year following the year you receive a hardship withdrawal, the \$7,000 (or higher) limit for contributions to the Plan is further reduced by the amount of your before-tax contributions during the year you made the hardship withdrawal



## Top-Heavy Provisions

### Section C-1. Minimum Contribution.

a) For each Participant who is not a Key Employee (whether or not a former Key Employee) and who is employed by any Employer on the last day of the Plan Year, his or her Employer will make a minimum contribution for any Plan Year in which the Plan is a top-heavy. The determination of top-heavy status is described in Section C-2. The minimum contribution is described in paragraph (b) of this Section C-1.

b) The minimum contribution is 3% of the Participant's Compensation for the Plan Year, or if, less, the highest percentage at which such contributions are made under the Plan for the Plan Year on behalf of a Key Employee. For purposes of this paragraph (b), all defined contribution plans required to be included in the Aggregation Group shall be treated as one Plan and deferrals made under Section 3.1 are included in the Compensation of Key Employees. In calculating the minimum contribution, any Employee deferral and any contributions or benefits under Chapter 21 of the Internal Revenue Code (relating to the Federal Insurance Contributions Act), Title II of the Social Security Act, or any other Federal or state law are not counted toward the minimum contribution.

### Section C-2. Top-Heavy Determination.

(a) If the Plan is not required to be included in an Aggregation Group with other plans, then it is top-heavy only if, when considered by itself, it is a top-heavy plan and it is not included in a permissive Aggregation Group that is not a top-heavy group.

(b) If the Plan is required to be included in an Aggregation Group with other plans, it is top-heavy only if the Aggregation Group, including any permissively aggregated plans, is top-heavy.

(c) If the Plan is not top-heavy and is not required to be included in an Aggregation Group, then it is not top-heavy even if it is permissively aggregated in an Aggregation Group which is a top-heavy group.

### Section C-3. Calculation of Top-Heavy Ratios.

(a) For any Plan Year, the Plan is top-heavy and an Aggregation Group is a top-heavy group if, as of the Determination Date, the sum of the Cumulative Accrued Benefits and the Cumulative Accounts of Employees who are Key Employees for the Plan Year exceeds 60% of a similar sum determined for all Employees, excluding former Key Employees.

### Section C-4. Cumulative Accounts.

(a) Cumulative Account means the sum of the amount of a Participant's accounts under the Plan or under all defined contribution plans included in an Aggregation Group (for aggregated plans) determined as of the Determination Date, increased by and contributions due before the Determination Date.

(b) Cumulative Accrued Benefit means the sum of the present value of a Participant's accrued benefits under a defined benefit plan (for an unaggregated plan) or under all defined benefit plans included in an Aggregation Group (for aggregated plans), determined under the actuarial assumptions set forth in that plan or plans, as of the most recent plan valuation date within a 12-month period ending on the Determination Date as if the Participant voluntarily terminated service as of such valuation date.

(c) Accounts and benefits are calculated by including all amounts attributable to both employer and employee contributions.

(d) Accounts and benefits are increased by the aggregate distributions during the five-year period ending on the Determination Date made with respect to a Participant under the plan or plans as the case may be, or under a terminated plan which, if it had not been terminated, would have been required to be included in the Aggregation Group.

### Section C-5. Additional Definitions.

For purposes of this Appendix C, the following definitions apply:

(a) Aggregation Group means a plan or group of plans which includes all plans maintained by any Employer in which a Key Employee is a Participant or which enables any plan in which a Key Employee is a Participant to meet the requirements of Section 401(a)(4) or Section 410 of the Internal Revenue Code, as well as all other plans selected by the Employer for permissive aggregation, the inclusion of which would not prevent the group of plans from continuing to meet the requirements of those sections.

(b) Compensation means the employee's wages, salaries, fees for professional services and other amounts received (without regard to whether or not an amount is paid in cash) for personal services actually rendered in the course of employment with the Employer to the extent that the amounts are includible in gross income (including, but not limited to compensation for services on the basis of a percentage of profits, bonuses, fringe benefits and reimbursement other expense allowances under a nonaccountable plan (as described in Income Tax Regulations Section 62-2(c)). Compensation also includes amounts described in Sections 104(a)(3), 105(a), and 105(h) of the Internal Revenue Code, but only to the extent that these amounts are includible in gross income of the employee and amounts paid or reimbursed by the Employer for moving expenses incurred by an employee, but only to the extent that at the time of payment it is reasonable to believe that these amounts are not deductible by the Employee under Section 217 of the Internal Revenue Code. Compensation does not include contributions made by the Employer to a plan of deferred compensation to the extent that, before application of the limitations contained in Section 415 of the Internal Revenue Code, the contributions are not includible in gross income for the employee for the taxable year in which contributed. Notwithstanding the foregoing, Compensation for the purpose of calculating a Participant's minimum top-heavy contribution also includes amounts which the Participant defers under Section 3.1 and amounts contributed by the Employer to a cafeteria plan (as defined in Section 125 of the Internal Revenue Code) for the Participant. Up to and including December 31, 1993, the annual Compensation for each Participant taken into account under this Appendix C for any year will not exceed \$200,000. This limitation will be adjusted by the Secretary of the Treasury at the same time and in the same manner as under Section 415(d) of the Internal Revenue Code, except that the dollar increase in effect on January 1 of any calendar year is effective for Plan Years beginning in that calendar year and the first adjustment to the \$200,000 limitation is effective January 1, 1990. In determining Compensation for a Participant for purposes of the \$200,000 limitation, the rules of Section 414(q)(6) of the Internal Revenue Code apply, except the term "family" includes only the spouse of the Member and any lineal descendants of the Member who have not attained age 19 before the close of the Plan Year. If, as a result of the application of those rules, the adjusted \$200,000 limitation is exceeded, then the limitation is prorated among the affected individuals in proportion to each such individual's Compensation as determined under the Plan prior to application of the \$200,000 limitation. Effective January 1, 1994, the annual amount constituting Compensation for purposes of this Appendix C must not exceed \$150,000 as adjusted by the Commissioner of Internal Revenue in accordance with Section 401(a)(17)(B) of the Internal Revenue Code. The adjustment in effect for a calendar year applies to any period, not exceeding 12 months over which Compensation is determined (determination period) beginning in such calendar year. If a determination period consists of fewer than 12 months, the annual Compensation limit described in the two preceding sentences will be multiplied by a fraction, the numerator of which is the number of months in the determination period and the denominator of which is 12.

(c) Determination Date means the last day of the preceding Plan Year.

(d) Employer means any entity which contributes to this Plan and any of the following entities of which the Employer is a member: (i) a controlled group of corporations (as defined in Section 414(b) of the Internal Revenue Code), (ii) a group of trades or businesses under common control (as defined in Section 414(c) of the Internal Revenue Code), (iii) an affiliated service group (as defined in Section 414(m) of the Internal Revenue Code) and (iv) an organization or arrangement described in Income Tax Regulations issued under Section 414(o) of Internal Revenue Code.

(e) Key Employee means any employee or former employee (and the Beneficiaries of such employee) if, during the Plan Year in question or any of the four preceding Plan Years, he or she is or was:

(i) an officer of any Employer, if such officer's compensation exceeds 50% of the dollar limitations under Section 415(b)(1)(A) of the Internal Revenue Code;

(ii) one of the ten employees owning (or considered as owning within the meaning of Section 318 of the Internal Revenue Code) the largest interest in any Employer, if such employee's compensation exceeds 100% of the dollar limitation under Section 415(c)(1)(A) of the Internal Revenue Code;

(iii) a 5% owner (as described in Section 416(i)(2)(B)(i) of the Internal Revenue Code) of any

Employer; or  
(iv) a 1% or more owner (as described in Section 416(i)(1)(B)(ii) of the Internal Revenue Code) of any Employer having annual Compensation of more than \$150,000. For purposes of clause (i), employees described in Section 414(q)(8) of the Internal Revenue Code are excluded and no more than 50 (or if less, the greater of three or 10% of the employees are treated as officers). For purposes of clause (ii), if two employees have the same interest in an Employer, the employee having greater annual compensation is treated as having a larger interest. The term Key Employee includes a beneficiary of a Key Employee.

FIRST AMENDMENT  
TO THE  
CALIFORNIA WATER SERVICE COMPANY  
SAVINGS PLAN AND TRUST AGREEMENT

(May 1994 Revision)

The California Water Service Company Savings Plan and Trust Agreement (the "Plan") is amended to merge the California Water Service Company Salaried Employees' Savings Plan into this Plan effective December 31, 1994 in lieu of December 31, 1993.  
Dated: March 30, 1995

/s/ Gerald Feeney  
Gerald Feeney  
Vice President, Chief Financial Officer and Treasurer

/s/ Christine L. McFarlane  
Christine L. McFarlane  
Director of Human Resources

Amendment No. 2 to the  
California Water Service Company  
Savings Plan and Trust Agreement  
(May 1994 Revision)

The California Water Service Company Savings Plan and Trust Agreement (May 1994 Revision) (the "Plan"), previously amended on March 30, 1995, is hereby further amended as follows:

1. Effective January 1, 1996, the second sentence of Subsection 3.3 is amended to change from 6% to 7% the percentage of Earnings used to calculate Employer Contributions to the Plan. Effective January 1, 1997, that sentence is further amended to change the percentage to 8.

2. Effective January 1, 1997, Subsection 2.2 is amended to read as follows:

An Employee may elect to become a Participant on the date his or her employment begins or as of the first day of any payroll period thereafter, provided the Employee properly completes and returns such forms as the Committee may require with respect to deferral and investment elections.

3. Effective December 12, 1994, the following Subsection 3.6 is added to Section 3:

3.6 Military Service

Notwithstanding any provision of this Plan to the contrary, contributions, benefits and service credit with respect to qualified military service will be provided in accordance with section 414(u) of the Internal Revenue Code.

4. To the extent permitted under section 411 (d)(6) of the Internal Revenue Code and IRS regulations and guidance thereunder, effective January 1, 1997, Subsection 6.4 is amended to read as follows:

6.4 Other Mandatory Distributions

In the case of a Participant who remains employed by the Company after his or her Normal Retirement Date, his or her Participant Account balance will be

distributed as soon as practicable following termination of employment with the Company. Notwithstanding the foregoing, the Account balance of a participant who is a 5 percent owner of the Company (as defined in section 416 of the Internal Revenue Code) shall be distributed on April 1 following the calendar year in which the Participant attains age 70-1/2.

IN WITNESS WHEREOF, this amendment is executed by two duly authorized officers on this 31st day of December 1996.

CALIFORNIA WATER SERVICE COMPANY

/s/ Gerald F. Feeney  
By Gerald F. Feeney  
Vice President, Chief Financial Officer and Treasurer

/s/ Christine L. McFarlane  
By Christine L. McFarlane  
Director of Human Resources

Amendment No. 3 to the  
California Water Service Company  
Savings Plan and Trust Agreement  
(May 1994 Revision)

The California Water Service Company Savings Plan and Trust Agreement (May 1994 Revision) (the "Plan"), previously amended on December 31, 1996, is hereby further amended as follows in order to clarify the meaning of certain provisions of the Plan and to state the correct name of the trustee for the Employer Stock fund:

1. The following definition is added to Section 1.2:

Trustees means the trustees of the trust holding Plan assets other than Employer Stock, who are appointed by the Board of Directors.

2. The definition of "Committee" shall be deleted from Section 1.2 and the term "Committee" is changed to "Trustees" wherever it appears in the Plan.

3. The first two sentences of Section 6.3(c) are amended to read as follows:

The Beneficiary of a Participant or Former Participant is the person or persons he or she designates in writing filed with the Trustees, provided that the Beneficiary of a married Participant or Former Participant will be his or her spouse on the date of death, unless the spouse has consented to the designation of another Beneficiary in the manner set forth below. If an unmarried Participant or Former Participant dies without having properly designated a Beneficiary, the unpaid balance of his or her Participant Accounts will be paid to his or her estate.

4. The first sentence of Section 6.4, as amended by Amendment No. 2, is hereby further amended to read as follows:

The Participant Account balance of a Participant who remains employed by the Company after his or her Normal Retirement Date will be distributed as soon as practicable following termination of employment, provided that he or she may elect, at any time before termination of employment but after he or she attains age 70-1/2, to receive an in-service distribution of his or her Participant Account balance as of the date of his or her election.

5. Section 8.2 is amended by changing the term "Bank of America, N.T.&S.A." to "First Trust, or any successor trustee appointed by the Board of Directors."

6. Section 9.1 is amended in its entirety to read as follows:

9.1 Trustees Administer Plan

(a) The Plan is administered by the Trustees. The Trustees are the Plan's named fiduciary within the meaning of ERISA. The rules and procedures in this Section 9 apply to the Trustees' administration of the Plan other than the administration and management of Plan assets as set forth in Section 8.3.

(b) The Trustees act by a majority, unless there are fewer than three Trustees, in which case they act unanimously. The Trustees may act by meeting, unanimous written consent, phone meeting or unanimous consent by facsimile or wire. Each Trustee has one vote.

(c) No Trustee may vote on any question affecting his or her specific individual benefit under the Plan. If, for this or any other reason, there are no members eligible to act, the functions of the Trustees may be exercised by the Board of Directors.

(d) The expenses of the Trustees for attending meetings are borne by the Employer. The Trustees receive no compensation for attending meetings or other work performed as Trustees.

IN WITNESS WHEREOF, this amendment is executed by two duly authorized officers on this 15th day of January, 1997.

CALIFORNIA WATER SERVICE COMPANY

/s/ Gerald F. Feeney  
By Gerald F. Feeney  
Vice President, Chief Financial Officer and Treasurer

/s/ Christine McFarlane  
By Christine McFarlane  
Vice President and Director of Human Resources

Amendment No. 4 to the  
California Water Service Company  
Savings Plan and Trust Agreement  
(May 1994 Revision)

The California Water Service Company Savings Plan and Trust Agreement (May 1994 Revision) (the "Plan"), previously amended on December 31, 1996, is hereby further amended effective January 1, 1998, in order to clarify the meaning of certain provisions of the Plan and to make changes deemed desirable:

Section 4.2 ( c ) is amended to read as follows:

Employer Contribution Accounts may be invested in any of the Funds, in Employer Stock or in a combination of any or all of the Funds and Employer Stock in accordance with the requirements for elections set forth in Paragraph (b) above and with rules adopted by the Committee.

IN WITNESS WHEREOF, this amendment is executed by two duly authorized officers on this 11th day of February, 1998.

CALIFORNIA WATER SERVICE COMPANY

/s/ Gerald F. Feeney  
By Gerald F. Feeney  
Vice President, Chief Financial Officer and Treasurer

/s/ Christine McFarlane  
By Christine McFarlane  
Vice President and Director of Human Resources

CALIFORNIA WATER SERVICE GROUP

DIRECTORS DEFERRED COMPENSATION PLAN

January 1, 1998

TABLE OF CONTENTS

	Page
A. INTRODUCTION	1
B. PARTICIPATION	1
1. Eligibility to Participate	1
2. Election to Participate by Eligible Directors	1
3. Notification of Eligible Directors	2
C. AMOUNTS OF DEFERRAL	2
1. Minimum Deferral	2
2. Maximum Deferral	2
3. Failure to Defer Minimum Amount	2
D. VESTING	2
E. PAYMENT OF DEFERRED DIRECTORS' FEES	2
1. Book Account and Earnings Credit	2
2. Length of Deferral and Time of Payment	3
3. Method of Payment	4
F. HARDSHIP DISTRIBUTIONS	4
G. BENEFITS ON DEATH	4
1. Amount, Method of Payment, and Time of Payment	4
2. Designation of Beneficiary	5
H. SOURCE OF PAYMENT	5
I. MISCELLANEOUS	6
1. No Assignment	6
2. Applicable Law; Severability	6
3. Other Benefits	6
4. Right to Serve as Director	6
J. ADMINISTRATION OF THE PLAN	7
1. In General	7
2. Elections and Notices	7
K. AMENDMENT OR TERMINATION OF THE PLAN	7
L. DEFINITIONS	8

CALIFORNIA WATER SERVICE GROUP

DIRECTORS DEFERRED COMPENSATION PLAN

A. INTRODUCTION

This Plan is established to further enhance the Company's ability to attract and retain outside members of its Board. Capitalized words are defined in Paragraph L.

B. PARTICIPATION

1. Eligibility to Participate

Each member of the Board who is not an employee of the Company or a subsidiary of the Company is eligible to elect to participate in this Plan and is an Eligible Director. If a person ceases to be an Eligible Director, he shall, however, remain a Participant in the Plan until all amounts credited to his Account, adjusted for any subsequent gains or losses, are paid out under the terms of the Plan (or until death, if earlier).

## 2. Election to Participate by Eligible Directors

Each Eligible Director may become a Participant in the Plan by electing to defer Directors' Fees in accordance with the terms of this Plan, specifying one or more Measuring Investments and specifying the method of payment. An election to defer shall be in writing, shall be irrevocable and shall be made at the time and in the form specified by the Plan Administrator. On electing to defer Directors' Fees under this Plan, the Eligible Director shall be deemed to accept all of the terms and conditions of this Plan.

All elections to defer amounts under this Plan shall be made pursuant to an election executed and filed with the Plan Administrator before the amounts so deferred are earned. All such elections to defer Directors' Fees shall be executed and filed with the Plan Administrator prior to the first day of each Year.

## 3. Notification of Eligible Directors

The Plan Administrator shall annually notify each Eligible Director that he may participate in the Plan for the next Year.

## C. AMOUNTS OF DEFERRAL

### 1. Minimum Deferral

The minimum amount of Directors' Fees that may be deferred by a Participant under this Plan for any Year is \$5,000.

### 2. Maximum Deferral

The maximum amount of Directors' Fees which a Participant may defer under this Plan for any Year is 100% of the Participant's Directors' Fees for such Year.

### 3. Failure to Defer Minimum Amount

In the event a Participant does not defer at least \$5,000 of Directors' Fees in any Year for any reason, he shall be paid the portion of his Account attributable to such Year as soon as practicable after the end of the calendar quarter in which the Plan Administrator determines that the minimum deferral cannot be met.

## D. VESTING

A Participant shall be fully vested in the amount credited to his Account under the Plan.

## E. PAYMENT OF DEFERRED DIRECTORS' FEES

### 1. Book Account and Earnings Credit

Directors' Fees deferred by a Participant under the Plan shall be credited to a separate bookkeeping Account of the Company for such Participant. Separate Accounts or sub-Accounts may be established for each Year for which the Participant elects to defer Directors' Fees and/or for each Measuring Investment of the Participant. The Account or Accounts of each Participant shall be increased or decreased as of the last day of each month to reflect gains or losses as if each Account were invested in the Measuring Investment specified by the Participant. The Participant may file a new designation of Measuring Investment or Investments at any time.

In that event the Participant's Account shall be adjusted as if the Account were invested in accordance with the new Measuring Investment or Investments as soon as practicable after the filing of his new designation.

### 2. Length of Deferral and Time of Payment

a. An Eligible Director shall irrevocably elect in writing, and file with the Plan Administrator at the same time as he makes any election to defer Directors' Fees, the period of deferral with respect to such election. Amounts may be deferred to January 1 of the second (2nd) Year following the Year in which the election is filed or to any subsequent January 1, subject to section b. below.

b. Payment from a Participant's Account shall begin no later

than the day on which he ceases to be an Eligible Director, or as soon thereafter as is practicable. Notwithstanding the previous sentence, if a person ceases to be an Eligible Director because he becomes an employee of the Company, payment from his Account shall begin (i) no later than the day on which his employment with the Company terminates, or as soon thereafter as practicable or, if later (ii) the date to which payment is deferred under Paragraph E-2, section a.

c. The Participant's Account shall reflect earnings and losses through the last day of the month preceding the date of distribution.

## 2. Method of Payment

All amounts payable from the Participant's Account shall be subject to a single method of payment election which is filed with the Plan Administrator at the time of the Participant's initial election to defer. The method of payment election is irrevocable. Payment of the amount credited to the Participant's Account shall be made in a single sum distribution or in one, two, three, four or five annual installments payable on January 1 of each Year beginning in the Year elected in Paragraph E-2, section a. above. The amount of installment payments shall be adjusted to reflect earnings and losses until the Participant's Account is fully paid. If a Participant fails to file a method of payment election, payment of the amount credited to his Account shall be made in a single sum distribution.

## B. HARDSHIP DISTRIBUTIONS

Upon application of any Participant demonstrating hardship, the Plan Administrator may make a distribution of part or all of the amounts credited to his Account. "Hardship" shall mean an emergency or unexpected situation in the Participant's financial affairs, including illness or accident involving the Participant, his dependents or other members of his family, a financial need reasonably beyond the Participant's control, or another significant hardship, as determined by the Plan Administrator.

## C. BENEFITS ON DEATH

### 1. Amount, Method of Payment, and Time of Payment

If a Participant dies before all amounts credited to his Account have been paid, the remaining amounts credited shall be paid to his Beneficiary. Payment shall be made in accordance with the method of payment elected in Paragraph E-3 above. If the Participant has not commenced receiving benefits, the single sum payment or initial installment payment shall be made as soon as practicable after the last day of the month in which the Participant's death occurs.

### 2. Designation of Beneficiary

A Participant may designate any person or entity as his Beneficiary, but may not designate more than one person or any person that is not a natural person without the approval of the Plan Administrator. Designation shall be in writing and shall become effective only when filed with (and, if appropriate, approved by) the Plan Administrator. Such filing must occur before the Participant's death. A Participant may change the Beneficiary, from time to time, by filing a new written designation with (and, if appropriate, approved by) the Plan Administrator. If the Participant is married, any Beneficiary designation which does not provide that the Participant's spouse is to receive at least one-half of the Participant's Account shall only become effective when approved in writing by the Participant's spouse. If no Beneficiary is designated, the value of the Participant's Account shall be paid to his estate.

## D. SOURCE OF PAYMENT

Amounts paid under this Plan shall be paid from the general funds of the Company, and each Participant and his Beneficiaries shall be no more than unsecured general creditors of the Company with no special or prior right to any assets of the Company for payment of any obligations hereunder. Nothing contained in this Plan shall be deemed to create a trust of any kind for the benefit of any Participant or Beneficiary, or create any fiduciary relationship between the Company and any Participant or Beneficiary with respect to any assets of the Company. Without limiting the generality of the foregoing, the Company may, but need not, invest in a Measuring Investment or Measuring Investments. No Participant or Beneficiary shall have any interest in such investment and such investment shall not cause this Plan to be a funded plan within the meaning of the Internal Revenue Code.

## E. MISCELLANEOUS

### 1. No Assignment



The benefits provided under this Plan may not be alienated, assigned, transferred, pledged, or hypothecated by any person, at any time.

These benefits shall be exempt from the claims of creditors or other claimants and from all orders, decrees, levies, garnishments or executions.

## 2. Applicable Law; Severability

The Plan hereby created shall be construed, administered, and governed in all respects in accordance with the laws of the State of California. If any provision of this instrument shall be held by a court of competent jurisdiction to be invalid or unenforceable, the remaining provisions hereunder shall continue to be effective.

## 3. Other Benefits

No Participant, Eligible Director or Beneficiary shall have any right to any payment or benefit hereunder except to the extent provided in the Plan.

## 4. Right to Serve as Director

The rights of any person to serve as a Director of the Company shall not be enlarged, guaranteed or affected by reason of the provisions of the Plan.

## ADMINISTRATION OF THE PLAN

### 1. In General

The Plan Administrator shall interpret and administer the Plan and carry out its provisions. The Plan Administrator may delegate to one or more officers or employees of the Company (or an affiliate) all or a portion of its duties and authority under the Plan. The Company shall indemnify any officer or employee to whom administrative duties and authority are delegated against all liability arising in connection with administration of the Plan, except that such indemnification shall not apply to gross negligence or willful misconduct.

The Plan Administrator (or its delegate) shall adopt such rules and regulations for carrying out the Plan as it may deem necessary or appropriate. Decisions of the Plan Administrator shall be final and binding on all parties who have or claim any interest in the Plan.

The Plan Administrator may employ or retain agents to perform such clerical, accounting, and other services as it may require in carrying out the provisions of the Plan.

### 2. Elections and Notices

All elections and notices made under this Plan shall be in writing and filed with the Plan Administrator at the time and in the manner specified by it. All elections to defer under this Plan shall be irrevocable.

## F. AMENDMENT OR TERMINATION OF THE PLAN

The Company, by action of the Board (excluding Participants and Eligible Directors), may at any time or from time to time modify or amend any or all of the provisions of the Plan or may at any time terminate the Plan. Such action shall be prospective only and shall not adversely affect the rights of any Participant or Beneficiary to any benefit previously earned under the Plan. The Plan Administrator may change the Measuring Investment or Investments at any time. In that case, the Accounts under the Plan shall be adjusted in accordance with the new Measuring Investment or Investments from the effective date of such change. Upon termination of the Plan, Directors' Fees previously deferred, adjusted for gains and losses to the date of termination, shall promptly be paid in single sums to the respective Participants or Beneficiaries entitled thereto.

## G. DEFINITIONS

For purposes of the Plan, the following terms have the meanings indicated:

1. "Account(s)" means the deferred Directors' Fees Account(s) maintained under the Plan for a Participant in accordance with Paragraph E-1.

2. "Beneficiary" means any person(s) or legal entity(ies) designated by the Participant or otherwise determined in accordance with Section G.

3. "Board" means the Board of Directors of the Company.

4. "Company" means California Water Service Group, a California corporation.

5. "Directors' Fees" means a Participant's monthly retainer fees, but does not include fees for attending meetings
6. "Effective Date" means January 1, 1998.
7. "Eligible Director" means a member of the Board who is eligible to participate in the Plan.
8. "Measuring Investment(s)" means any member of one or more families of regulated investment funds or a fixed income investment. For the purpose of the preceding sentence, a fixed income investment bears interest at the average effective interest cost on the long term debt of California Water Service Company during the Year determined from its filings with the California Public Utilities Commission for such Year, or if there is no such filing, determined by the Company's Treasurer. The Measuring Investment(s) is specified in Appendix "A" attached hereto and made a part hereof.
9. "Participant" means an Eligible Director who elects to participate in the Plan in accordance with Paragraph B-2.
10. "Plan" means this California Water Service Group Directors Deferred Compensation Plan as embodied herein and as amended from time to time.
11. "Plan Administrator" is the Company.
12. "Year" means the calendar year.
13. The masculine pronoun shall be deemed to include the feminine, and a singular number shall be deemed to include the plural unless a different meaning is plainly required by the context.

Executed effective January 1, 1998, in the City of San Jose,  
County of Santa Clara, State of California.

CALIFORNIA WATER SERVICE GROUP

By: /s/ Gerald Feeney  
Gerald Feeney  
Chief Financial Officer  
and Treasurer

CALIFORNIA WATER SERVICE COMPANY  
DIRECTORS DEFERRED COMPENSATION PLAN  
APPENDIX "A"

Measuring Investments

1. Fixed Income Investment as defined in Paragraph L, Section 7 of the Plan.
2. Vanguard Family of Mutual Funds.
3. Fidelity Family of Mutual Funds.

January 1998

EXHIBIT 10.16

CALIFORNIA WATER SERVICE GROUP

DIRECTORS RETIREMENT PLAN

This document summarizes the California Water Service Group ("Group") Retirement Plan ("Plan") for members of the Board of Directors. The Plan is effective January 1, 1998. It replaces the former California Water Service Company Directors Retirement Plan (the "Former Plan"). The Plan is intended to recognize a director's service commitment to the Group by providing retirement income.

1. The mandatory retirement age for directors who are employees of the Group or its subsidiaries shall be age 70. The mandatory retirement age for directors who are not employees of the Group or its subsidiaries shall be age 75.
2. Each director who has served as a member of the Board of Directors for a period of at least five years shall be eligible to participate in the Plan. Service as a director of California Water Service Company prior to January 1, 1998 shall be included when determining that the five year service period requirement has been met.
3. Upon retirement from the Board, each director who has served for a period of at least five years shall receive an annual retirement benefit. The retirement benefit will be equal to the annual retainer that is paid to non employee, active directors of the Group at the time the director retires from the Board. The annual retirement benefit will be paid for a period equal to the number of years the retiring director served on the Board up to a maximum of 10 years or death,

whichever is earlier. The period of service will include service as a director of California Water Service Company prior to January 1, 1998 or until the death of the director, whichever is earlier. Retirement benefit payments will be made monthly at the same time as retainer payments are made to active directors.

4. The Board reserves the right to adopt resolutions which alter, amend, modify, or terminate the Plan at any time. However, future resolutions may not, in any way, reduce the benefits to which a director shall have become entitled prior to adoption of the resolution.

5. In the event of a Director's death prior to retirement who has served on the Board for a period of at least five years, the Director's designated beneficiary will receive annual benefits to which the director was entitled. The benefit will be determined under terms of the Plan as if the Director had retired on the date of his or her death. Benefit payments will be made to the beneficiary in accordance with the provisions of Paragraph 3. Benefits will be payable for a period equal to the number of years the Director served on the Board, including service on the Board of California Water Service Company prior to January 1, 1998, up to a maximum of 10 years. Payment of the survivor benefit will commence the month following the Director's death.

6. In the event of a Director's death following retirement, the balance of his or her retirement benefit, if any, will be paid to the retired Director's designated beneficiary, or in accordance with his or her will or the laws of descent and distribution.

7. A Director may, from time to time, revoke his or her beneficiary designation and file a new beneficiary designation with the Board.

8. Benefits earned under the former Plan and for which payment had commenced as of the adoption date of this Plan will continue to be paid in accordance with provisions of the former plan.

9. This Plan is a nonqualified, nonfunded plan. In the event of bankruptcy of the Group, the participants will be general creditors of the Group.

#### EXHIBIT 10.17

A logo of Bank of America with the words BA was placed in the top left corner of this page.

Bank of America  
National Trust and Savings Association

Business Loan Agreement

This Agreement dated as of March 16, 1998, is among Bank of America National Trust and Savings Association (the "Bank"), California Water Service Group ("Borrower 1") and CWS Utility Services ("Borrower 2") (Borrower 1 and Borrower 2 are sometimes referred to collectively as the "Borrowers" and individually as the "Borrower").

#### 1. LINE OF CREDIT AMOUNT AND TERMS

##### 1.1 Line of Credit Amount.

(a) During the availability period described below, the Bank will provide a line of credit to the Borrowers. The amount of the line of credit (the "Commitment") is Twenty Five Million Dollars (\$25,000,000).

(b) This is a revolving line of credit with a within line facility for letters of credit. During the availability period, the Borrowers may repay principal amounts and reborrow them.

(c) The Borrowers agree not to permit the outstanding principal balance of the line of credit plus the outstanding amounts of any letters of credit, including amounts drawn on letters of credit and not yet reimbursed, to exceed the Commitment.

1.2 Availability Period. The line of credit is available between the date of this Agreement and April 30, 1999 (the "Expiration Date") unless any Borrower is in default.

##### 1.3 Interest Rate.

(a) Unless the Borrowers elect an optional interest rate as described below, the interest rate is the Bank's Reference Rate minus 0.5 percentage point.

(b) The Reference Rate is the rate of interest publicly announced from time to time by the Bank in San Francisco, California, as its Reference Rate. The Reference Rate is set by the Bank based on various factors, including the Bank's costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans. The Bank may price loans to its customers at, above, or below the Reference Rate. Any change in the Reference Rate shall take effect at the opening of business on the day specified in the public announcement of a change in the Bank's Reference Rate.

#### 1.4 Repayment Terms.

(a) The Borrowers will pay interest on April 1, 1998, and then monthly thereafter until payment in full of any principal outstanding under this line of credit.

(b) The Borrowers will repay in full all principal and any unpaid interest or other charges outstanding under this line of credit no later than the Expiration Date.

1.5 Optional Interest Rates. Instead of the interest rate based on the Bank's Reference Rate, the Borrower may elect to have all or portions of the line of credit (during the availability period) bear interest at the rate(s) described below during an interest period agreed to by the Bank and the Borrower. Each interest rate is a rate per year. Interest will be paid on the last day of each interest period, and, if the interest period is longer than one month, then on the first day of each month during the interest period. At the end of any interest period, the interest rate will revert to the rate based on the Reference Rate, unless the Borrower has designated another optional interest rate for the portion. Upon the occurrence of an event of default under this Agreement, the Bank may terminate the availability of optional interest rates for interest periods commencing after the default occurs.

1.6 Fixed Rate. The Borrower may elect to have all or portions of the principal balance of the line of credit bear interest at the Fixed Rate, subject to the following requirements:

(a) The "Fixed Rate" means the fixed interest rate the Bank and the Borrower agree will apply to the portion during the applicable interest period.

(b) The interest period during which the Fixed Rate will be in effect will be one year or less.

(c) Each Fixed Rate portion will be for an amount not less than the following:

(i) for interest periods of 91 days or longer, Five Hundred Thousand Dollars (\$500,000).

(ii) for interest periods of between 30 days and 90 days, One Million Dollars (\$1,000,000).

(iii) for interest periods of between 2 days and 29 days, an amount which, when multiplied by the number of days in the applicable interest period, is not less than thirty million (30,000,000) dollar-days.

(iv) for interest periods of 1 day, Fifteen Million Dollars (\$15,000,000).

(d) The Borrower may not elect a Fixed Rate with respect to any portion of the principal balance of the line of credit which is scheduled to be repaid before the last day of the applicable interest period.

(e) Any portion of the principal balance of the line of credit already bearing interest at the Fixed Rate will not be converted to a different rate during its interest period.

(f) Each prepayment of a Fixed Rate portion, whether voluntary, by reason of acceleration or otherwise, will be accompanied by the amount of accrued interest on the amount prepaid, and a prepayment fee equal to the amount (if any) by which

(i) the additional interest which would have been payable on the amount prepaid had it not been paid until the last day of the interest period, exceeds

(ii) the interest which would have been recoverable by the Bank by placing the amount prepaid on deposit in the certificate of deposit market for a period starting on the date on which it was prepaid and ending on the last day of the interest period

for such portion.

1.7 LIBOR Rate. The Borrower may elect to have all or portions of the principal balance bear interest at the LIBOR Rate plus 1.25 percentage points

Designation of a LIBOR Rate portion is subject to the following requirements:

(a) The interest period during which the LIBOR Rate will be in effect will be one, two, or three weeks, or one, two, three, four, five, six, seven, eight, nine, ten, eleven, or twelve months. The first day of the interest period must be a day other than a Saturday or a Sunday on which the Bank is open for business in California, New York and London and dealing in offshore dollars (a "LIBOR Banking Day"). The last day of the interest period and the actual number of days during the interest period will be determined by the Bank using the practices of the London inter-bank market.

(b) Each LIBOR Rate portion will be for an amount not less than the following:

(i) for interest periods of four months or longer, Five Hundred Thousand Dollars (\$500,000).

(ii) for interest periods of one, two or three months, One Million Dollars (\$1,000,000).

(iii) for interest periods of one, two, or three weeks, an amount which, when multiplied by the number of days in the applicable interest period, is not less than thirty million (30,000,000) dollar-days.

(c) The "LIBOR Rate" means the interest rate determined by the following formula, rounded upward to the nearest 1/100 of one percent. (All amounts in the calculation will be determined by the Bank as of the first day of the interest period.)

LIBOR Rate = London Inter-Bank Offered Rate

divided by

(1.00 - Reserve Percentage)

Where,

(i) "London Inter-Bank Offered Rate" means the interest rate at which the Bank's London Branch, London, Great Britain, would offer U.S. dollar deposits for the applicable interest period to other major banks in the London inter-bank market at approximately 11:00 a.m. London time two (2) London Banking Days before the commencement of the interest period. A "London Banking Day" is a day on which the Bank's London Branch is open for business and dealing in offshore dollars.

(ii) "Reserve Percentage" means the total of the maximum reserve percentages for determining the reserves to be maintained by member banks of the Federal Reserve System for Eurocurrency Liabilities, as defined in Federal Reserve Board Regulation D, rounded upward to the nearest 1/100 of one percent. The percentage will be expressed as a decimal, and will include, but not be limited to, marginal, emergency, supplemental, special, and other reserve percentages.

(d) The Borrower shall irrevocably request a LIBOR Rate portion no later than 12:00 noon San Francisco time on the LIBOR Banking Day preceding the day on which the London Inter-Bank Offered Rate will be set, as specified above. For example, if there are no intervening holidays or weekend days in any of the relevant locations, the request must be made at least three days before the LIBOR Rate takes effect.

(e) The Borrower may not elect a LIBOR Rate with respect to any principal amount which is scheduled to be repaid before the last day of the applicable interest period.

(f) Any portion of the principal balance already bearing interest at the LIBOR Rate will not be converted to a different rate during its interest period.

(g) Each prepayment of a LIBOR Rate portion, whether voluntary, by reason of acceleration or otherwise, will be accompanied by the amount of accrued interest on the amount prepaid and a prepayment fee as described below. A "prepayment" is a payment of an amount on a date earlier than the scheduled payment date for such amount

as required by this Agreement. The prepayment fee shall be equal to the amount (if any) by which:

(i) the additional interest which would have been payable during the interest period on the amount prepaid had it not been prepaid, exceeds

(ii) the interest which would have been recoverable by the Bank by placing the amount prepaid on deposit in the domestic certificate of deposit market, the eurodollar deposit market, or other appropriate money market selected by the Bank, for a period starting on the date on which it was prepaid and ending on the last day of the interest period for such portion (or the scheduled payment date for the amount prepaid, if earlier).

(h) The Bank will have no obligation to accept an election for a LIBOR Rate portion if any of the following described events has occurred and is continuing:

(i) Dollar deposits in the principal amount, and for periods equal to the interest period, of a LIBOR Rate portion are not available in the London inter-bank market; or

(ii) the LIBOR Rate does not accurately reflect the cost of a LIBOR Rate portion.

1.8 Letters of Credit. This line of credit may be used for financing standby letters of credit with a maximum maturity of 365 days but not to extend more than 90 days beyond the Expiration Date. The standby letters of credit may include a provision providing that the maturity date may be automatically extended each year for an additional year unless the Bank gives written notice to the contrary; provided, however, that each letter of credit shall include a final maturity date which shall not be subject to automatic extension. The amount of the letters of credit outstanding at any one time, (including amounts drawn on the letters of credit and not yet reimbursed), may not exceed Ten Million Dollars (\$10,000,000).

Each Borrower agrees:

(a) any sum drawn under a letter of credit may, at the option of the Bank, be added to the principal amount outstanding under this Agreement. The amount will bear interest and be due as described elsewhere in this Agreement.

(b) if there is a default under this Agreement, to immediately prepay and make the Bank whole for any outstanding letters of credit.

(c) The issuance of any letter of credit and any amendment to a letter of credit is subject to the Bank's written approval and must be in form and content satisfactory to the Bank and in favor of a beneficiary acceptable to the Bank.

(d) to sign the Bank's form Application and Agreement for Standby Letter of Credit.

(e) to pay any issuance and/or other fees that the Bank notifies the Borrowers will be charged for issuing and processing letters of credit for the Borrowers.

(f) to allow the Bank to automatically charge its checking account for applicable fees, discounts, and other charges.

## 2. EXPENSES

The Borrowers agree to reimburse the Bank for any expenses it incurs in the preparation of this Agreement and any agreement or instrument required by this Agreement. Expenses include, but are not limited to, reasonable attorneys' fees, including any allocated costs of the Bank's in-house counsel.

## 3. DISBURSEMENTS, PAYMENTS AND COSTS

3.1 Requests for Credit. Each request for an extension of credit will be made in writing in a manner acceptable to the Bank, or by another means acceptable to the Bank.

3.2 Disbursements and Payments. Each disbursement by the Bank and each payment by the Borrowers will be:

(a) made at the Bank's branch (or other location) selected by the Bank from time to time;

(b) made for the account of the Bank's branch selected by the Bank

from time to time;

(c) made in immediately available funds, or such other type of funds selected by the Bank;

(d) evidenced by records kept by the Bank. In addition, the Bank may, at its discretion, require the Borrowers to sign one or more promissory notes.

### 3.3 Telephone Authorization.

(a) The Bank may honor telephone instructions for advances or repayments or for the designation of optional interest rates given by any one of the individual signer(s) of this Agreement or a person or persons authorized in writing by any one of the signer(s) of the Agreement.

(b) Advances will be deposited in and repayments will be withdrawn from Borrower 1's account, or such other accounts with the Bank as designated in writing by the Borrowers.

(c) The Borrowers indemnify and excuse the Bank (including its officers, employees, and agents) from all liability, loss, and costs in connection with any act resulting from telephone instructions it reasonably believes are made by any individual authorized by the Borrowers to give such instructions. This indemnity and excuse will survive this Agreement's termination.

### 3.4 Direct Debit.

(a) The Borrowers agree that interest and any fees will be deducted automatically on the due date from Borrower 1's checking account.

(b) The Bank will debit the account on the dates the payments become due. If a due date does not fall on a banking day, the Bank will debit the account on the first banking day following the due date.

(c) The Borrowers will maintain sufficient funds in the account on the dates the Bank enters debits authorized by this Agreement. If there are insufficient funds in the account on the date the Bank enters any debit authorized by this Agreement, the debit will be reversed.

3.5 Banking Days. Unless otherwise provided in this Agreement, a banking day is a day other than a Saturday or a Sunday on which the Bank is open for business in California. All payments and disbursements which would be due on a day which is not a banking day will be due on the next banking day. All payments received on a day which is not a banking day will be applied to the credit on the next banking day.

3.6 Taxes. The Borrowers will not deduct any taxes from any payments they make to the Bank. If any government authority imposes any taxes or charges on any payments made by the Borrowers, the Borrowers will pay the taxes or charges. Upon request by the Bank, the Borrowers will confirm that they have paid the taxes by giving the Bank official tax receipts (or notarized copies) within 30 days after the due date. However, the Borrowers will not pay the Bank's net income taxes.

3.7 Additional Costs. The Borrowers will pay the Bank, on demand, for the Bank's costs or losses arising from any statute or regulation, or any request or requirement of a regulatory agency which is applicable to all national banks or a class of all national banks. The costs and losses will be allocated to the loan in a manner determined by the Bank, using any reasonable method. The costs include the following:

(a) any reserve or deposit requirements; and

(b) any capital requirements relating to the Bank's assets and commitments for credit.

3.8 Interest Calculation. Except as otherwise stated in this Agreement, all interest and fees, if any, will be computed on the basis of a 360-day year and the actual number of days elapsed. This results in more interest or a higher fee than if a 365-day year is used.

3.9 Interest on Late Payments. At the Bank's sole option in each instance, any amount not paid when due under this Agreement (including interest) shall bear interest from the due date at the Bank's Reference Rate minus 0.5 percentage point.. This may result in compounding of interest.

3.10 Default Rate. Upon the occurrence and during the continuation of any default under this Agreement, advances under this Agreement will at the option of the Bank bear interest at a rate per annum which is 2.0

percentage points higher than the rate of interest otherwise provided under this Agreement. This will not constitute a waiver of any event of default.

#### 4. CONDITIONS

The Bank must receive the following items, in form and content acceptable to the Bank, before it is required to extend any credit to the Borrowers under this Agreement:

4.1 Authorizations. Evidence that the execution, delivery and performance by each Borrower (and each guarantor) of this Agreement and any instrument or agreement required under this Agreement have been duly authorized.

4.2 Governing Documents. A copy of each Borrower's articles of incorporation.

4.3 Other Items. Any other items that the Bank reasonably requires.

#### 5. REPRESENTATIONS AND WARRANTIES

When the Borrowers sign this Agreement, and until the Bank is repaid in full, each Borrower makes the following representations and warranties. Each request for an extension of credit constitutes a renewed representation:

5.1 Organization of Borrowers. Each Borrower is a corporation duly formed and existing under the laws of the state where organized.

5.2 Authorization. This Agreement, and any instrument or agreement required hereunder, are within each Borrower's powers, have been duly authorized, and do not conflict with any of its organizational papers.

5.3 Enforceable Agreement. This Agreement is a legal, valid and binding agreement of each Borrower, enforceable against each Borrower in accordance with its terms, and any instrument or agreement required hereunder, when executed and delivered, will be similarly legal, valid, binding and enforceable.

5.4 Good Standing. In each state in which each Borrower does business, it is properly licensed, in good standing, and, where required, in compliance with fictitious name statutes.

5.5 No Conflicts. This Agreement does not conflict with any law, agreement, or obligation by which any Borrower is bound.

5.6 Financial Information. All financial and other information that has been or will be supplied to the Bank, is:

(a) sufficiently complete to give the Bank accurate knowledge of the Borrowers' (and any guarantor's) financial condition, including all material contingent liabilities.

(b) in form and content required by the Bank.

(c) in compliance with all government regulations that apply.

5.7 Lawsuits. There is no lawsuit, tax claim or other dispute pending or threatened against any Borrower, which, if lost, would impair the Borrowers' or any Borrower's financial condition or that of any Borrower's business, or would impair any Borrower's ability to repay the loan, except as have been disclosed in writing to the Bank.

5.8 Permits, Franchises. Each Borrower possesses all permits, memberships, franchises, contracts and licenses required and all trademark rights, trade name rights, patent rights and fictitious name rights necessary to enable it to conduct the business in which it is now engaged.

5.9 Other Obligations. No Borrower is in default on any obligation for borrowed money, any purchase money obligation or any other material lease, commitment, contract, instrument or obligation.

5.10 Income Tax Returns. No Borrower has any knowledge of any pending assessments or adjustments of its income tax for any year.

5.11 No Event of Default. There is no event which is, or with notice or lapse of time or both would be, a default under this Agreement.

5.12 Location of Borrowers. Each Borrower's place of business (or, if any Borrower has more than one place of business, its chief executive office) is located at the address listed under the Borrowers' signature on this Agreement.



### 5.13 Year 2000 Compliance.

(a) The Borrower has (i) conducted a comprehensive review and assessment of all areas of its business that could be adversely affected by the "year 2000 problem" (that is, the risk that computer applications may not be able to properly perform date-sensitive functions after December 31, 1999), (ii) developed a detailed plan and timeline for addressing the year 2000 problem on a timely basis, and (iii) to date, implemented that plan in accordance with that timetable. The Borrower reasonably anticipates that all computer applications that are material to its business will on a timely basis be able to perform properly date-sensitive functions for all dates before and after January 1, 2000 (i.e., be "year 2000 compliant").

(b) The Borrower has made written inquiry of each of its key suppliers, vendors, and customers with respect to the year 2000 problem and, based on that inquiry, believes that each of them will on a timely basis be year 2000 compliant in all material respects. For the purposes of this paragraph, "key suppliers, vendors, and customers" refers to those suppliers, vendors and customers of the Borrower the business failure of which would with reasonable probability result in a material adverse change in the Borrower's business condition (financial or otherwise), operations, properties or prospects, or ability to repay the credit.

### 6. COVENANTS

The Borrowers agree, so long as credit is available under this Agreement and until the Bank is repaid in full:

6.1 Use of Proceeds. To use the proceeds of the credit only for short term operating capital and for issuing standby letters of credit.

6.2 Financial Information. To provide the following financial information and statements and such additional information as requested by the Bank from time to time:

(a) Within 90 days of Borrower 1's fiscal year end, Borrower 1's annual financial statements. These financial statements must be audited (with an opinion not qualified in any manner, including not qualified due to possible failure to take all appropriate steps to successfully address year 2000 system issues) by a Certified Public Accountant ("CPA") acceptable to the Bank. The statements shall be prepared on a consolidated basis.

(b) Within 90 days of Borrower 2's fiscal year end, Borrower 2's annual financial statements. These financial statements may be Borrower prepared.

(c) Within 60 days of the period's end, Borrower 1's quarterly financial statements with supplemental schedules. These financial statements may be Borrower prepared. The statements shall be prepared on a consolidated and consolidating basis.

(d) Within 60 days of the period's end, Borrower 2's quarterly financial statements. These financial statements may be Borrower prepared.

(e) Copies of Borrower 1's Form 10-K Annual Report and Form 8-K (if applicable) Current Report within 90 days of Borrower 1's fiscal year end.

(f) Copies of Borrower 1's Form 10-Q Quarterly Report within 60 days after the end of each quarterly accounting period.

(g) By April 30, 1998, copies of Borrower 2's business plan and statements of cash flow covering the 12 month period ending April 30, 1999.

(h) Within 90 days of its fiscal year end, the annual financial statements of California Water Service Company. These financial statements must be audited (with an unqualified opinion) by a CPA acceptable to the Bank.

(i) Within 60 days of the period's end, California Water Service Company's quarterly financial statements. These financial statements may be company prepared.

(j) Promptly, upon sending or receipt, copies of any management letters and correspondence relating to management letters, sent or received by the Borrowers to or from the Borrowers' auditor.

6.3 Other Debts. Not to have outstanding or incur any direct or

contingent debts or lease obligations (other than those to the Bank), or become liable for the debts of others without the Bank's written consent, which will not be unreasonably withheld. This does not prohibit:

- (a) Acquiring goods, supplies, or merchandise on normal trade credit.
- (b) Endorsing negotiable instruments received in the usual course of business.
- (c) Obtaining surety bonds in the usual course of business.
- (d) Debts, lines of credit and leases in existence on the date of this Agreement disclosed in writing to the Bank.

6.4 Other Liens. Not to create, assume, or allow any security interest or lien (including judicial liens) on property any Borrower now or later owns, except:

- (a) Deeds of trust and security agreements in favor of the Bank.
- (b) Liens for taxes not yet due.
- (c) Liens outstanding on the date of this Agreement disclosed in writing to the Bank.

6.5 Out of Debt Period. To repay any advances in full, and not to draw any additional advances on the Borrowers' revolving line of credit, for a period of at least 30 consecutive days in each calendar year, beginning with the period between the date of this Agreement and December 31, 1998 and each calendar year thereafter.

6.6 Notices to Bank. To promptly notify the Bank in writing of:

- (a) any lawsuit over One Million Dollars (\$1,000,000) against any one or more of the Borrowers in the aggregate (or any guarantor).
- (b) any substantial dispute between any Borrower (or any guarantor) and any government authority.
- (c) any failure to comply with this Agreement.
- (d) any material adverse change in any Borrower's (or any guarantor's) financial condition or operations.
- (e) any change in any Borrower's name, legal structure, place of business, or chief executive office if such Borrower has more than one place of business.

6.7 Books and Records. To maintain adequate books and records.

6.8 Audits. To allow the Bank and its agents to inspect the Borrowers' properties and examine, audit and make copies of books and records at any reasonable time. If any of the Borrowers' properties, books or records are in the possession of a third party, the Borrowers authorize that third party to permit the Bank or its agents to have access to perform inspections or audits and to respond to the Bank's requests for information concerning such properties, books and records.

6.9 Compliance with Laws. To comply with the laws (including any fictitious name statute), regulations, and orders of any government body with authority over each Borrower's business.

6.10 Preservation of Rights. To maintain and preserve all rights, privileges, and franchises each Borrower now has.

6.11 Maintenance of Properties. To make any repairs, renewals, or replacements to keep each Borrower's properties in good working condition.

6.12 Cooperation. To take any action requested by the Bank to carry out the intent of this Agreement.

6.13 General Business Insurance. To maintain insurance as is usual for the business it is in.

6.14 Additional Negative Covenants. Not to, without the Bank's written consent, which will not be unreasonably withheld:

- (a) engage in any business activities substantially different from the Borrowers' present business.
- (b) liquidate or dissolve the Borrowers' business.
- (c) enter into any consolidation, merger, or other combination, or

become a partner in a partnership, a member of a joint venture, or a member of a limited liability company where any single transaction exceeds Two Million Five Hundred Thousand Dollars (\$2,500,000).

(d) sell, assign, lease, transfer or otherwise dispose of any assets for less than fair market value, or enter into any agreement to do so.

(e) sell, assign, lease, transfer or otherwise dispose of all or a substantial part of the Borrowers' business or the Borrowers' assets.

(f) enter into any sale and leaseback agreement covering any of its fixed or capital assets.

(g) acquire or purchase a business or its assets, where any single transaction exceeds Two Million Five Hundred Thousand Dollars (\$2,500,000).

(h) convert to limited liability partnership status.

(i) with respect to Borrower 1, not to enter into any agreement that would restrict California Water Service Company's ability to declare and pay dividends to Borrower 1.

6.15 Bond Rating. With respect to Borrower 1, to maintain an investment grade bond rating on their rated securities as defined by Moody's Investors Service, Inc. and Standard and Poor's Corporation.

## 7. DEFAULT

If any of the following events occur, the Bank may do one or more of the following: declare the Borrowers in default, stop making any additional credit available to the Borrowers, and require the Borrowers to repay their entire debt immediately and without prior notice. If an event of default occurs under the paragraph entitled "Bankruptcy," below, with respect to any Borrower, then the entire debt outstanding under this Agreement will automatically become due immediately.

7.1 Failure to Pay. Any Borrower fails to make a payment under this Agreement when due.

7.2 False Information. Any Borrower has given the Bank false or misleading information or representations.

7.3 Bankruptcy. Any Borrower (or any guarantor) files a bankruptcy petition, a bankruptcy petition is filed against any Borrower (or any guarantor), or any Borrower (or any guarantor) makes a general assignment for the benefit of creditors.

7.4 Receivers. A receiver or similar official is appointed for any Borrower's (or any guarantor's) business, or the business is terminated.

7.5 Lawsuits. Any lawsuit or lawsuits are filed on behalf of one or more trade creditors against any one or more of Borrowers in an aggregate amount of One Million Dollars (\$1,000,000) or more in excess of any insurance coverage.

7.6 Judgments. Any judgments or arbitration awards are entered against any one or more of the Borrowers (or any guarantor), or any one or more of the Borrowers (or any guarantor) enters into any settlement agreements with respect to any litigation or arbitration, in an aggregate amount of One Million Dollars (\$1,000,000) or more in excess of any insurance coverage.

7.7 Government Action. Any government authority takes action that the Bank believes materially adversely affects any Borrower's, (or any guarantor's) financial condition or ability to repay.

7.8 Material Adverse Change. A material adverse change occurs or is reasonably likely to occur, in any Borrower's, (or any guarantor's) financial condition, properties or prospects, or ability to repay the loan.

7.9 Cross-default. Any default occurs under any agreement in connection with any credit any Borrower (or any guarantor) or California Water Service Company has obtained from anyone else or which any Borrower (or any guarantor) or California Water Service Company has guaranteed if the default consists of failing to make a payment when due or gives the other lender the right to accelerate the obligation.

7.10 Default under Related Documents. Any guaranty, subordination agreement, security agreement, deed of trust, or other document required by this Agreement is violated or no longer in effect.

7.11 Other Bank Agreements. Any Borrower (or any guarantor) fails to meet the conditions of, or fails to perform any obligation under any other agreement any Borrower (or any guarantor) has with the Bank or any affiliate of the Bank.

7.12 Other Breach Under Agreement. Any Borrower fails to meet the conditions of, or fails to perform any obligation under, any term of this Agreement not specifically referred to in this Article.

#### 8. ENFORCING THIS AGREEMENT; MISCELLANEOUS

8.1 GAAP. Except as otherwise stated in this Agreement, all financial information provided to the Bank and all financial covenants will be made under generally accepted accounting principles, consistently applied.

8.2 California Law. This Agreement is governed by California law.

8.3 Successors and Assigns. This Agreement is binding on the Borrowers' and the Bank's successors and assignees. The Borrowers agree that they may not assign this Agreement without the Bank's prior consent. The Bank may sell participations in or assign this loan, and may exchange financial information about the Borrowers with actual or potential participants or assignees. If a participation is sold or the loan is assigned, the purchaser will have the right of set-off against the Borrowers.

8.4 Arbitration.

(a) This paragraph concerns the resolution of any controversies or claims between any one or more of Borrowers and the Bank, including but not limited to those that arise from:

(i) This Agreement (including any renewals, extensions or modifications of this Agreement);

(ii) Any document, agreement or procedure related to or delivered in connection with this Agreement;

(iii) Any violation of this Agreement; or

(iv) Any claims for damages resulting from any business conducted between any one or more of Borrowers and the Bank, including claims for injury to persons, property or business interests (torts).

(b) At the request of any Borrower or the Bank, any such controversies or claims will be settled by arbitration in accordance with the United States Arbitration Act. The United States Arbitration Act will apply even though this Agreement provides that it is governed by California law.

(c) Arbitration proceedings will be administered by the American Arbitration Association and will be subject to its commercial rules of arbitration.

(d) For purposes of the application of the statute of limitations, the filing of an arbitration pursuant to this paragraph is the equivalent of the filing of a lawsuit, and any claim or controversy which may be arbitrated under this paragraph is subject to any applicable statute of limitations. The arbitrators will have the authority to decide whether any such claim or controversy is barred by the statute of limitations and, if so, to dismiss the arbitration on that basis.

(e) If there is a dispute as to whether an issue is arbitrable, the arbitrators will have the authority to resolve any such dispute.

(f) The decision that results from an arbitration proceeding may be submitted to any authorized court of law to be confirmed and enforced.

(g) The procedure described above will not apply if the controversy or claim, at the time of the proposed submission to arbitration, arises from or relates to an obligation to the Bank secured by real property located in California. In this case, both the Borrowers and the Bank must consent to submission of the claim or controversy to arbitration. If both parties do not consent to arbitration, the controversy or claim will be settled as follows:

(i) The Borrowers and the Bank will designate a referee (or a panel of referees) selected under the auspices of the American Arbitration Association in the same manner as arbitrators are selected in Association-sponsored

proceedings;

(ii) The designated referee (or the panel of referees) will be appointed by a court as provided in California Code of Civil Procedure Section 638 and the following related sections;

(iii) The referee (or the presiding referee of the panel) will be an active attorney or a retired judge; and

(iv) The award that results from the decision of the referee (or the panel) will be entered as a judgment in the court that appointed the referee, in accordance with the provisions of California Code of Civil Procedure Sections 644 and 645.

(h) This provision does not limit the right of the Borrowers or the Bank to:

(i) exercise self-help remedies such as setoff;

(ii) foreclose against or sell any real or personal property collateral; or

(iii) act in a court of law, before, during or after the arbitration proceeding to obtain:

(A) an interim remedy; and/or

(B) additional or supplementary remedies.

(i) The pursuit of or a successful action for interim, additional or supplementary remedies, or the filing of a court action, does not constitute a waiver of the right of the Borrowers or the Bank, including the suing party, to submit the controversy or claim to arbitration if the other party contests the lawsuit. However, if the controversy or claim arises from or relates to an obligation to the Bank which is secured by real property located in California at the time of the proposed submission to arbitration, this right is limited according to the provision above requiring the consent of both the Borrowers and the Bank to seek resolution through arbitration.

(j) If the Bank forecloses against any real property securing this Agreement, the Bank has the option to exercise the power of sale under the deed of trust or mortgage, or to proceed by judicial foreclosure.

8.5 Severability; Waivers. If any part of this Agreement is not enforceable, the rest of the Agreement may be enforced. The Bank retains all rights, even if it makes a loan after default. If the Bank waives a default, it may enforce a later default. Any consent or waiver under this Agreement must be in writing.

8.6 Administration Costs. The Borrowers shall pay the Bank for all reasonable costs incurred by the Bank in connection with administering this Agreement.

8.7 Attorneys' Fees. The Borrower shall reimburse the Bank for any reasonable costs and attorneys' fees incurred by the Bank in connection with the enforcement or preservation of any rights or remedies under this Agreement and any other documents executed in connection with this Agreement, and including any amendment, waiver, "workout" or restructuring under this Agreement. In the event of a lawsuit or arbitration proceeding, the prevailing party is entitled to recover costs and reasonable attorneys' fees incurred in connection with the lawsuit or arbitration proceeding, as determined by the court or arbitrator. In the event that any case is commenced by or against the Borrower under the Bankruptcy Code (Title 11, United States Code) or any similar or successor statute, the Bank is entitled to recover costs and reasonable attorneys' fees incurred by the Bank related to the preservation, protection, or enforcement of any rights of the Bank in such a case. As used in this paragraph, "attorneys' fees" includes the allocated costs of in-house counsel.

8.8 Joint and Several Liability.

(a) Each Borrower agrees that it is jointly and severally liable to the Bank for the payment of all obligations arising under this Agreement, and that such liability is independent of the obligations of the other Borrower(s). The Bank may bring an action against any Borrower, whether an action is brought against the other Borrower(s).

(b) Each Borrower agrees that any release which may be given by the Bank to the other Borrower(s) or any guarantor will not release such Borrower from its obligations under this Agreement.

(c) Each Borrower waives any right to assert against the Bank any defense, setoff, counterclaim, or claims which such Borrower may have against the other Borrower(s) or any other party liable to the Bank for the obligations of the Borrowers under this Agreement.

(d) Each Borrower agrees that it is solely responsible for keeping itself informed as to the financial condition of the other Borrower(s) and of all circumstances which bear upon the risk of nonpayment. Each Borrower waives any right it may have to require the Bank to disclose to such Borrower any information which the Bank may now or hereafter acquire concerning the financial condition of the other Borrower(s).

(e) Each Borrower waives all rights to notices of default or nonperformance by any other Borrower under this Agreement. Each Borrower further waives all rights to notices of the existence or the creation of new indebtedness by any other Borrower.

(f) The Borrowers represent and warrant to the Bank that each will derive benefit, directly and indirectly, from the collective administration and availability of credit under this Agreement. The Borrowers agree that the Bank will not be required to inquire as to the disposition by any Borrower of funds disbursed in accordance with the terms of this Agreement.

(g) Each Borrower waives any right of subrogation, reimbursement, indemnification and contribution (contractual, statutory or otherwise), including without limitation, any claim or right of subrogation under the Bankruptcy Code (Title 11 of the U.S. Code) or any successor statute, which such Borrower may now or hereafter have against any other Borrower with respect to the indebtedness incurred under this Agreement. Each Borrower waives any right to enforce any remedy which the Bank now has or may hereafter have against any other Borrower, and waives any benefit of, and any right to participate in, any security now or hereafter held by the Bank.

8.9 One Agreement. This Agreement and any related security or other agreements required by this Agreement, collectively:

(a) represent the sum of the understandings and agreements between the Bank and the Borrowers concerning this credit; and

(b) replace any prior oral or written agreements between the Bank and the Borrowers concerning this credit; and

(c) are intended by the Bank and the Borrowers as the final, complete and exclusive statement of the terms agreed to by them.

In the event of any conflict between this Agreement and any other agreements required by this Agreement, this Agreement will prevail.

8.10 Notices. All notices required under this Agreement shall be personally delivered or sent by first class mail, postage prepaid, to the addresses on the signature page of this Agreement, or to such other addresses as the Bank and the Borrowers may specify from time to time in writing.

8.11 Headings. Article and paragraph headings are for reference only and shall not affect the interpretation or meaning of any provisions of this Agreement.

8.12 Counterparts. This Agreement may be executed in as many counterparts as necessary or convenient, and by the different parties on separate counterparts each of which, when so executed, shall be deemed an original but all such counterparts shall constitute but one and the same agreement.

This Agreement is executed as of the date stated at the top of the first page.

Bank of America  
National Trust and Savings  
Association  
/s/Jeff Perkins  
By: Jeff Perkins  
Title: Vice President

California Water Service Group  
/s/Gerald F. Feeney  
By: Gerald F. Feeney  
Title: Vice President, Chief Financial  
Officer and Treasurer

CWS Utility Services  
/s/Gerald F. Feeney

By:Gerald F. Feeney  
Title:Vice President, Chief Financial  
Officer and Treasurer

Address where notices to the Bank  
are to be sent:

San Jose Regional Commercial Banking Office  
#1487  
101 Park Center Plaza  
San Jose, CA 95115

Address where notices to  
the Borrowers  
are to be sent:

1720 North First Street  
San Jose, CA 95112  
Bank of America

Amendment to Documents

#### AMENDMENT NO. 1 TO BUSINESS LOAN AGREEMENT

This Amendment No. 1 (the "Amendment") dated as of March 16,1998,  
is between Bank of America National Trust and Savings Association  
(the "Bank") and California Water Service Company (the "Borrower")

#### RECITALS

- A. The Bank and the Borrower entered into a certain Business Loan Agreement dated as of April 4, 1997 (the "Agreement").
- B. The Bank and the Borrower desire to amend the Agreement.

#### AGREEMENT

1. Definitions. Capitalized terms used but not defined in this Amendment shall have the meaning given to them in the Agreement.
2. Amendments. The Agreement is hereby amended as follows:
- 2.3 In Subparagraph 1.1(a) of the Agreement, the amount "Twenty-Five Million Dollars (\$25,000,000)" is substituted for the amount "Fifty Million Dollars (\$50,000,000)."
- 2.4 Paragraph 6.3 of the Agreement is amended to read in its entirety as follows:
- 6.5 Financial Information. To provide the following financial information and statements and such additional information as requested by the Bank from time to time:
- (c) Within 90 days of the Borrower's fiscal year end, the Borrower's annual financial statements. These financial statements must be audited (with an unqualified opinion) by a Certified Public Accountant ("CPA") acceptable to the Bank.
- (d) Within 60 days of the period's end, the Borrower's quarterly financial statements. These financial statements may be Borrower prepared.
- (e) Within 90 days of its fiscal year end, California Water Service Group's annual financial statements. These financial statements must be audited (with an unqualified opinion) by a Certified Public Account ("CPA") acceptable to the Bank. The statements shall be prepared on a consolidated basis.
- (f) Within 60 days of the period's end, the quarterly financial statements of California Water Service Group, including supplemental schedules. These financial statements may be company prepared and shall be prepared on a consolidated and consolidating basis.
- (g) Within 90 days of its fiscal year end, the annual financial statements of CWS Utility Services. These financial statements may be company prepared.
- (h) Within 60 days of the period's end, the quarterly financial statements of CWS Utility Services. These financial statements may be company prepared.
- (i) Copies of California Water Service Group's Form 10-K Annual Report and Form 8-K (if applicable.). Current Report within 90 days of its fiscal year end.
- (j) Copies of California Water Service Group's Form 10-Q Quarterly Report within 60 days after the end of each quarterly accounting period.

2.3 The first sentence of Paragraph 6.4 of the Agreement is amended to read in its entirety as follows:

6.4 Other Debts. Not to have outstanding or incur any direct or contingent debt (other than those to the Bank), or become liable for the debt of others without the Bank's consent, which

will not be unreasonably withheld.

2.5 Paragraph 6.15 of the Agreement is amended to read in its entirety as follows:

6.6 Additional Negative Covenants. Not to, without the Bank's written consent, which will not be unreasonably withheld:

(o) engage in any business activities substantially different from the Borrower's present business.

(p) Liquidate or dissolve the Borrower's business.

(q) enter into any consolidation, merger, or other combination, or become a partner in a partnership, a member of a joint venture, or a member of a limited liability company where any single transaction exceeds Two Million Five Hundred Thousand Dollars (\$2,500,000).

(r) sell, assign, lease, transfer or otherwise dispose of any assets for less than fair market value, or enter into any agreement to do so.

(s) sell, assign, lease, transfer or otherwise dispose of all or a substantial part of the Borrower's business or the Borrower's assets.

(t) enter into any sale and leaseback agreement covering any of its fixed or capital assets.

(u) acquire or purchase a business or its assets, where any single transaction exceeds Two Million Five Hundred Thousand Dollars (\$2,500,000).

(v) convert to limited liability partnership status.

2.1 Paragraph 7.9 of the Agreement is amended to read in its entirety as follows:

7.2 Cross Default. Any default occurs under any agreement in connection with any credit the Borrower (or any guarantor) or CWS Utility Services has obtained from anyone else or which the Borrower (or any guarantor) or CWS Utility Services has guaranteed if the default consists of failing to make a payment when due or gives the other lender the right to accelerate the obligation.

2.3 A new Paragraph 7.13 is added to the Agreement which reads in its entirety as follows:

7.4 Guarantor Covenants. The California Water Service Group fails to comply with the following covenant:

(m) Bond Rating. To maintain an investment grade bond rating on its rated securities as defined by Moody's Investors Service, Inc., and Standard & Poors' Corporation.

1. Conditions. This Amendment will be effective when the Bank receives the following items, in form and content acceptable to the Bank:

3.2 A Guarantee signed by California Water Service Group in the amount of Twenty-Five Million Dollars (\$25,000,000).

3.3 Evidence that the execution, delivery and performance by the Borrower and any guarantor of the Amendment and any instrument or agreement required under this Amendment have been duly authorized.

4. Effect of Amendment. Except as provided in this Amendment, all of the terms and conditions of the Agreement shall remain in full force and effect.

This Amendment is executed as of the date stated at the beginning of this Agreement.

Bank of America

National Trust and Savings Association

/s/ Jeffrey Perkins

By: Jeffrey Perkins

Vice President

California Water Service  
Company

/s/ Gerald F. Feeney

By: Gerald F. Feeney

Vice President, CFO  
and Treasurer



<TABLE>

Ten Year Financial Review

<CAPTION>

(Dollars in thousands except common share and other data)

	1997	1996	1995	1994	1993	1992	1991	1990	1989	
1988 <S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	
SUMMARY OF OPERATIONS										
Operating revenue										
Residential \$81,404	\$143,327	\$134,035	\$119,814	\$114,751	\$111,526	\$101,842	\$87,560	\$90,178	\$84,295	
Business 19,480	32,916	30,924	28,230	27,023	25,247	23,670	20,759	20,910	19,870	
Industrial 4,754	6,282	6,150	5,836	5,478	5,123	4,925	4,490	5,146	5,166	
Public authorities 6,232	9,636	9,023	8,149	7,995	7,396	6,892	5,734	6,412	6,225	
Other 1,885	3,163	2,632	3,057	2,024	2,424	2,476	8,633	1,741	1,932	
Total operating revenue 113,755	195,324	182,764	165,086	157,271	151,716	139,805	127,176	124,387	117,488	
Operating expenses										
Interest expense, other income and expenses, net 8,416	11,044	11,300	10,694	11,097	12,354	11,245	10,393	9,004	8,566	
Net income \$14,074	\$23,305	\$19,067	\$14,698	\$14,408	\$15,501	\$12,529	\$13,928	\$14,366	\$13,772	
COMMON SHARE DATA*										
Earnings per share \$1.22	\$1.83	\$1.50	\$1.16	\$1.22	\$1.35	\$1.09	\$1.21	\$1.25	\$1.20	
Dividends declared 0.800	1.055	1.040	1.020	0.990	0.960	0.930	0.900	0.870	0.840	
Dividend payout ratio 65%	58%	69%	88%	81%	71%	85%	74%	70%	70%	
Book value \$9.30	\$13.00	\$12.22	\$11.72	\$11.56	\$10.90	\$10.51	\$10.35	\$10.04	\$9.66	
Market price at year-end 12.75	29.53	21.00	16.38	16.00	20.00	16.50	14.00	13.38	14.00	
Common shares outstanding at year-end (in thousands) 11,344	12,619	12,619	12,538	12,494	11,378	11,378	11,378	11,378	11,378	
Return on average common shareholders' equity 13.2%	14.6%	12.7%	10.2%	10.6%	12.4%	10.4%	11.7%	12.4%	12.4%	
Long-term debt interest coverage 3.8	4.2	3.6	3.2	3.2	3.2	2.9	3.2	3.6	3.4	
BALANCE SHEET DATA										
Net utility plant \$289,363	\$460,407	\$443,588	\$422,175	\$407,895	\$391,703	\$374,613	\$349,937	\$325,409	\$307,802	
Utility plant expenditures 23,994	32,907	35,683	27,250	28,275	28,829	35,188	34,459	26,861	27,277	
Total assets 313,561	531,297	512,390	497,626	462,794	446,619	403,448	393,609	369,055	339,348	
Long-term debt 86,959	139,205	142,153	145,540	128,944	129,608	122,069	103,505	104,905	86,012	
Capitalization ratios:										
Common shareholders equity 53.8%	53.5%	51.4%	49.7%	52.2%	48.2%	48.8%	52.4%	51.3%	55.1%	
Preferred stock 1.8%	1.1%	1.2%	1.2%	1.3%	1.4%	1.4%	1.5%	1.6%	1.8%	
Long-term debt 44.4%	45.4%	47.4%	49.1%	46.5%	50.4%	49.8%	46.1%	47.1%	43.1%	
OTHER DATA										
Water production (million gallons)										
Wells 48,828	56,612	53,372	49,755	50,325	47,205	52,000	48,930	51,329	51,350	
Purchased 48,254	53,190	51,700	49,068	49,300	48,089	40,426	36,686	45,595	45,978	
Total water production 97,082	109,802	105,072	98,823	99,625	95,294	92,426	85,616	96,924	97,328	
Metered customers 267,000	302,100	298,400	289,200	286,700	282,100	278,700	275,200	272,100	269,200	
Flat rate customers 77,800	77,400	77,700	77,900	78,800	80,800	82,000	82,400	81,200	79,400	
Customers at year-end	379,500	376,100	367,100	365,500	362,900	360,700	357,600	353,300	348,600	

344,800									
New customers added	3,400	9,000	1,600	2,600	2,200	3,100	4,300	4,700	3,800
7,000									
Revenue per customer	\$515	\$486	\$450	\$430	\$418	\$388	\$356	\$352	\$337
\$330									
Utility plant per customer	\$1,707	\$1,644	\$1,592	\$1,530	\$1,469	\$1,406	\$1,327	\$1,251	\$1,198
\$1,140									
Employees at year-end	649	633	630	624	614	610	593	581	565
550									

\* Common share data is restated to reflect the effective two-for-one stock split on December 31, 1997.  
</TABLE>

#### Management's Discussion and Analysis of Financial Condition and Results of Operations

In April 1997, shareholders of California Water Service Company ("Company") voted to approve a holding company structure. After receiving final regulatory approval required to complete the process, on December 31, 1997, California Water Service Group ("Group") was formed. Through the holding company formation procedure, the Company became one of the Group's two operating subsidiaries. The Company will continue to operate as a regulated utility. Its assets and operating revenues currently comprise virtually all of the Group's assets and revenues. The other subsidiary, CWS Utility Services, is a new entity that will provide non-regulated water operations and related services. The following discussion and analysis provides information regarding the Group, its assets and operations.

In conjunction with formation of the holding company structure, each common share of Company stock was exchanged on a two-for-one basis for common shares of Group. Per share data has been restated where necessary to reflect the effective two-for-one stock split.

#### FORWARD LOOKING STATEMENTS

The Management's Discussion and Analysis section and other sections of this annual report contain forward looking statements. Such statements are inherently based on currently available information and expectations, estimates, assumptions and projections, and management's judgment about the Group, the water utility industry and general economic conditions. Such words as expects, intends, plans, believes, estimates, anticipates or variations of such words or similar expressions are intended to identify forward looking statements. The forward looking statements are not guarantees of future performance. Actual results may vary materially from what is contained in a forward looking statement. Factors which may cause a result different than expected include regulatory decisions, legislation and the impact of weather on operating results. The Group assumes no obligation to provide public updates of forward looking statements.

#### BUSINESS

The Company is a public utility supplying water service to 379,500 customers in 57 California communities through 21 separate water systems or districts. In the Company's 20 regulated systems, which serve 373,500 customers as shown on the map on page 7, rates and operations are subject to the jurisdiction of the California Public Utilities Commission ("CPUC"). An additional 6,000 customers receive service through a long-term lease of the City of Hawthorne water system, which is not subject to CPUC regulations. The Company also has contracts with various municipalities to operate water systems and provide billing services to an additional 29,500 customers. The Company also operates two reclaimed water systems under contract.

The CPUC requires that water rates for each regulated district be determined independently. Rates for the City of Hawthorne system are established in accordance with an operating agreement and are subject to ratification by the City council. Fees for other operating agreements are based on contracts negotiated among the parties.

#### RESULTS OF OPERATIONS

Earnings and Dividends. 1997 net income was \$23,305,000 compared to \$19,067,000 in 1996 and \$14,698,000 in 1995. Earnings per common share were \$1.83 in 1997, \$1.50 in 1996 and \$1.16 in 1995. 1997 revenue, net income and earnings per share represent the highest levels ever achieved by the Group. The weighted average number of common shares outstanding in each of the three years was 12,619,000, 12,580,000 and 12,506,000, respectively.

At its January 1997 meeting, the Board of Directors increased the common stock dividend rate for the 30th consecutive year. 1997 also marked the 53rd consecutive year that a dividend had been paid on the Company's common stock. The annual dividend rate paid in 1997 was \$1.055, an increase of 1.4% over the 1996 rate of \$1.04 per share which was an increase of 2.0% compared with the 1995 dividend of \$1.02

per share. The dividend increases were based on projections that the higher dividend could be sustained while still providing the Group with adequate financial flexibility. Earnings not paid as dividends are reinvested in the business. The dividend payout ratio was 58% in 1997, 69% in 1996 and 88% in 1995, an average of 72% for the three-year period. The variation in payout ratios among the three years is primarily attributable to earnings per share fluctuations.

**Operating Revenue.** Operating revenue, including revenue from City of Hawthorne customers, was a record \$195.3 million, exceeding the record set the previous year of \$182.8 million, a \$12.6 million or 7% increase. 1995 revenue was \$165.1 million. General and step rate increases contributed \$6.4 million, while offset rate adjustments, primarily for purchased water cost increases, added \$0.2 million. Increased customer usage added \$3.9 million. Average revenue per customer for each of the three years ended December 31, 1997 and was \$515, \$486 and \$450, respectively. The revenue changes were mainly driven by consumption levels and rate increases. Rainfall for the 1996-97 season was concentrated in December 1996 and January 1997, then virtually ceased. The summer months were dry and warm, resulting in the highest average recorded consumption level for metered accounts at 315 ccf., a 4% increase for the year. The increase in average consumption followed a very strong consumption year in 1996. The increase in revenue during the first half of 1997 benefited from the June, 1996 rate case decision affecting 47% of customers. The CPUC decision for the applications filed in 1996 became effective in April 1997, affecting 11% of the customers. The customer count increased 0.9% to 379,500. Sales to 3,352 new customers increased revenue \$2.1 million. The City of Hawthorne system was operated for the full year in 1997, while the 1996 operation was for a ten-month period.

Operating revenue in 1996 increased \$17.7 million, or 11% greater than 1995's operating revenue. Offset rate adjustments, primarily for purchased water cost increases, added \$2.2 million to revenue, while general and step rate increases contributed \$7.8 million. Increased customer usage added \$3.1 million. Average billed water consumption per metered customer was 303 ccf, a 6% increase for the year. Following a wet first quarter, during which heavy rainfall assured an adequate supply for the year, warm, dry spring and summer weather caused an increase in consumption. In June, rate increases in five districts, covering 47% of customers, became effective and added significantly to revenue in the second half of the year. The number of customers increased 2.4% for the year due to the addition of the 6,000 City of Hawthorne customers in March and other customers added in existing service areas. Sales to a total of 9,000 new accounts provided \$4.6 million in additional revenue.

The 1995 revenue increase was \$7.8 million, or 5% greater than 1994. Offset rate adjustments, mainly for purchased water cost increases, added \$3.8 million while general and step rate increases contributed \$2.2 million. Increased customer usage added \$1.1 million. Average billed water consumption per metered customer was 286 ccf., an increase of 1 ccf for the year. Only consumption in the fourth quarter exceeded that of the prior year, the first three 1995 quarters recorded usage which was less than 1994's. The consumption pattern reflects 1995's weather. The winter was unusually wet. Rain and cool weather continued through the spring and negatively influenced summer usage. With the exception of August, which showed a slight increase in consumption, all months through the third quarter recorded a sales decline from the prior year. Lack of rain and mild weather in the fourth quarter resulted in increased average customer usage of 14%. Sales to 1,600 new customers during the year accounted for \$0.7 million in additional revenue.

**Operating and Interest Expenses.** Operating expenses, including those for the Hawthorne operation, increased \$8.6 million in 1997, \$12.7 million in 1996 and \$7.9 million in 1995.

Well production supplied 51.2% of the water delivered to all systems in 1997, while 48.4% was purchased from wholesale suppliers and 0.4% came from the Company's Bear Gulch district watershed. Water production was 110 billion gallons, up 5% from 1996's 105 billion gallons. Production in 1995 was 99 billion gallons. The production levels in 1997 and 1996 reflect increased customer usage. Total cost of water production, including purchased water, purchased power and pump taxes, was \$68.9 million in 1997, \$67.3 million in 1996 and \$62.2 million in 1995. Purchased water expense was the largest component of operating expense in each year. This year purchased water expense was \$52.2 million, an increase of \$0.6 million. The overall purchased water expense was reduced by \$2.5 million due to refunds received from two wholesale suppliers in May 1997. Well production, which increased 6% in 1997 because of increased demand, caused a \$0.9 million increase in pump taxes and purchased power costs. In 1996, well production was up 8%, however, purchased power decreased \$0.6 million due to the availability of less expensive power in several districts. In 1997, the Bear Gulch watershed yielded 0.5 billion gallons, the same production as in 1996.

Employee payroll and benefits charged to operations and maintenance expense was \$32.9 million this past year, \$31.2 million in 1996 and \$29.9 million in 1995. The increases in payroll and related benefits are attributable to general wage increases effective at the start of each year and additional hours worked. At year-end 1997, 1996 and 1995, there were 649, 633 and 630 employees, respectively.

Income taxes were \$14.0 million in 1997, \$12.2 million in 1996 and \$9.9 million in 1995. The changes in taxes are generally due to increased taxable income.

Long-term debt interest expense decreased \$0.3 million due to the retirement of Series K bonds in November 1996 and Series L bonds in November 1997, and annual sinking fund payments each year. Interest on long-term debt increased \$0.7 million in 1996 because of the sale, in August, 1995, of \$20 million of senior notes which were outstanding for the full year. In 1995, bond interest expense increased \$0.4 million, also because of the senior note sale.

Interest on short-term bank borrowings in 1997 was \$0.3 million more than in 1996 which was \$0.2 million less than 1995's expense. The additional interest expense this year reflects increased short-term borrowings, especially during the latter part of the year. 1996's expense reduction reflects a reduced requirement for short-term borrowings due to increased water sales which resulted in improved cash flow and funds available in 1996 from the 1995 senior note sale. Interest on short-term bank borrowings decreased \$0.3 million in 1995, despite higher short-term rates during 1995 compared to 1994. The reduction in the expense reflects the payoff of outstanding short-term bank borrowings upon the issuance of senior notes and reduced short-term borrowing needs. Due to improved earnings, interest coverage of long-term debt before income taxes was 4.2 in 1997, 3.6 in 1996 and 3.2 in 1995.

Other Income. Other income is derived from management contracts under which the Company operates three municipally owned water systems, contracts for operation of five privately owned water systems, agreements for operation of two reclaimed water systems, provides billing services to various cities, leases certain facilities, other nonutility sources and interest on short-term investments. Total other income was \$1.1 million in 1997, \$0.8 million in 1996 and \$0.9 million in 1995. Income from the various operating and billing contracts excluding short-term interest income was \$1 million this year, \$0.7 million in 1996 and 1995.

Following the August 1995 senior note issue, available funds generated significant interest income. This source for temporary investments was not available in 1997 or 1996. There was \$14.5 million in temporary borrowings at the end of 1997, \$7.5 million at the end of 1996 and none at the end of 1995.

#### RATES AND REGULATION

General rate case applications were filed for four districts representing 7% of total accounts in July 1997. The applications request additional revenue of about \$650,000 for 1998. Future step rate increases for two of the districts of about \$110,000 for each year 1999 through 2001 were also requested. In the other two districts, proposed step rate increases would be based on a hybrid - CPI each year through the year 2003.

During 1996, general rate case applications were filed with the CPUC for two districts, Livermore and Palos Verdes, which represent about 11% of the Company's customers. In April, the CPUC granted the Company a return on common equity (ROE) of 10.35%. Additional 1997 revenue, including memorandum and balancing account adjustments, was \$2.4 million. The decision included provisions for future step rate increases to become effective in the next three years of \$1.7 million in 1998 and \$0.1 million in 1999 and 2000. The CPUC also authorized step rate increases for 1997 in various districts totaling \$1.5 million and \$1.4 million for undercollection of expense balancing accounts.

The CPUC's decision on the Company's 1995 rate case filing was effective in June 1996. The decision, which involved five districts representing 47% of the Company's customers, authorized an ROE of 10.3%. It added \$5.4 million of revenue during the first full year, including \$1.2 million of step rate increases effective at the start of 1996. Over a four-year period, the decision is expected to provide about \$10.6 million in new revenue. The decision includes a provision to accelerate recovery of the Company's utility plant investment, resulting in an annualized depreciation rate of about 2.6% for the five districts. Historically, the Company's annual depreciation rate has been 2.4% of utility plant.

During 1998, 14 districts, representing about 80% of all customers,

are eligible for rate increase filings. The Company will review earnings levels in those districts and file for additional rate consideration as it deems appropriate. The filings are expected to be made in July.

#### WATER SUPPLY

The Company's source of supply varies among its 21 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 their supply from both sources. The Company operates two treatment plants which process surface water supplies. In each of the past three years, approximately half of the total Company supply has been pumped from Company owned wells and half purchased from wholesale suppliers. Total water production for 1997, 1996 and 1995 was 109,802, 105,072 and 98,823 million gallons, respectively.

Generally, between mid-spring and mid-fall little precipitation falls in the Company's service areas. Water demand is highest during the warm, dry summer period and less in the cool, wet winter. Rain and snow during the winter months replenish underground water basins and fill reservoirs providing the water supply for subsequent delivery to customers. To date, snow and rainfall accumulation during the 1997-98 winter has exceeded normal levels for the third year in a row. Water storage in state reservoirs exceeds historic levels. The Company believes that its source of supply from both underground aquifers and purchased sources is adequate to meet customer demands for 1998 in all service areas.

#### ENVIRONMENTAL MATTERS

The Company is subject to regulations of the United States Environmental Protection Agency (EPA), the California Department of Health Services and various county health departments concerning water quality matters. It is also subject to the jurisdiction of various state and local regulatory agencies relating to environmental matters, including handling and disposal of hazardous materials.

The Company believes it is in compliance with all monitoring and treatment requirements set forth by the various agencies. In the past several years, substantially all of the Company's wells have been equipped with chlorinators, providing disinfection of water extracted from underground sources. The cost of the new treatment is being recovered in customer rates as authorized by the CPUC. Water purchased from wholesale suppliers is treated before delivery to the Company.

During 1996, Congress approved amendments to the Safe Drinking Water Act. The revised law provides improvements in establishing regulations for potential contaminants. Among the considerations by EPA in determining whether to regulate a particular substance are potential impact on public health, the likelihood of the contaminants' occurrence and a cost/benefit analysis. The Company believes the amended law provides a prudent approach to safeguarding potable water supplies.

Various regulatory agencies could require increased monitoring and possibly additional treatment of water supplies. The Company intends to request recovery for any additional treatment costs through the ratemaking process.

#### LIQUIDITY AND CAPITAL RESOURCES

Liquidity. The Company's liquidity is provided by utilization of a \$50 million short-term bank line of credit which is split evenly between Group and Company, and by internally generated funds. Prior to 1997, the line of credit was \$30 million. The Group's \$25 million portion of the bank credit line may be drawn upon for use by the Group, including funding operations of either of its two operating subsidiaries. The Company's \$25 million portion of the credit line may be used solely for purposes of regulated water operations. Additional information regarding the bank line of credit is presented in Note 4 to the financial statements. Internally generated funds come from retention of a portion of earnings, depreciation and deferred income taxes.

Because of the seasonal nature of the water business, the need for short-term borrowings under the line of credit generally increases during the first six months of the year. Due to greater summer usage, cash flow from operations increases and bank borrowings can be repaid.

The Company believes that long-term financing is available to it through equity and debt markets. Standard & Poor's and Moody's have maintained their ratings of the Company's first mortgage bonds at AA- and Aa3, respectively. Long-term financing, which includes issuance of common stock, first mortgage bonds, senior notes and other debt securities is used to replace short-term borrowings and fund construction. Developer contributions in aid of construction and refundable advances for construction are also sources of funds for

various construction projects.

Additional long-term financing was not necessary in either 1997 or 1996. Operating and capital requirements were met by borrowings under the bank short-term line of credit and by internally generated funds. During August, 1995, Series A, 7.28%, 30-year senior notes were issued. The proceeds from the issue were used to repay outstanding bank borrowings, redeem upon maturity the outstanding \$2,565,000 Series J first mortgage bonds and fund the 1995 and a portion of the 1996 construction programs.

During the first quarter of 1998, the Group plans to implement a new Dividend Reinvestment and Stock Purchase Plan (Plan). The Plan will replace the Company's former Dividend Reinvestment Plan. Under the new Plan, shareholders may reinvest dividends to purchase additional Group common stock. Another feature of the Plan allows existing shareholders and other interested investors to purchase Group common shares. Shares required for the Plan may be purchased on the open market or newly issued shares. Therefore, the Plan will provide the Group with an alternative means of developing additional equity if new shares were to be issued. Initially, the intention is to purchase shares required for the Plan on the open market. If new shares are issued to satisfy future Plan requirements, the impact on earnings per share could be dilutive because of the added shares outstanding. Also, shareholders not participating in the Plan would experience dilution of their ownership percentage.

In 1996, under the Company's former Dividend Reinvestment Plan, 80,438 new common shares were issued to shareholders who elected to reinvest their dividends, providing the Company with \$1.4 million in additional equity. In 1995, 44,634 new shares were issued under the Plan during the third and fourth quarters providing equity of \$0.7 million. Reinvestment shares required for the 1995 first and second quarter dividends were purchased on the open market and redistributed to Plan participants. Currently, about 10% of outstanding shares participate in the Company's dividend reinvestment program. Capital Requirements. Capital requirements consist primarily of new construction expenditures for expanding and replacing the Company's utility plant facilities, and the acquisition of new water properties. They also include refunds of advances for construction and retirement of bonds.

During 1997, utility plant expenditures totaled \$32.9 million compared to \$35.7 million in 1996. This year's expenditures included \$25.5 million provided by Company funding and \$7.4 million received from developers through contributions in aid of construction and refundable advances. Company funded expenditures were in the following areas: wells, pumping and water treatment equipment and storage facilities, \$6.9 million; distribution systems, \$9.7 million; services and meters, \$5.2 million; equipment, \$3.7 million. Company projects were funded by internally generated funds and the short-term bank line of credit. In 1996, expenditures included the \$6.5 million up-front City of Hawthorne lease payment. The system is being leased for 15 years. A portion of the proceeds from the August 1995 senior notes issue was also available to fund a portion of the 1996 Company construction program.

The 1998 Company construction program has been authorized by the Board of Directors for \$31.0 million. Expenditures are expected to be in the following areas: wells, pumping and water treatment equipment and storage facilities, \$11.9 million; distribution systems, \$8.7 million; services and meters, \$5.4 million; and equipment, \$5.0 million. The funds for this program are expected to be provided by cash from operations, bank borrowings and long-term debt financing. New subdivision construction generally will be financed by developers' contributions and refundable advances. Company funded construction budgets over the next five years are projected to be \$125 million.

Since 1986, proceeds received from developers for installation of new facilities were subject to income tax. During 1996, Congress enacted legislation which exempted from taxable income the majority of proceeds received from developers to fund advances for construction and contributions in aid of construction. As part of the legislation, future water utility plant additions will generally be depreciated for federal tax purposes on a straight-line, 25-year life basis. The federal tax exemption of developer funds will reduce the Company's cash flow requirement for income taxes. In 1997, California adopted similar legislation regarding the taxability of payments received from developers.

Capital Structure. The Company's total capitalization at December 31, 1997 and 1996 was \$306.7 million and \$299.9 million, respectively.

Capital ratios were:

	1997	1996
Common equity	53.5%	51.4%
Preferred stock	1.1%	1.2%
Long-term debt	45.4%	47.4%

The increase in the common equity percentage from 1996 to 1997 and the corresponding decrease in the long-term debt percentage were primarily caused by strong 1997 earnings which contributed to shareholders' equity. During the year, no new debt was sold or equity issued. Also contributing to the change was the retirement of Series L, first mortgage bonds in November 1997 along with the annual bond sinking fund payments which were also made in November.

The 1997 return on average common equity was 14.6% compared with 12.7% in 1996 and 10.2% in 1995. The most recent CPUC authorized rate of return on common equity is 10.35%.

Shareholder Rights Plan. As explained in Note 3 to the Consolidated Financial Statements, in January 1998, the Board of Directors adopted a Shareholder Rights Plan (Plan). In connection with the Plan, a dividend distribution of one's right to purchase preferred stock under certain circumstances was also authorized. The Plan is designed to protect shareholders and maximize shareholder value in the event of an unsolicited takeover proposal by encouraging a prospective acquirer to negotiate with the Board.

#### NEW ACCOUNTING STANDARDS

During 1997, the Financial Accounting Standards Board issued two statements which will be effective for the Group in 1998. Statement No. 130, "Reporting Comprehensive Income," requires comprehensive income items be classified separately and the accumulated balance be reported in the equity section of the financial statements. Statement No. 131, "Disclosures about Segments of an Enterprise and Related Information," establishes disclosure requirements concerning operating business segments, products and services, geographic areas and major customers. The Group, which will adopt both statements during 1998, does not anticipate that either statement will have a material impact on its financial position or operating results.

#### YEAR 2000

The Group is familiar with the concerns and technological complexities associated with achieving Year 2000 compliance of computer based systems. A program is in place with a goal to assure that Group's systems achieve Year 2000 compliance by the end of 1998. In addition, the program includes attaining comfort that our business partners will also achieve Year 2000 compliance without a disruption of our business processes. The Group believes that the Year 2000 transition will be completed without a material adverse effect on its operations or financial position.

#### CONSOLIDATED BALANCE SHEET

(In thousands)  
December 31,

	1997	1996
<b>ASSETS</b>		
Utility plant:		
Land	\$7,860	\$7,536
Depreciable plant and equipment	627,584	600,329
Construction work in progress	4,026	3,300
Intangible assets	8,178	7,267
Total utility plant	647,648	618,432
Less depreciation and amortization	187,241	174,844
Net utility plant	460,407	443,588
Current assets:		
Cash and cash equivalents	1,742	1,368
Receivables:		
Customers	10,890	11,437
Other	3,972	1,528
Unbilled revenue	5,136	5,577
Materials and supplies at average cost	2,105	2,324
Taxes and other prepaid expenses	4,423	4,537
Total current assets	28,268	26,771
Other assets:		
Regulatory assets	38,345	37,556
Unamortized debt premium and expense	3,748	3,943
Other	529	532
Total other assets	42,622	42,031
	\$531,297	\$512,390

See accompanying notes to consolidated financial statements.

December 31, (In thousands)	1997	1996
<b>CAPITALIZATION AND LIABILITIES</b>		
Capitalization:		
Common stock	\$44,941	\$44,941
Retained earnings	119,124	109,285
Total common shareholders' equity	164,065	154,226
Preferred stock without mandatory redemption provision	3,475	3,475
Long-term debt	139,205	142,153
Total capitalization	306,745	299,854
Current liabilities:		
Short-term borrowings	14,500	7,500
Accounts payable	15,499	14,692
Accrued taxes	2,985	3,002
Accrued interest	1,919	1,947
Other accrued liabilities	8,241	7,653
Total current liabilities	43,144	34,794
Unamortized investment tax credits	3,006	3,086
Deferred income taxes	25,761	23,736
Regulatory liabilities	12,493	12,627
Advances for construction	95,878	95,226
Contributions in aid of construction	44,270	43,067
	\$531,297	\$512,390

#### CONSOLIDATED STATEMENT OF INCOME

For the years ended December 31, (In thousands, except per share data)	1997	1996	1995
Operating revenue	\$195,324	\$182,764	\$165,086
Operating expenses:			
Operations:			
Purchased water	52,155	51,514	46,370
Purchased power	12,462	12,075	12,689
Pump taxes	4,302	3,753	3,151
Administrative and general	23,521	21,664	19,989
Other	24,019	23,000	21,635
Maintenance	9,319	8,317	7,722
Depreciation and amortization	13,670	12,665	11,436
Income taxes	13,950	12,150	9,850
Property and other taxes	7,577	7,259	6,852
Total operating expenses	160,975	152,397	139,694
Net operating income	34,349	30,367	25,392
Other income and expenses, net	858	607	768
Income before interest expense	35,207	30,974	26,160
Interest expense:			
Long-term debt interest	11,405	11,663	10,984
Other interest	497	244	478
Total interest expense	11,902	11,907	11,462
Net income	\$23,305	\$19,067	\$14,698
Earnings per share of common stock	\$1.83	\$1.50	\$1.16
Average number of common shares outstanding	12,619	12,580	12,506

See accompanying notes to consolidated financial statements.

#### CONSOLIDATED STATEMENT OF COMMON SHAREHOLDERS' EQUITY

	Common Shares Outstanding	Common Stock	Retained Earnings	Total
(In thousands, except shares)				
Balance at December 31, 1994	12,494,068	\$42,800	\$ 101,647	\$144,447
Net income			14,698	14,698
Dividends paid:				
Preferred stock			153	153
Common stock			12,750	12,750
Total dividends paid			12,903	12,903
Income reinvested in business			1,795	1,795
Dividend reinvestment	44,634	707		707
Balance at December 31, 1995	12,538,702	43,507	103,442	146,949
Net income			19,067	19,067
Dividends paid:				
Preferred stock			153	153
Common stock			13,071	13,071



Total dividends paid			13,224	13,224
Income reinvested in business			5,843	5,843
Dividend reinvestment	80,438	1,434		1,434
Balance at December 31, 1996			109,285	154,226
	12,619,140	44,941		
Net income			23,305	23,305
Dividends paid:				
Preferred stock			153	153
Common stock			13,313	13,313
Total dividends paid			13,466	13,466
Income reinvested in business			9,839	9,839
Balance at December 31, 1997			\$119,124	\$164,065
	12,619,140	\$44,941		

See accompanying notes to consolidated financial statements.

#### CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended December 31, (In thousands)	1997	1996	1995
Operating activities:			
Net income	\$23,305	\$19,067	\$14,698
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	13,670	12,665	11,436
Deferred income taxes and investment tax credits, net	1,945	(2,169)	1,698
Regulatory assets and liabilities, net	(923)	503	(1,181)
Changes in operating assets and liabilities:			
Receivables	(1,897)	698	(1,936)
Unbilled revenue	441	729	(314)
Accounts payable	807	(115)	2,576
Other current liabilities	543	1,579	1,560
Other changes, net	1,510	235	1,258
Net adjustments	16,096	14,125	15,097
Net cash provided by operating activities	39,401	33,192	29,795
Investing activities:			
Utility plant expenditures:			
Company funded	(25,491)	(27,631)	(20,039)
Developer advances and contributions in aid of construction	(7,416)	(8,052)	(7,211)
Net cash used in investing activities	(32,907)	(35,683)	(27,250)
Financing activities:			
Net short-term borrowings	\$7,000	\$7,500	\$(7,000)
Proceeds from issuance of long-term debt			20,000
Proceeds from issuance of common stock		1,434	707
Advances for construction	4,536	4,998	5,368
Refunds of advances for construction	(3,685)	(3,631)	(3,524)
Contributions in aid of construction	2,443	3,896	3,183
Retirements of first mortgage bonds including premiums	(2,948)	(3,387)	(3,404)
Dividends paid	(13,466)	(13,224)	(12,903)
Net cash provided by (used in) financing activities	(6,120)	(2,414)	2,427
Change in cash and cash equivalents	374	(4,905)	4,972
Cash and cash equivalents at beginning of year	1,368	6,273	1,301
Cash and cash equivalents at end of year	\$1,742	\$1,368	\$6,273

#### SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the year for:			
Interest (net of amounts capitalized)	\$11,734	\$11,721	\$11,050
Income taxes	\$14,525	\$12,775	\$8,258

See accompanying notes to consolidated financial statements

#### Notes to Consolidated Financial Statements December 31, 1997, 1996 and 1995

In April 1997, shareholders of California Water Service Company ("Company") voted to approve a holding company structure. The formation process was completed on December 31, 1997 at which time California Water Service Group ("Group") became the parent company. As a result of the holding company formation, the Company became one of Group's two operating subsidiaries. The Company will continue to operate as a utility regulated by the California Public Utilities Commission (CPUC). The other subsidiary, CWS Utility Services, is a new entity which will perform non-regulated water related services and operations. The consolidated financial statements include the accounts of the Company which comprise virtually all of the Group's assets and revenues.

In conjunction with formation of the holding company structure, common shares of Company stock were exchanged on a two-for-one basis for common shares of Group. Prior years' share data has been restated to reflect the effects of the exchange which is equivalent to a stock split.

NOTE 1. Summary of Significant Accounting Policies

The consolidated financial statements include the accounts of California Water Service Group and its wholly-owned subsidiaries, California Water Service Company and CWS Utility Services, collectively referred to as the Group. Intercompany transactions and balances have been eliminated.

The accounting records of the Company are maintained in accordance with the uniform system of accounts prescribed by the CPUC. Certain prior years' amounts have been reclassified, where necessary, to conform to the current presentation.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue. Revenue consists of monthly cycle customer billings for regulated water service at rates authorized by the CPUC and billings to City of Hawthorne customers. Revenue from metered accounts includes unbilled amounts based on the estimated usage from the latest meter reading to the end of the accounting period. Flat rate accounts which are billed at the beginning of the service period are included in revenue on a pro rata basis for the portion applicable to the current accounting period.

Utility Plant. Utility plant is carried at original cost when first constructed or purchased, except for certain minor units of property recorded at estimated fair values at dates of acquisition. Cost of depreciable plant retired is eliminated from utility plant accounts and such costs are charged against accumulated depreciation. Maintenance of utility plant, other than transportation equipment, is charged to operation expenses. Maintenance and depreciation of transportation equipment are charged to a clearing account and subsequently distributed primarily to operations. Interest is capitalized on plant expenditures during the construction period and amounted to \$267,000 in 1997, \$261,000 in 1996, and \$207,000 in 1995.

Intangible assets acquired as part of water systems purchased are stated at amounts as prescribed by the CPUC. All other intangibles have been recorded at cost. Included in intangible assets is \$6,500,000 paid to the City of Hawthorne to lease the city's water system and associated water rights. The lease payment is being amortized on a straight-line basis over the 15-year life of the lease. The Group continually evaluates the recoverability of utility plant by assessing whether the amortization of the balance over the remaining life can be recovered through the expected and undiscounted future cash flows.

Long-Term Debt Premium, Discount and Expense. The discount and expense on long-term debt is being amortized over the original lives of the related debt issues. Premiums paid on the early redemption of certain debt issues and unamortized original issue discount and expense of such issues are amortized over the life of new debt issued in conjunction with the early redemption.

Cash Equivalents. Cash equivalents include highly liquid investments, primarily U.S. Treasury and U.S. Government agency interest bearing securities, stated at cost with original maturities of three months or less.

Depreciation. Depreciation of utility plant for financial statement purposes is computed on the straight-line remaining life method at rates based on the estimated useful lives of the assets, ranging from 5 to 65 years. The provision for depreciation expressed as a percentage of the aggregate depreciable asset balances was 2.5% in 1997 and 1996, and 2.4% in 1995. For income tax purposes, as applicable, the Company computes depreciation using the accelerated methods allowed by the respective taxing authorities. Plant additions since June 1996, are depreciated on a straight-line basis for tax purposes.

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. Such payments are refundable to the developer

without interest over a 20-year or 40-year period. Refund amounts under the 20-year contracts are based on annual revenues from each extension. Unrefunded balances at the end of the contract period are credited to Contributions in Aid of Construction and are no longer refundable. Refunds on contracts entered into since 1982 are made in equal annual amounts over 40 years. At December 31, 1997, the amounts refundable under the 20-year contracts were \$9,547,000 and under the 40-year contracts \$86,331,000. Estimated refunds for 1998 for all water main extension contracts are \$3,800,000.

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 contributions is charged to Contributions in Aid of Construction.

Income Taxes. The Group 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 bases. 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.

It is anticipated that future rate action by the CPUC will reflect revenue requirements for the tax effects of temporary differences recognized which have previously been flowed through to customers.

The CPUC has granted the Company customer 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. ITC are deferred and amortized over the lives of the related properties.

Advances for Construction and Contributions in Aid of Construction received from developers subsequent to 1986 were taxable for federal income tax purposes and subsequent to 1991 subject to state income tax. In 1996 the federal tax law, and in 1997 the state tax law, changed and a major portion of subsequent advances and contributions are non-taxable.

Earnings per Share. In 1997, the Group adopted Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings per Share", issued by the Financial Accounting Standards Board. SFAS No. 128 changes the standard for computing earnings per share (EPS) by replacing the presentation of primary EPS with basic EPS for all periods presented. Per share data is calculated using income available to common shareholders divided by the weighted average number of shares outstanding during the year. The adoption of SFAS No. 128 had no effect on the Group's EPS amounts. The Group has no dilutive securities, accordingly, diluted EPS is not shown.

#### NOTE 2. Preferred Stock

As of December 31, 1997 and 1996, 380,000 shares of preferred stock were authorized. Dividends on outstanding shares are payable quarterly at a fixed rate before any dividends can be paid on common stock. Preferred shares are entitled to sixteen votes each with the right to cumulative votes at any elections of directors.

The outstanding 139,000 shares of \$25 par value cumulative, 4.4% Series C preferred shares are not convertible to common stock. A premium of \$243,250 would be due upon voluntary liquidation of Series C. There is no premium in the event of an involuntary liquidation.

#### NOTE 3. Common Shareholders' Equity

The Group is authorized to issue 25,000,000 shares of no par value common stock. All share data has been restated to reflect the two-for-one stock split effective December 31, 1997. As of December 31, 1997 and 1996, 12,619,140 shares of common stock were issued and outstanding. All shares of common stock are eligible to participate in the Group's dividend reinvestment plan. Approximately 10% of shareholders participate in the plan. In 1996 and 1995, 80,438 and 44,634, respectively, new shares were issued under the reinvestment plan.

Shareholder Rights Plan. In January 1998, the Board of Directors adopted a Shareholder Rights Plan (Rights Plan) and authorized a dividend distribution of one right (Right) to purchase 1/100th share of Series D Preferred Stock for each outstanding share of Common Stock. The Rights will become effective in February 1998 and expire in February 2008. The Rights Plan is designed to provide shareholders

protection and to maximize shareholder value by encouraging a prospective acquirer to negotiate with the Board.

Each Right represents a right to purchase 1/100th share of Series D Preferred Stock at the price of \$120, subject to adjustment ("the Purchase Price"). Each share of Series D Preferred Stock is entitled to receive a dividend equal to 100 times any dividend paid on common stock and 100 votes per share in any shareholder election. The Rights become exercisable upon occurrence of a Distribution Date. A Distribution Date event occurs if (a) any person accumulated 15% of the then outstanding Common Stock, (b) any person presents a tender offer which caused the person's ownership level to exceed 15% and the Board determined the tender offer not to be fair to Group's shareholders, or (c) the Board determines that a shareholder maintaining a 10% interest in the Common Stock could have an adverse impact on the Group or could attempt to pressure Group to repurchase the holder's shares at a premium.

Until the occurrence of a Distribution Date, each Right trades with the Common Stock and is not separately transferable. When a Distribution Date occurs: (a) Group would distribute separate Rights Certificates to Common Shareholders and the Rights would subsequently trade separate from the Common Stock; and (b) each holder of a Right, other than the Acquiring Person (whose Rights will thereafter be void), will have the right to receive upon exercise at its then current Purchase Price that number of shares of Common Stock having a market value of two times the Purchase Price of the Right. If Group merges into the acquiring person, transfers a significant portion of its assets to the acquiring person or enters into any transaction that unfairly favors the acquiring person or disfavors Group's other shareholders, the Right becomes a right to purchase Common Stock of the acquiring person having a market value of two times the Purchase Price.

The Board may determine that in certain circumstances a proposal which would cause a distribution date is in the Group shareholders' best interest. Therefore, the Board may, at its option, redeem the Rights at a redemption price of \$.001 per Right.

#### NOTE 4. Short-Term Borrowings

As of December 31, 1997, the Group maintained a bank line of credit providing unsecured borrowings of up to \$50,000,000 at the prime lending rate or lower rates as quoted by the bank. Subsequent to December 31, 1997, \$25,000,000 of the bank line was transferred to California Water Service Group, with the remaining line of \$25,000,000 available solely to the Company. The agreement does not require minimum or specific compensating balances. The following table represents borrowings under the bank line of credit.

	Dollars in Thousands		
	1997	1996	1995
Maximum short-term borrowings	\$14,500	\$9,500	\$13,000
Average amount outstanding	5,164	1,662	5,142
Weighted average interest rate	7.22%	6.94%	7.26%
Interest rate at December 31	7.29%	6.98%	

#### NOTE 5. Long-Term Debt

As of December 31, 1997 and 1996 long-term debt outstanding was:

	In Thousands	
	1997	1996
First Mortgage Bonds:		
Series L 6.75% due 1997	\$	\$2,138
Series P 7.875% due 2002	2,625	2,640
Series S 8.50% due 2003	2,640	2,655
Series BB 9.48% due 2008	16,740	16,920
Series CC 9.86% due 2020	18,900	19,100
Series DD 8.63% due 2022	19,500	19,600
Series EE 7.90% due 2023	19,600	19,700
Series FF 6.95% due 2023	19,600	19,700
Series GG 6.98% due 2023	19,600	19,700
	119,205	122,153
Senior Notes:		
Series A 7.28% due 2025	20,000	20,000
Total long-term debt	\$139,205	\$142,153

The first mortgage bonds are held by institutional investors and secured by substantially all of the Company's utility plant. Aggregate maturities and sinking fund requirements for each of the succeeding five years 1998 through 2002 are \$620,000, \$2,240,000, \$2,240,000, \$2,240,000 and \$4,790,000, respectively.

The senior notes are held by institutional investors and are unsecured and require interest only payments until maturity.

NOTE 6. Income Taxes

Income tax expense consists of the following:

	In Thousands		
	Federal	State	Total
1997			
Current	\$8,970	\$2,894	\$11,864
Deferred	2,280	(194)	2,086
Total	\$11,250	\$2,700	\$13,950
1996			
Current	\$9,356	\$3,274	\$12,630
Deferred	444	(924)	(480)
Total	\$9,800	\$2,350	\$12,150
1995			
Current	\$6,839	\$2,729	\$9,568
Deferred	1,161	(879)	282
Total	\$8,000	\$1,850	\$9,850

Income tax expense computed by applying the current federal tax rate of 35% to pretax book income differs from the amount shown in the Consolidated Statement of Income. The difference is reconciled in the table below:

	In Thousands		
	1997	1996	1995
Computed "expected" tax expense	\$13,039	\$10,926	\$8,592
Increase (reduction) in taxes due to:			
State income taxes net of federal tax benefit	1,755	1,528	1,203
Investment tax credits	(152)	(119)	(132)
Other	(692)	(185)	187
Total income tax	\$13,950	\$12,150	\$9,850

The components of deferred income tax expense in 1997, 1996 and 1995 were:

	In Thousands		
	1997	1996	1995
Depreciation	\$2,457	\$3,544	\$3,854
Developer advances and contributions	(334)	(3,749)	(3,455)
Bond redemption premiums	(62)	(73)	(75)
Investment tax credits	(93)	(93)	(90)
Other	118	(109)	48
Total deferred income tax expense	\$2,086	\$ (480)	\$282

The tax effects of differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 1997 and 1996 are presented in the following table:

	In Thousands	
	1997	1996
Deferred tax assets:		
Developer deposits for extension agreements and contributions in aid of construction	\$43,980	\$45,901
Federal benefit of state tax deductions	2,998	4,177
Book plant cost reduction for future deferred ITC amortization	1,776	1,832
Insurance loss provisions	334	286
Total deferred tax assets	49,088	52,196
Deferred tax liabilities:		
Utility plant, principally due to depreciation differences	74,029	74,407
Premium on early retirement of bonds	1,215	1,290
Other	(395)	235
Total deferred tax liabilities	74,849	75,932
Net deferred tax liabilities	\$25,761	\$23,736

A valuation allowance was not required during 1997 and 1996. Based on historical taxable income and future taxable income projections over the periods in which the deferred assets are deductible, management believes it is more likely than not the Group will realize the benefits of the deductible differences.

NOTE 7. Employee Benefit Plans

Pension Plan. The Company provides a qualified defined benefit, non-contributory, pension plan for substantially all employees. The cost of the plan was charged to expense and utility plant. The Company makes annual contributions to fund the amounts accrued for pension cost. Plan assets are invested in mutual funds, pooled equity, bond and short-term investment accounts. The data below includes the

unfunded, non-qualified, supplemental executive retirement plan.

Net pension cost for the years ending December 31, 1997, 1996 and 1995 included the following components:

	In Thousands		
	1997	1996	1995
Service cost-benefits earned during the year	\$1,545	\$1,543	\$1,265
Interest cost on projected obligation	2,805	2,583	2,360
Actual return on plan assets	(6,023)	(4,784)	(5,817)
Net amortization and deferral	3,915	2,789	4,220
Net pension cost	\$2,242	\$2,131	\$2,028

The following table sets forth the plan's funded status and the plan's accrued assets (liabilities) as of December 31, 1997 and 1996:

	In Thousands	
	1997	1996
Accumulated benefit obligation, including vested benefits of \$31,519 in 1997 and \$28,059 in 1996	\$(32,242)	\$(28,679)
Projected benefit obligation	(44,576)	(39,296)
Plan assets at fair value	42,390	38,293
Projected benefit obligation in excess of plan assets	(2,186)	(1,003)
Unrecognized net gain	(5,203)	(6,120)
Prior service cost not yet recognized in net periodic pension cost	5,370	4,991
Remaining net transition obligation at adoption date January 1, 1987	1,144	1,430
Accrued pension liability recognized in the balance sheet	\$(875)	\$(702)

The projected long-term rate of return on plan assets used in determining pension cost was 8.0% for the years 1997, 1996 and 1995. A discount rate of 7.0% in 1997, 7.4% in 1996 and 7.0% in 1995, and future compensation increases of 4.5% in 1997, 1996 and 1995 were used to calculate the projected benefit obligations as of the end of the respective years.

Savings Plan. The Company sponsors a 401(k) qualified, defined contribution savings plan that allows participants to contribute up to 15% of pre-tax compensation. The Company matched fifty cents for each dollar contributed by the employee up to a maximum Company match of 4.0%, 3.5% and 3.0% of the employees' compensation in 1997, 1996 and 1995, respectively. Company contributions were \$1,045,000, \$858,000 and \$711,000 for the years 1997, 1996 and 1995, respectively.

Other Postretirement Plans. The Company provides substantially all active employees with medical, dental and vision benefits through a self-insured plan. Employees retiring at or after age 58 with 10 or more years of service are offered, along with their spouses and dependents, continued participation in the plan by payment of a premium. Retired employees are also provided with a \$5,000 life insurance benefit.

The Company records the costs of postretirement benefits during the employees' years of active service. The CPUC has issued a decision which authorizes rate recovery of tax deductible funding of postretirement benefits and permits recording of a regulatory asset for the portion of costs that will be recoverable in future rates.

Net postretirement benefit cost for the years ending December 31, 1997, 1996 and 1995 included the following components:

	In Thousands		
	1997	1996	1995
Service cost - benefits earned	\$280	\$166	\$131
Interest cost on accumulated postretirement benefit obligation	549	383	391
Actual return on plan assets	(424)	(63)	(30)
Net amortization of transition obligation	710	278	260
Net periodic postretirement benefit cost	\$1,115	\$764	\$752

Postretirement benefit expense recorded in 1997, 1996 and 1995, was \$581,000, \$523,000 and \$507,000, respectively. \$1,441,000, which is recoverable through future customer rates, is recorded as a regulatory asset. The Company intends to make annual contributions to the plan up to the amount deductible for tax purposes. Plan assets are invested in mutual funds, short-term money market instruments and commercial paper.

The following table sets forth the plan's funded status and the plan's accrued assets (liabilities) as of December 31, 1997 and 1996:

	In Thousands	
	1997	1996
Accumulated postretirement benefit obligation	\$ (3,982)	\$ (2,959)
Other fully eligible participants	(818)	(604)
Other active participants	(3,430)	(2,310)
Total	(8,230)	(5,873)
Plan assets at fair value	936	582
Accumulated postretirement benefit obligation in excess of plan assets	(7,294)	(5,291)
Unrecognized net loss	2,129	407
Remaining unrecognized transition obligation	3,724	3,972
Net postretirement benefit liability included in current liabilities	\$ (1,441)	\$ (912)

For 1997 measurement purposes, a 6.0% annual rate of increase in the per capita cost of covered benefits was assumed; the rate was assumed to decrease gradually to 5% in the year 2000 and remain at that level thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. Increasing the assumed health care cost trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation as of December 31, 1997, by \$1,226,000 and the aggregate of the service and interest cost components of the net periodic postretirement benefit cost for the year ended December 31, 1997, by \$144,000.

The discount rate used in determining the accumulated postretirement benefit obligation was 7% at December 31, 1997, 7.4% at December 31, 1996, and 7% at December 31, 1995. The long-term rate of return on plan assets was 8% for 1997, 1996 and 1995.

#### NOTE 8. Fair Value of Financial Instruments

For those financial instruments for which it is practicable to estimate a fair value the following methods and assumptions were used: Cash Equivalents. The carrying amount of cash equivalents approximates fair value because of the short-term maturity of the instruments.

Long-term Debt. The fair value of the Group's long-term debt is estimated at \$155,000,000 as of December 31, 1997 and \$159,000,000 as of December 31, 1996, using a discounted cash flow analysis, based on the current rates available to the Group for debt of similar maturities.

Advances for Construction. The fair value of advances for construction contracts is estimated at \$21,000,000 as of December 31, 1997 and 1996, based on data provided by brokers.

#### NOTE 9. Quarterly Financial and Common Stock Market Data (Unaudited)

The Group's common stock is traded on the New York Stock Exchange under the symbol "CWT". There were approximately 11,000 common stock shareholders at December 31, 1997. Quarterly dividends have been paid on common stock for 212 consecutive quarters and the quarterly rate has been increased during each year since 1968. The stock quotations presented, adjusted for the two-for-one split, are those of the Company which traded on the New York Stock Exchange prior to its December 31, 1997 merger with the Group.

1997

	First	Second	Third	Fourth
(In thousands, except per share amounts)				
Operating revenue	\$37,558	\$55,083	\$59,551	\$43,132
Net operating income	5,712	11,788	10,540	6,309
Net income	2,921	8,878	7,860	3,646
Earnings per share	.23	.70	.62	.28
Common stock market price range:				
High	22.63	23.88	25.22	29.59
Low	19.50	18.63	21.13	23.44
Dividends paid	.264	.264	.264	.264

1996

	First	Second	Third	Fourth
Operating revenue	\$32,298	\$49,048	\$59,230	\$42,188
Net operating income	4,028	8,698	11,488	6,153
Net income	1,177	5,836	8,673	3,381
Earnings per share	.09	.46	.68	.27
Common stock market price range:				
High	18.63	17.81	19.13	21.88

Low	16.25	16.75	16.25	17.94
Dividends paid	.26	.26	.26	.26

Independent Auditors' Report

Shareholders and Board of Directors  
California Water Service Group:

We have audited the accompanying consolidated balance sheet of California Water Service Group and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of income, common shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 1997. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of California Water Service Group and subsidiaries as of December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1997, in conformity with generally accepted accounting principles.

San Jose, California  
January 23, 1998



<TABLE> <S> <C>

<ARTICLE> UT

<S>	<C>
<PERIOD-TYPE>	12-MOS
<FISCAL-YEAR-END>	DEC-31-1997
<PERIOD-END>	DEC-31-1997
<BOOK-VALUE>	PER-BOOK
<TOTAL-NET-UTILITY-PLANT>	460407000
<OTHER-PROPERTY-AND-INVEST>	0
<TOTAL-CURRENT-ASSETS>	28268000
<TOTAL-DEFERRED-CHARGES>	4277000
<OTHER-ASSETS>	38345000
<TOTAL-ASSETS>	531297000
<COMMON>	44941000
<CAPITAL-SURPLUS-PAID-IN>	0
<RETAINED-EARNINGS>	119124000
<TOTAL-COMMON-STOCKHOLDERS-EQ>	164065000
<PREFERRED-MANDATORY>	0
<PREFERRED>	3475000
<LONG-TERM-DEBT-NET>	139205000
<SHORT-TERM-NOTES>	14500000
<LONG-TERM-NOTES-PAYABLE>	0
<COMMERCIAL-PAPER-OBLIGATIONS>	0
<LONG-TERM-DEBT-CURRENT-PORT>	0
<PREFERRED-STOCK-CURRENT>	0
<CAPITAL-LEASE-OBLIGATIONS>	0
<LEASES-CURRENT>	0
<OTHER-ITEMS-CAPITAL-AND-LIAB>	210052000
<TOT-CAPITALIZATION-AND-LIAB>	531297000
<GROSS-OPERATING-REVENUE>	195324000
<INCOME-TAX-EXPENSE>	13950000
<OTHER-OPERATING-EXPENSES>	147025000
<TOTAL-OPERATING-EXPENSES>	160975000
<OPERATING-INCOME-LOSS>	34349000
<OTHER-INCOME-NET>	85800
<INCOME-BEFORE-INTEREST-EXPEN>	35207000
<TOTAL-INTEREST-EXPENSE>	11902000
<NET-INCOME>	23305000
<PREFERRED-STOCK-DIVIDENDS>	153000
<EARNINGS-AVAILABLE-FOR-COMM>	23152000
<COMMON-STOCK-DIVIDENDS>	13313000
<TOTAL-INTEREST-ON-BONDS>	11405000
<CASH-FLOW-OPERATIONS>	39401000
<EPS-PRIMARY>	1.83
<EPS-DILUTED>	0

</TABLE>