

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

(Mark One)

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

For the quarterly period ended March 31, 1998
OR

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

For the transition period from to

Commission file number 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 or organization)

1720 North First Street, San Jose, CA. 95112
(Address of principal executive offices) (Zip Code)

1-408-367-8200
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since
last report)

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE
PRECEDING FIVE YEARS

Indicate by check mark whether the registrant has filed all documents and
reports required to be filed by Sections 12, 13 or 15(d) of the Securities
Exchange Act of 1934 subsequent to the distribution of securities
under a plan confirmed by a court. Yes _____ No _____

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of
common stock, as of the latest practicable date. Common shares outstanding
as of March 31, 1998 - 12,619,140.
This Form 10-Q contains a total of 13 pages.

PART I - FINANCIAL INFORMATION
ITEM 1 FINANCIAL STATEMENTS
CALIFORNIA WATER SERVICE GROUP
BALANCE SHEET

MARCH 31, 1998 DEC 31, 1997
(In Thousands)

	MARCH 31, 1998	DEC 31, 1997
ASSETS		
Utility plant	\$653,673	\$647,648
Less depreciation and amortization	191,090	187,241
Net utility plant	462,583	460,407
Current assets:		
Cash and cash equivalents	902	1,742
Receivables	11,887	14,862
Unbilled revenue	4,492	5,136
Materials and supplies	2,066	2,105
Taxes and other prepaid expenses	3,843	4,423
Total current assets	23,190	28,268
Regulatory assets	38,479	38,345
Other assets	4,230	4,277
	\$528,482	\$531,297

CAPITALIZATION AND LIABILITIES

Capitalization		
Common shareholders' equity:		
Common stock	44,941	44,941

Retained earnings	117,275	119,124
Total common shareholders' equity	162,216	164,065
Preferred stock	3,475	3,475
Long term debt	139,205	139,205
Total capitalization	304,896	306,745
Current liabilities:		
Short-term borrowings	12,500	14,500
Accounts payable	15,045	15,499
Accrued expenses and other liabilities	14,202	13,145
Total current liabilities	41,747	43,144
Unamortized investment tax credits	3,006	3,006
Deferred income taxes	25,914	25,761
Advances for construction	96,324	95,878
Contributions in aid of construction	44,103	44,270
Regulatory liabilities	12,492	12,493
	\$528,482	\$531,297

See accompanying notes on page 5

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CALIFORNIA WATER SERVICE GROUP
STATEMENT OF INCOME

March 31

	1998	1997
FOR THE THREE MONTHS ENDED:		
	In Thousands	
Operating revenue	\$35,225	\$37,558
Operating expenses:		
Operation	22,290	23,006
Maintenance	2,121	1,921
Depreciation and amortization	3,626	3,388
Federal income taxes	649	1,347
State income taxes	65	267
Property and other taxes	1,973	1,917
Total operating expenses	30,724	31,846
Net operating income	4,501	5,712
Other income and expenses:		
Interest and amortization on long term debt	2,836	2,890
Other income and expenses, net	75	(99)
	2,911	2,791
Net income	1,590	2,921
Preferred dividends	38	38
Net income available for common stock	\$1,552	\$2,883
Weighted average shares outstanding	12,619	12,619
Earnings per share of common stock	\$0.12	\$0.23
Dividends per share of common stock	\$0.2675	\$0.2638

See accompanying notes on page 5

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CALIFORNIA WATER SERVICE GROUP
STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED

	In Thousands	
	MARCH 31	
	1998	1997
Operating activities:		
Net Income	\$1,590	\$2,921
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,626	3,388
Regulatory assets and liabilities, net	(135)	(135)
Deferred income taxes and investment tax credits, net	153	361
Change in operating assets and liabilities:		
Receivables	2,975	225
Unbilled revenue	644	(50)
Materials and supplies	39	105
Taxes and other prepaid expenses	580	117
Accounts payable	(454)	2,574
Accrued expenses and other liabilities	1,057	1,801
Other changes, net	147	440
Net adjustments	8,632	8,826
Net cash provided by operating activities	10,222	11,747
Investing activities:		
Utility plant expenditures	(6,248)	(5,471)
Financing activities:		
Net short-term borrowings	(2,000)	(3,500)
Advances for construction	1,319	645
Contributions in aid of construction	167	405
Refunds of advances for construction	(861)	(857)

Dividends paid	(3,439)	(3,367)
Net cash used in financing activities	(4,814)	(6,674)
Change in cash and cash equivalents	(840)	(398)
Cash and cash equivalents at beginning of period	1,742	1,368
Cash and cash equivalents at end of period	\$902	\$970

See accompanying notes on page 5

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Notes:

1. Due to the seasonal nature of the water business, the results for interim periods are not indicative of the results for a twelve month period.
2. The interim financial information is unaudited. In the opinion of management, the accompanying financial statements reflect all adjustments which are necessary to provide a fair statement of the results for the periods covered. The adjustments consist only of normal recurring adjustments.
3. Earnings per share are calculated on the weighted average number of common shares outstanding during the period and net income available for common stock as shown on the Statement of Income.
4. Refer to 1997 Annual Report on Form 10-K for a summary of significant accounting policies and detailed information regarding the financial statements.
5. During 1997, the Financial Accounting Standards Board issued two accounting statements. 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 adopted these standards effective January 1, 1998. The adoption did not have a material impact on its financial position or operating results.
In 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 132, Employer's Disclosures about Pensions and Other Postretirement Benefits. This statement standardizes employers' disclosure requirements for pensions and other postretirement benefits. The Group expects to adopt SFAS 132 by December 31, 1998. The Group does not expect that adoption of this statement will have a material impact on its financial position or operating results.
In 1998, the American Institute of Certified Public Accountants issued Statement of Position (SOP) 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. This statement provides guidance on accounting for the costs of computer software developed or obtained for internal use. The Group adopted the provisions of SOP 98-1 effective January 1, 1998.

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PART I FINANCIAL INFORMATION

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF FIRST QUARTER OPERATIONS

First quarter net income was \$1,590,000, equivalent to \$0.12 per common share, an 11 cent decrease from the \$0.23 earned in last year's first quarter. 1997's first quarter earnings were the highest first quarter earnings ever recorded by the Group.

Operating revenue decreased \$2,333,000 from 1997 to \$35,225,000. The primary reason for the revenue decline was the inclement El Nino weather pattern which California experienced throughout the quarter. The wet and cool weather caused a decrease in customers' consumption. By comparison, 1997's first quarter weather was drier and warmer than normal, causing water sales to be at near record highs. Consumption levels, as measured by average sales per metered customer, decreased 8% during the quarter. Average revenue per customer decreased \$6.90 or 7%. The decrease due to consumption was partially offset by rate increases and sales to new customers. A breakdown of the net decrease in operating revenue is accounted for in the following table:

General rate increases	\$278,000
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Step rate increases	290,000
Total rate increases	568,000
Decreased consumption	(3,158,000)
Usage by 2,885 new customers	257,000
Net revenue increase	\$(2,333,000)

Total operating expenses decreased 4% this year. Water production for the quarter was 14% less than last year's level. Well production provided 44% of the supply with 55% purchased from wholesale suppliers and the other 1% received from a surface water supply. Water production costs, which include purchased water, purchased power and pump taxes, decreased \$1,746,000, reflecting the decline in water sales and production. Six districts experienced wholesale suppliers' purchased water rate increases ranging from 1% to 5%. The components of water production expense and the changes from last year are shown in the table below:

	First Quarter 1998 Cost	Dollar Change
Purchased water	\$8,821,000	(\$1,282,000)
Purchased power	1,322,000	(379,000)
Pump taxes	345,000	(85,000)
Total	\$10,488,000	(\$1,746,000)

Other operations expense increased \$894,000, mainly due to the impact of the 3.0% general wage increase which was effective at the start of the year, additional hours worked and increases in related employee benefits. Increases were also experienced in chemical costs, liability insurance and transmission facilities expense.

Depreciation and amortization expense increased \$238,000 due to increased depreciation expense authorized by the Commission in the rate case decisions and a greater depreciable plant investment. The additional expense is reflected in customer rates.

Federal and state income taxes decreased \$900,000 because of reduced taxable income.

Pretax income from nonregulated operations was \$282,000, a \$7,000 decline from last year. The income amount was netted against \$109,000 of expenses which includes contributions and costs of maintaining nonoperating properties.

REGULATORY MATTERS

1997 rate case applications were filed with the California Public Utilities Commission (Commission) in July 1997 for rate increases in four districts representing 7% of total customers. The applications request additional annual revenue of about \$650,000. A decision regarding the applications is expected from the full Commission in the second quarter of 1998.

An assessment of which districts rate case applications will be filed this year is currently underway. The filings will be made in July.

LIQUIDITY

Interest expense on long-term debt decreased by \$54,000 as a result of the retirement of Series L first mortgage bonds and first mortgage bond sinking fund payments made in the fourth quarter of 1997. Short-term interest expense increased \$128,000 due to additional borrowings under the bank line of credit. At March 31, 1998, \$12.5 million was borrowed under the credit line at an effective interest rate of 7%. At March 31, 1997, \$4 million was outstanding under the credit line.

The first quarter common dividend was paid on February 15, 1998, at \$0.2675 per share. The \$0.2675 represents a \$0.00375 or 1.4% increase in the quarterly dividend rate from last year as approved by the Board of Directors at their January meeting. Annualized, the dividend rate is \$1.07 per common share compared to \$1.055 in 1997. Based on the 12 month earnings per share at March 31, 1998, the dividend payout ratio is 62%.

About 11% of the outstanding shares participate in the Group's Dividend Reinvestment and Stock Purchase Plan (Plan). No new common shares were issued under the Plan during the quarter. Shares required for the dividend reinvestment and stock purchase options were purchased on the open market and distributed to Plan participants.

Book value per common share was \$12.85 at March 31, 1998, compared to \$12.19 a year earlier.

During the quarter, utility plant expenditures totaled \$6,248,000 for additions to and replacements of utility plant. Of that amount, \$5,033,000 was funded through the Group's construction budget with the balance consisting of funds received from developers as contributions in aid of construction and refundable advances for construction. The 1998 Group construction budget is \$31,000,000.

WATER SUPPLY

The Group believes that its various sources of water supply are sufficient to meet customer demand for the remainder of the year. Historically, approximately half of the water source is purchased from wholesale suppliers with the other half pumped from wells. Storage in state reservoirs was 114% of historic average as of March 31, 1998, and groundwater levels remain adequate. There is an abundant snowpack which will provide runoff to streams and reservoirs as the snowpack melts during the spring and summer months.

PART II OTHER INFORMATION

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

(a) The annual meeting of shareholders of California Water Service Group was held April 15, 1998, at the Group's executive office in San Jose, California.

(b) At the annual shareholders' meeting, a Board of Directors was elected for the ensuing year. The following directors were elected as nominated:

Robert W. Foy	Edward D. Harris, Jr., M.D.
Robert K. Jaedicke	Richard P. Magnuson
Linda R. Meier	Peter C. Nelson
C. H. Stump	George A. Vera
J. W. Weinhardt	

(c) Two matters were voted on at the meeting: (1) election of directors for the ensuing year, and (2) ratification of the Board's selection of independent auditors for 1998.

(1) Tabulation of votes for the election of directors was:

	For	Withheld
Robert W. Foy	12,865,645	96,729
Edward D. Harris, Jr., M.D.	12,861,243	101,131
Robert K. Jaedicke	12,845,366	117,008
Richard P. Magnuson	12,873,285	89,089
Linda R. Meier	12,866,612	95,762
Peter C. Nelson	12,870,341	92,033
C. H. Stump	12,852,974	109,400
George A. Vera	12,845,535	116,839
J. W. Weinhardt	12,844,604	117,771

(2) The directors selection of KPMG Peat Marwick LLP to serve as independent auditors for 1998 was ratified by the shareholders. There were 12,813,166 votes in favor, 56,879 against, 92,329 abstentions on this matter and no non votes.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits required to be filed by Item 601 of Regulation S-K. None.

(b) The following reports on Form 8-K were filed during the quarter ended March 31, 1998:

(1) Change in control of registrant as a result of the merger on December 31, 1997 among California Water Service Company, California Water Service Group and CWSG Merger Company. The merger resulted in the formation of the holding company. The Form 8-K was filed January 2, 1998.

(2) Adoption of a shareholder rights plan for common shareholders. The rights, unless activated, attach to and trade with the common stock. The Form 8-K was filed February 13, 1998.

SIGNATURES

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

CALIFORNIA WATER SERVICE GROUP
Registrant

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

April 28, 1998

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