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UNITED STATES SECURITIES AND EXCHANGE
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, 1999

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission file No. 1-13883

CALIFORNIA WATER SERVICE GROUP
(Exact name of registrant as specified in its charter)

Delaware 77-0448994

(State or other jurisdiction (IRS Employer Identification No.)
of Incorporation)

1720 North First Street San Jose, California 95112

(Address of Principal Executive Offices) (Zip Code)

(408) 367 8200

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
Title of Each Class: Name of Each Exchange on Which Registered:
Common Stock, \$0.01 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.

The aggregate market value of the voting stock held by non-affiliates of the
Registrant - \$375,133,000 on February 18, 2000.

Common stock outstanding at February 18, 2000 -12,935,612 shares.

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EXHIBIT INDEX

The exhibit index to this Form 10-K is on page 27

DOCUMENTS INCORPORATED BY REFERENCE

Designated portions of Registrant's Annual Report to Stockholders for the
calendar year ended December 31, 1999 (1999 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 17, 2000, relating to the 2000
annual meeting of stockholders 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 (SEC). The Proxy Statement was filed with the SEC via
EDGAR on March 14, 2000.

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PART I

Item 1 Business.

Forward Looking Statements

This report, including the sections incorporated by reference, contains forward-looking statements within the meaning of the Federal securities laws. Such statements are based on currently available information, expectations, estimates, assumptions and projections, and management's judgment about California Water Service Group (Company), the 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 or anticipated include state regulatory commissions' decisions, new legislation, increases in suppliers' prices, particularly purchased water and purchased power prices, changes in environmental compliance requirements, acquisitions, changes in customer water use patterns, natural disasters such as earthquakes, and the impact of weather on operating results. The Company assumes no obligation to provide public updates of forward-looking statements.

a. General Development of Business

California Water Service Company (Cal Water) was formed in 1926. On December 31, 1997, California Water Service Group was formed as the parent company of Cal Water and a second subsidiary, CWS Utility Services (Utility Services). In 1999, the Company acquired Harbor Water Company and South Sound Utility. These two companies were merged to form a third Company subsidiary, Washington Water Service Company (Washington Water).

Cal Water continues to operate as a regulated utility subject to the jurisdiction of the California Public Utilities Commission (CPUC). Washington Water is a regulated utility, subject to the jurisdiction of the Washington Utilities and Transportation Commission (WUTC). It also provides nonregulated water service under various operation and maintenance agreements. Jointly the CPUC and WUTC are referred to as the Commissions.

Utility Services provides nonregulated water operations and related utility services. Existing nonregulated contracts currently performed by the Company are transferred to Utility Services as the contracts are renewed or at such time as agreed upon between the contracting parties. New nonregulated contracts within California are executed by Utility Services.

In conjunction with formation of the holding company structure on December 31, 1997, each share of Cal Water common stock was exchanged on a two-for-one basis for the Company's common stock. Per share data was restated where necessary to reflect the effective two-for-one stock split. Each share of Cal Water preferred stock was converted into one share of the Company's preferred stock. To maintain relative voting strength, the number of votes to which each preferred share is entitled was doubled from eight to sixteen.

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

During the year ended December 31, 1999, there were no significant changes in the kind of products produced or services rendered by the Company or its operating subsidiaries, or in its markets or methods of distribution.

Cal Water is the largest investor-owned water company in California and the fourth largest in the United States. It is a public water utility providing water service to approximately 387,600 residential, commercial and industrial customers in 58 California cities and communities through 21 separate water systems or districts. In the 20 regulated systems, which serve 381,500 customers, rates and operations are subject to the jurisdiction of the CPUC. An additional 6,100 customers receive service through a long-term lease of the City of Hawthorne water system, which is not subject to CPUC regulation. Nonregulated operations are described in section Item 1.c., "Narrative Description of Business - Nonregulated Operations."

Washington Water is the largest investor owned water utility in the state. It was formed in December 1999 and is incorporated under the laws of the state of Washington. Its two operating districts provide water service to 12,000 customers subject to the regulation of the WUTC. An additional 2,800 customers are served under operating agreements with private system owners that are not subject to WUTC regulation.

Rates and Regulation

Water utility rates and service for the regulated business are subject to jurisdiction of the state regulatory Commissions. The Commissions' decisions and the timing of those decisions can have a significant impact on operations and earnings.

Since the Company's 23 operating districts are not physically integrated, rates are set independent for each district. General office expenses and plant investments are considered separately and allocated ratably to the operating districts. The cost of debt and equity capital for ratemaking purposes is determined on a company-wide basis.

General rate applications in California consider all of a district's operating costs and capital requirements for a succeeding three-year period. The Commission's decision in these applications typically authorize an immediate rate increase and step rate increases for the following two years. Step rate increases are intended to maintain the authorized return on equity (ROE) in succeeding years. Subsequent general rate applications can be filed in the third year after a district receives a general rate case decision. Annually districts that are eligible for general rate case filings are reviewed by the Company and where appropriate applications are submitted. Applications are filed in July with a decision expected about 10 months later. Offset rate adjustments are allowed to recover the costs of purchased water, purchased power and pump taxes.

In Washington, general rate applications are submitted as necessary. Decisions are generally issued about four months after filing.

Key factors considered in determining the need to file a rate application include:

- o current earnings of the district
- o expected future rates of return
- o cost of debt and equity capital
- o capital structure
- o future operating expectations
- o additional capital expenditures

With districts on varying rate case cycles, general rate case applications are normally filed annually for a portion of the districts. The number of customers affected by each filing varies from year to year. For example, the 1996 filings included 11 percent of regulated customers, the 1997 filings included 7 percent and the 1998 filings included 25 percent. There were no general rate applications filed in 1999.

2000 Rate Application Filings

During 2000, 16 districts, including the two Washington state districts, are eligible for general rate application filings. These districts represent over 70% of all regulated

customers. The Company will review each district and determine the need and appropriateness of a general rate application filing. Applications for the California districts will be filed in July in accordance with the CPUC's rate processing schedule. Decisions in these applications are anticipated late in the second quarter of 2001. Additionally, the Company expects to file general rate applications for the two Washington districts during 2000. The most recent general rate application filing with the WUTC was in 1998.

1999 Rate Application Filings

During 1999, no general rate applications were filed for regulated customers. The Company's regulatory staff reviewed each of the eligible districts and determined that no general rate applications were warranted.

A rate increase was submitted for the City of Hawthorne water system. The Hawthorne city council exercises rate authority over the proceeding. A decision for this application which is estimated to provide about \$350,000 of new revenue in the first twelve months after it becomes effective, is expected during the second quarter of 2000.

1998 Rate Application Filings

In 1998, 14 Cal Water districts plus General Office operations, were eligible for general rate filings. Earnings levels in those districts were reviewed and applications for additional rate consideration were filed with the CPUC in July 1998 for four districts and the Company's General Office. The applications involved 25% of the regulated customers.

In January 1999, the Company reached agreement with the CPUC staff regarding the applications. The commission's decision approving the settlement was effective in May 1999 and is expected to generate \$4,095,000 in total additional revenue during the first twelve months following its effective date. A 9.55% ROE providing \$1,916,000 in additional revenue was adopted in the decision. In addition, the decision provides another \$2,179,000 in revenue for environmental compliance, specific capital expenditures, and recovery of General Office expenses. This additional revenue is not reflected in the 9.55% ROE calculation.

Second Amended Contract - Stockton East Water District

In January 1995, a consultant retained by the CPUC's Organization of Ratepayer Advocates completed a report on the reasonableness of the Second Amended Contract. The contract pertains to the sale and delivery of water to Cal Water's Stockton District by the Stockton-East Water District. Parties to the contract are Cal Water, Stockton-East Water District, the City of Stockton and San Joaquin County. The consultant's report alleged that the Company was required to receive CPUC 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 did not include specific ratemaking recommendations. While no action is now in process or pending, the issue may be revisited in the Company's next Stockton district general rate application. Also refer to a discussion of this issue under "Item 3. Legal Proceedings".

b. Financial Information about Industry Segments

The Company operates primarily in one business segment, the supply and distribution of water, and the provision of related services.

c. Narrative Description of Business

The Company is the sole shareholder of its three operating subsidiaries: California Water Service Company, Washington Water Service Company and CWS Utility Services.

The Company'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. It also provides water related services, including contract operation of water systems and utility related services to municipalities and other private companies.

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 in the Company's service territories.

The Company distributes water in accordance with accepted water utility methods. Franchises and permits are held in the cities and communities where the Company operates. The franchises and permits allow the Company to operate and maintain facilities in public streets as necessary.

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

The Company intends to continue to explore opportunities to expand its regulated and nonregulated businesses. The opportunities could include system acquisitions, lease arrangements similar to the City of Hawthorne contract, full service system operation and maintenance agreements, billing contracts and other utility related services. The Company believes that a holding company structure, as discussed above, makes it more competitive in providing nonregulated utility services, which would not be subject to CPUC jurisdiction. The Company is investigating new business opportunities in the western United States as evidenced by its expansion into the state of Washington.

Geographical Service Areas and Number of Customers at Year-end

The principal markets for the Company's products and services are users of water within the Company's service areas. The Company's geographical service areas or districts for both the regulated and nonregulated operations and the approximate number of customers served in each area at December 31, 1999, are listed below.

SAN FRANCISCO BAY AREA

Mid-Peninsula (serving San Mateo and San Carlos)	35,700	
South San Francisco (including Colma and Broadmoor)	16,200	
Bear Gulch (serving Menlo Park, Atherton, Woodside and Portola Valley)	21,500	
Los Altos (including portions of Cupertino, Los Altos Hills, Mountain View and Sunnyvale)	18,300	
Livermore	16,900	108,600

SACRAMENTO VALLEY

Chico (including Hamilton City)	22,800	
Oroville	3,500	
Marysville	3,700	
Dixon	2,800	
Willows	2,300	35,100

SALINAS VALLEY

Salinas	25,900	
King City	2,200	28,100

SAN JOAQUIN VALLEY

Bakersfield	81,600	
Stockton	41,600	
Visalia	29,700	
Selma	5,100	158,000

LOS ANGELES AREA

East Los Angeles (including portions of the cities of Commerce and Montebello)	29,100	
Hermosa Redondo (serving Hermosa Beach, Redondo Beach and a portion of Torrance)	25,400	
Palos Verdes (including Palos Verdes Estates, Rancho Palos Verdes, Rolling Hills Estates and Rolling Hills)	23,700	

Westlake (a portion of Thousand Oaks)	6,900	
Hawthorne (leased municipal system)	6,100	91,200

WASHINGTON		
Harbor	11,000	
South Sound	3,800	14,800
	-----	-----
TOTAL		435,800

Water Supply

The Company's water supply for the 23 operating districts is obtained from wells, surface runoff or diversion, and by purchase from public agencies and other wholesale suppliers. The Company's supply has been adequate to meet consumption demands, however, during periods of drought some districts have experienced mandatory water rationing.

California's rainy season usually begins in November and continues through March with December, January and February historically recording 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.

Washington receives rain in all seasons with the majority falling during winter months.

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 and 1998, when winter rains continued well into the spring and were accompanied by 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. Demand increases in the spring when warmer weather gradually returns 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 into the fall and winter. When rainfall is below average for consecutive years, drought conditions can result and certain customers may be required to reduce consumption to preserve or match available supply. As an example, California experienced a six-year period when rainfall was annually below historic average. The drought period 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 CPUC has allowed modifications to consumer billings that provided the Company a means to recover 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. Well water is generally less expensive and the Company strives to maximize use of its well sources. A small portion of the supply is received from surface runoff in the Company's Bear Gulch district. During 1999, 110 billion gallons were delivered to customers. Approximately 53 percent of the supply was obtained from wells and 47 percent was purchased from wholesale suppliers. The following table shows the quantity of water purchased in each operating district during 1999.

District	Supply Purchased	Source of Purchased Supply
-----	-----	-----
SAN FRANCISCO BAY AREA		
Mid-Peninsula	100%	San Francisco Water Department
South San Francisco	85%	San Francisco Water Department
Bear Gulch	89%	San Francisco Water Department

Bakersfield		0.0%	\$125/af		0.0%	\$125/af
Bear Gulch	July	36.7%	0.82/ccf	July	3.7%	0.85/ccf
East Los Angeles	July	2.1%	478/af	July	1.5%	485/af
Hermosa Redondo		0.0%	528/af		0.0%	528/af
Livermore	Jan.	4.0%	1.212/ccf	Jan.	2.1%	1.237/ccf
Los Altos	July	7.6%	355/af	July	7.0%	380/af
Oroville	Jan.	3.4%	61,350/year	Jan.	14.8%	70,400/year
Palos Verdes		0.0%	528/af		0.0%	528/af
Mid Peninsula	July	36.7%	0.82/ccf	July	3.7%	0.85/ccf
So. San Francisco	July	36.7%	0.82/ccf	July	3.7%	0.85/ccf
Stockton	April	(9.1)%	250,820/year	April	7.0%	268,400/year
Westlake	Jan.	1.1%	560/af	Jan.	1.2%	570/af

</TABLE>

af = acre foot; ccf = hundred cubic feet; year = fixed annual cost

During 1997, two wholesale water suppliers refunded moneys which had been overcollected from wholesale water customers. The Company received a one-time refund of \$2.5 million in May 1997 that was credited as a reduction of purchased water expense.

Rainfall in the Company's service areas for the 1999-2000 season is above normal as of February 29, 2000. The mountain snowpack is about normal. Water levels in underground aquifers that provide supply to districts served by well water improved in recent years due to above average rainfall. Most regions have recorded positive changes in groundwater levels the past two years. Regional groundwater management planning continues as required. Existing laws provide a mechanism for local agencies to maintain control of their groundwater supply. The Company 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 2000 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 Commissions.

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 Company continues to participate in the formulation of these plans.

For a number of years, the Company has worked with the Salinas Valley water users and the Monterey County Water Resources Agency (MCWRA) to address seawater intrusion into the water supply for the Salinas district. MCWRA completed construction of the Castroville Seawater Intrusion Project in 1998. This project is designed to deliver up to 20,000 acre feet of recycled water annually to agricultural users in the nearby Castroville area. It is intended to help mitigate seawater intrusion into the region by reducing the need to pump groundwater.

With the City and County of San Francisco, and the cities of San Bruno and Daly City, The Company is working 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 Company is working with the City of San Francisco in its development of a long-range water supply master plan for the entire area to which the San Francisco Water Department (SFWD) is the wholesale water supplier. The South San Francisco, Mid-Peninsula and Bear Gulch districts are included in SFWD service area.

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Nonregulated Operations

Nonregulated operations include full service operation and maintenance of water systems for cities and private owners, operation of recycled water systems, utility billing services, laboratory services and leases of antenna sites

Nonregulated revenue from water system operations is generally determined on a fee per customer basis. With the exception of the City of Hawthorne water system, revenue and expenses from nonregulated operations are 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 Company is entitled to retain all customer billings and is generally responsible for all operating expenses.

Municipally owned water systems are operated under contract for the cities of Bakersfield, Commerce and Montebello and for eight private water company systems in the Bakersfield, Livermore, Salinas and

Visalia districts. Additionally, the Company's Washington districts operate numerous systems under contract arrangements. The Company also operates under contract wastewater collection systems in Bakersfield and Livermore. Excluding Hawthorne, the total number of services operated under the contracts is about 36,200. 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 existing 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.

Meter reading, billing and customer service are provided for the City of Menlo Park's 4,000 water customers. Meter reading is also performed under contract for the City of Manhattan Beach's 13,000 account system. Additionally, sewer and/or refuse billing services are provided to six municipalities.

Since February 1996, the City of Hawthorne's 6,100 account water system has been operated under terms of a 15-year agreement. The system which is located near the Hermosa-Redondo district serves about half of Hawthorne's population. 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 Company 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 Company will be reimbursed for the unamortized value of capital improvements. In exchange, the Company receives all system revenues which amounted to \$4.2 million in 1999.

During 1997, an agreement was signed with the Rural North Vacaville Water District near the Dixon district to design and build a water distribution system. The new system will initially provide water to about 400 services. The Company has also negotiated an agreement to operate the system once construction is complete.

The Company leases 35 antenna sites 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.

Laboratory services are also provided to Great Oaks Water Company.

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Utility Plant Construction Program and Acquisitions

The Company is continually extending, enlarging and replacing its facilities as required to meet increasing demands and to maintain its systems. Construction 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 page 26 of the Company's 1999 Annual Report which is incorporated herein by reference. Advances for construction are cash deposits or facilities deeded from subdivision developers. The advances are generally refundable without interest over a period of 40 years by equal annual payments. Contributions in aid of construction consist of nonrefundable cash deposits or facilities transferred from developers, primarily for fire protection and relocation projects. The amount received from developers varies from year to year as the level of construction activity varies. It is impacted by the demand for housing, commercial development and general business conditions, including interest rates.

During 1998, the Company funded expenditures were in the following areas: wells, pumping and storage facilities, \$6.7 million; water treatment and purification equipment, \$3.1 million; distribution systems \$9.6 million; services and meters, \$5.4; other equipment, \$6.0 million. The increased expenditure for treatment and purification equipment related to the Hawthorne treatment plant. The other equipment expenditures included computer equipment for installation of a new Local Area Network (LAN) system.

During 1999, the Company funded expenditures were in the following areas: land, water rights and structures, \$2.9 million; wells, pumping and storage facilities, \$4.9 million; water treatment and purification equipment, \$2.9 million; distribution systems, \$9.0 million; services

and meters, \$6.1; other equipment, \$5.7 million. Included in the expenditures is acquisition of the Olcese Water District assets and continued expenditures for computer technology system upgrades.

The 2000 construction budget is approximately \$35.7 million, exclusive of additions and improvements financed through advances for construction and contributions in aid of construction. The approved budget was for the following areas: land and structures, \$3.9 million; wells, pumping and storage facilities, \$8.4 million; water treatment and purification equipment, \$1.9 million; distribution systems \$11.1 million; services and meters, \$5.1 million; other equipment, \$5.3 million.

During 1996, Congress enacted legislation which exempted from taxable income proceeds received from developers to fund advances for construction and contributions in aid of construction, except payments for installation of services. Services represent about 20% of deposits received from developers. Because 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 payments will reduce cash flow requirements for income taxes. In 1997, California adopted similar legislation regarding the taxability of payments received from developers.

The Department of Treasury intends to issue regulations regarding the taxability of developer financed services. The Company participated actively along with other private water companies in presenting evidence to Treasury that would result in services being classified as nontaxable contributions in aid of construction. However, the new regulations are expected to continue to treat the cost of services as taxable income.

Quality of Water Supplies

Established operating practices are maintained to produce potable water in accordance with normal water utility practices. Water entering the distribution systems from surface sources is treated in compliance with federal Safe Drinking Water Act (SDWA) standards. Most well supplies are chlorinated. Water samples from each water system are analyzed on a regular, scheduled basis in compliance with regulatory requirements. The Company operates a state certified water quality laboratory at its San Jose General Office that provides testing for most California operations. Certain tests are contracted with independent labs. Local independent labs provide water sample testing for the Washington districts.

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In recent years, federal and state water quality regulations have continued to increase. Recent changes in the SDWA, which are expected to bring treatment costs more in line with the actual health threat posed by contaminants, were enacted by Congress during 1996. Water quality monitoring and upgrading treatment capabilities to maintain compliance with the various regulations continues. These activities include:

- o monitoring of all sources for MTBE, a gasoline additive that is widely used in California
- o upgrading laboratory equipment and enhancing analytical testing capabilities
- o installation of dedicated sample sites to assure water samples are drawn at a secure source
- o maintaining a state approved compliance monitoring program required by the Safe Drinking Water Act
- o completion of mandatory Information Collection Rule monitoring for specified water systems
- o ongoing training of laboratory and operating personnel
- o installation of disinfection treatment at all well sources
- o 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 and 1998; thus, less costly well water, rather than purchased water supplies became available
- o construction of a new iron and manganese treatment plant in the leased Hawthorne system
- o installation and operation of several granular activated carbon (GAC) filtration systems for removal of hydrogen sulfide or volatile organic chemicals

Competition and Condemnation

Cal Water and Washington Water are regulated public utilities, providing water service within filed service areas approved by the

Commissions. Under California laws, 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 CPUC. Such certificates will be issued only upon finding that the Company's service is deficient.

California law provides that whenever a public agency constructs facilities to extend a utility system into the service area of a privately owned public utility, such an act constitutes the taking of property and requires reimbursement to the utility for its loss. Further, the state's constitution and statutes allows municipalities, water districts and other public agencies to own and operate water systems. These agencies are empowered to condemn properties already operated by privately owned public utilities. The agencies are also authorized to issue bonds, including revenue bonds, for the purpose of acquiring or constructing water systems. However, if a public agency were to acquire utility property by eminent domain action, the utility would be entitled to just compensation for its loss. To the Company's knowledge, no municipality, water district or other public agency is contemplating or has any action pending to acquire or condemn any of the Company's systems.

In recent years, consolidation within the water industry has accelerated. A number of publicly traded water companies have been acquired or merged into larger domestic companies. Several acquisitions of publicly traded companies have also been completed by much larger foreign companies. The Company has participated in the industry consolidation by its pending acquisition of Dominguez Services Corporation and by its expansion into Washington state, other smaller acquisitions and pursuit of expanding nonregulated operations. The Company intends to continue pursuing opportunities to expand its business in the western United States.

Environmental Matters

The Company is subject to environmental regulation by various governmental authorities. Issues related to water quality are discussed separately within this report.

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

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Company's capital expenditures, earnings or competitive position. The Company is unaware of any pending environmental matters that will have a material effect on its operations. Refer to Item 3, Legal Proceedings, for additional information.

The Company's 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, 1999, there were 708 employees, of whom 192 were executive, administrative and supervisory employees, and 516 were members of unions. In December 1999, a three-year collective bargaining agreement, expiring December 31, 2002, was successfully negotiated with the Utility Workers Union of America, AFL-CIO, representing the majority of field and clerical union employees. Also in December 1999, a new three-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 unions' membership. As in the past, the agreements were successfully negotiated and ratified without a work interruption.

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

The Company makes no export sales.

Item 2. Properties.

The Company'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 Company's general office, which houses accounting, engineering, information systems, human resources, purchasing, regulatory, water quality and executive staffs is located in San Jose, California. All properties are maintained in good operating condition.

All principal properties are held in fee simple title. Properties owned by Cal Water are subject to the indenture securing the Company's first mortgage bonds of which \$116,345,000 remained outstanding at December 31, 1999. Washington Water has long-term bank loans totaling about \$2.8 million that is secured primarily by utility plant.

The Company owns 783 wells and operates six leased wells. There were 390 storage tanks with a capacity of about 220 million gallons and one reservoir located in the Bear Gulch district with a 210 million gallon capacity. There are about 4,700 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 1999, the average daily water production was 271 million gallons, while the maximum production on a single day was 528 million gallons. By comparison, during 1998 the average daily water production was 271 million gallons, while the maximum production on one day was 507 million gallons.

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

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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 plume 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 the sewer pipes. The DTSC contends that the Company's responsibility stems from its operation of wells in the surrounding vicinity that 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 that 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 Company's financial position or results of operations.

In December 1997, the Company along with the City of Stockton (the Contractors) filed a lawsuit against the Stockton East Water District (SEWD). The Contractors take 98% of SEWD's wholesale potable water production. SEWD also serves treated water to agricultural customers. Under a contract to enable SEWD to meet its financial obligations, the Contractors are required to pay specific Base Monthly Payments that as of June 30, 1997 had generated \$5.4 million in surplus funds. The Contractors contend that a portion of these funds 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.

On March 15, 2000, the Company was served with a lawsuit naming it as one of several defendants for damages alleged to have occurred in the Marysville district due to MTBE contamination in the Company's water. The suit did not specify a dollar amount. The Company believes it is covered by insurance in such a matter and has tendered the claim to its carrier.

The Company 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

<TABLE>
Executive Officers of the Registrant
<CAPTION>

Name	Positions and Offices with California Water Service Group	Age
<S>	<C>	<C>
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, San Jose, Vallejo Marysville, and Merced California, a diversified transportation and warehousing company, where he had been employed for 32 years.	63
Peter C. Nelson (1,2)	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.	52
Gerald F. Feeney (1)	Vice President, Chief Financial Officer and 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., certified public accountants.	55
Calvin L. Breed (3)	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., certified public accountants.	44
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.	47
(1)	holds the same position with California Water Service Company, CWS Utility Services; and Washington Water Service Company	
(2)	Chief Executive Officer of Washington Water Service Company	
(3)	holds the same position with California Water Service Company	

Name	Positions and Offices with the California Water Service 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.	50
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.	36
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.	46
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.	53
		18
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.	54
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.	60
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.	55
(1)	Also, Vice President, Marketing with CWS Utility Services.	

Name	Positions and Offices with the Washington Water Service Company	Age
Michael P. Ireland	President since December 1999; previously President of Harbor Water Company, Gig Harbor, Washington	46

</TABLE>

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 Company acting solely in their authorized capacities.

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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 page 34 of the Company's 1999 Annual Report and is incorporated herein by reference. The number of stockholders listed in such section includes the Company's record stockholders and an estimate of stockholders holding 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 page 15 of the Company's 1999 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 16 through 22 of the Company's 1999 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 Stockholders' Equity", "Consolidated Statement of Cash Flows", "Notes to Consolidated Financial Statements" and "Independent Auditors' Report" on pages 23 through 35 of the Company's 1999 Annual Report and is incorporated herein by reference. The 1999 Annual Report to stockholders is included with this report as Exhibit 13.1.

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 Company is contained in the section captioned "Board Committees" and is included on page 8 of the 2000 Proxy Statement, and in the section captioned "Proposal No. 1 - Election of Directors" on pages 10 and 11 of the 2000 Proxy Statement and is incorporated herein by reference. Information regarding executive officers of the Company 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 Company is included under the caption "Directors Compensation Arrangements" on page 9 of the 2000 Proxy Statement and is incorporated herein by reference. The information required by this item as to compensation of

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executive officers, including officers who are directors, is included under the captions " Executive Compensation" and "Report of the Compensation Committee of the Board of Directors on Executive Compensation" on page 20 through 23 of the 2000 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 section captioned "Stock Ownership of Management and Certain Beneficial Owners" on page 18, respectively, of the 2000 Proxy Statement and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions.

None.

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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, 1999 and 1998.

Consolidated Statement of Income for the years ended December 31, 1999, 1998 and 1997.

Consolidated Statement of Common Stockholders' Equity for the years ended December 31, 1999, 1998 and 1997.

Consolidated Statement of Cash Flows for the years ended December 31, 1999, 1998 and 1997.

Notes to Consolidated Financial Statements, December 31, 1999, 1998 and 1997.

Independent Auditors' Report dated January 21, 2000.

The above financial statements are contained in sections bearing the same captions on pages 23 through 35 of the Company's 1999 Annual Report to stockholders which is filed with this Form 10K and incorporated by reference. Refer to Exhibit 13.1 of this Form 10-K.

(2) Financial Statement Schedule:

Schedule
Number

- - - - -

Independent Auditors' Report dated January 21, 2000.

II Valuation and Qualifying Accounts and Reserves for the years ending December 31, 1999, 1998, and 1997.

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

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

The Exhibit Index on page 27 of this Form 10-K is incorporated herein by reference.

The exhibits filed as part of this Form 10-K are attached, unless otherwise indicated. The exhibits listed in the Exhibit Index that are not filed with this Form 10-K were previously filed with the Securities and Exchange Commission as indicated; unless stated otherwise, those exhibits are hereby incorporated by reference.

(b) Reports on Form 8-K.

(1) A Form 8-K was filed November 23, 1999 to report that on November 23, 1999 Registrant had completed all actions necessary to reincorporate itself as a Delaware corporation. From November 23, 1999 forward, California Water Service Group will operate as a Delaware corporation. The reincorporation had been approved by shareholders at their annual meeting in April 1999.

- (2) February 3, 2000, a Form 8-K was filed to report an amendment adopted by the Board of Directors of California Water Service Group to add director conflict of interest qualification rules.

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 15, 2000 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 15, 2000 /s/ Robert W. Foy
ROBERT W. FOY, Chairman,
Board of Directors

Date: March 15, 2000 /s/ Edward D. Harris, Jr.
EDWARD D. HARRIS, JR., M.D., Member,
Board of Directors

ROBERT K. JAEDICKE, Member,
Board of Directors

Date: March 15, 2000 /s/ Richard P. Magnuson
RICHARD P. MAGNUSON, Member,
Board of Directors

Date: March 15, 2000 /s/ Linda R. Meier
LINDA R. MEIER, Member,
Board of Directors

Date: March 15, 2000 /s/ Peter C. Nelson
PETER C. NELSON
President and Chief Executive Officer,
Member, Board of Directors

Date: March 15, 2000 /s/ C. H. Stump
C. H. STUMP, Member,
Board of Directors

Date: March 15, 2000 /s/ George A. Vera
GEORGE A. VERA, Member
Board of Directors

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Date: March 15, 2000 /s/ J. W. Weinhardt
J. W. WEINHARDT, Member,
Board of Directors

Date: March 15, 2000 /s/ Gerald F. Feeney
GERALD F. FEENEY,
Vice President, Chief Financial
Officer and Treasurer;
Principal Financial Officer

Date: March 15, 2000 /s/ Calvin L. Breed
CALVIN L. BREED, Controller,
Assistant Secretary and Assistant
Treasurer;
Principal Accounting Officer

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Independent Auditors' Report

Stockholders and Board of Directors
California Water Service Group:

Under date of January 21, 2000, we reported on the consolidated balance sheet of California Water Service Group as of December 31, 1999 and 1998, and the related consolidated statements of income, common stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1999, as contained in the 1999 annual report to stockholders. These consolidated financial statements and our report thereon are incorporated by reference in the annual report on Form 10-K for the year 1999. In connection with our audits of the aforementioned consolidated 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 Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits.

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

Mountain View, California
January 21, 2000

/s/ KPMG LLP

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<TABLE>

Schedule II

CALIFORNIA WATER SERVICE GROUP
Valuation and Qualifying Accounts
Years Ended December 31, 1999, 1998 and 1997

<CAPTION>

Description of period	Balance at beginning of period	Additions		Deductions
		Charged to costs and expenses	Charged to other accounts	
<S>	<C>	<C>	<C>	<C>
<C>				
1999 (A) Reserves deducted in the balance sheet from assets to which they apply:				
Allowance for doubtful accounts	\$ 206,155	\$ 335,282	\$ 41,517	\$ 466,990
\$ 115,964				
Allowance for obsolete materials and supplies	137,460	48,000		85,163
100,297				
=====	=====	=====	=====	=====
(B) Reserves classified as liabilities in the balance sheet:				
Miscellaneous reserves:				
General Liability	1,270,752	125,000		376,552
\$ 1,019,200				
Employees' group health plan	643,383	3,745,000	31,065	3,908,969
510,479				
Retirees' group health plan	2,018,373	1,284,000	675,000	575,000
3,402,373				
Workers compensation	1,003,798	(5,890)		496,162
501,746				
Deferred revenue - contributions in aid of construction	2,117,632	0	275,170	323,620
2,069,182				
Disability insurance	26,219		82,306	108,066
459				
-----	-----	-----	-----	-----
	\$ 7,080,157	\$5,148,110	\$1,063,541	\$5,788,369
\$ 7,503,439				
=====	=====	=====	=====	=====
Contributions in aid of construction	\$50,576,486		\$3,684,884	\$1,644,233
\$52,617,137				
=====	=====	=====	=====	=====

1998 (A) Reserves deducted in the balance sheet

	from assets to which they apply:				
	Allowance for doubtful accounts	\$ 103,596	\$ 549,344	\$ 52,796 (3)	\$ 499,581
(1)	\$ 206,155				
	Allowance for obsolete materials and supplies	\$ 129,193	\$ 48,000		\$ 39,733
(2)	137,460				
		=====	=====	=====	
	(B) Reserves classified as liabilities				
	in the balance sheet:				
	Miscellaneous reserves:				
	General Liability	\$ 900,425	\$ 600,000		\$ 229,673
(2)	\$ 1,270,752				
	Employees' group health plan	721,120	3,000,000	15,509	3,093,246
(2)	643,383				
	Retirees' group health plan	1,443,373	751,664	458,336	635,000
(2)	2,018,373				
	Workers compensation	661,829	878,423		536,454
(2)	1,003,798				
	Deferred revenue - contributions				
	in aid of construction	2,221,381		302,137	405,886
(6)	2,117,632				
	Disability insurance	23,811		107,110	104,702
(2)	26,219				
		-----	-----	-----	-----
		\$ 5,971,939	\$5,230,087	\$ 883,092	\$5,004,961
	\$ 7,080,157				

	Contributions in aid of construction	\$49,297,196		\$3,121,146 (4)	\$1,841,856
(5)	\$50,576,486				

1997	(A) Reserves deducted in the balance sheet				
	from assets to which they apply:				
	Allowance for doubtful accounts	\$ 100,544	\$ 620,778	\$ 70,850 (3)	\$ 688,576
(1)	\$ 103,596				
	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	\$ 997,834	\$ 668,496		\$ 765,905
(2)	\$ 900,425				
	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	2,413,531	0	194,784	386,934
(6)	2,221,381				
	Disability insurance	50,371		103,167	129,727
(2)	23,811				
		-----	-----	-----	-----
		\$ 5,341,371	\$5,219,809	\$ 843,865	\$5,433,106
	\$ 5,971,939				

	Contributions in aid of construction	\$48,033,820		\$2,808,969 (4)	\$1,545,593
(5)	\$49,297,196				

<FN>

(1) Accounts written off during the year.

(2) Expenditures and other charges made during the year.

(3) Recovery of amounts previously charged to reserve.

(4) Properties acquired at no cost, cash contributions and net transfer on non-refundable balances from advances to contributions.

(5) Depreciation of utility plant acquired by contributions charged to a balance sheet account.

(6) Amortized to revenue.

</FN>

<TABLE>

EXHIBIT INDEX

<CAPTION>

Exhibit Number -----		Sequential Page Numbers in this Report -----
<S>	<C>	<C>
	Unless filed with this Form 10-K, the documents listed are incorporated by reference.	
3.	Articles of Incorporation and By-laws:	
3.1	Certificate of Incorporation of California Water Service Group and (Filed as Exhibit A of the 1999 California Water Service Group Proxy Statement)	27
3.2	Restated By-laws of California Water Service Group as amended on January 26, 2000 (Exhibit E-2 to Form 8-K filed February 3, 2000)	27
3.3	Certificate of Determination of Preferences for Group's Series C Preferred Stock (Exhibit 3.2 to Form 10-K for fiscal year 1987)	27
3.4	Certificate of Determination of Preferences for 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 filed as Exhibit 1 to Form 8-A and Exhibit 1 to Form 8-K dated February 13, 1998)	27
4.	Instruments Defining the Rights of Security Holders of California Water Service Company, including Indentures:	
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, covering 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.)	27
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)	27
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)	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)	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)	28
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)	28
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)	28
4.8	Note Agreement dated August 15, 1995, pertaining to issuance of \$20,000,000, 7.28% Series A Unsecured Senior Notes, due November 1, 2025 (Exhibit 4 to Form 10-Q dated September 30, 1995)	28
4.9	Note Agreement dated March 1, 1999, pertaining to issuance of \$20,000,000, 6.77% Series B Unsecured Senior Notes, due November 1, 2028 (Exhibit 4.1 to Form 10-K dated December 31, 1999)	67
10.	Material Contracts.	
10.1	Water Supply Contract between Cal Water and County of Butte	28

	relating to Cal Water's Oroville District; Water Supply Contract between Cal Water and the Kern County Water Agency relating to Cal Water's Bakersfield District; Water Supply Contract between Cal Water and Stockton East Water District relating to Cal Water's Stockton District. (Exhibits 5(g), 5(h), 5(i), 5(j), Registration Statement No. 2-53678, which incorporates said exhibits by reference to Form 10-K for fiscal year 1974).	
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	28
	August 8, 1984; Water Supply Contract between the Cal Water and the City and County of San Francisco relating to Cal Water's Bear Gulch District dated August 8, 1984; Water Supply Contract between Cal Water and the City and County of San Francisco relating to the Cal Water's San Carlos District dated August 8, 1984; Water Supply Contract between the Cal Water and the City and County of San Francisco relating to the Cal Water's San Mateo District dated August 8, 1984; Water Supply Contract between the Cal Water and the City and County of San Francisco relating to the Cal Water's South San Francisco District dated August 8, 1984. (Exhibit 10.2 to Form 10-K for fiscal year 1984).	28
10.3	Water Supply Contract dated January 27, 1981, between Cal Water and the Santa Clara Valley Water District relating to the Cal Water's Los Altos District (Exhibit 10.3 to Form 10-K for fiscal year 1992)	29
10.4	Amendments No. 3, 6 and 7 and Amendment dated June 17, 1980, to Water Supply Contract between Cal Water and the County of Butte relating to the Cal Water's Oroville District. (Exhibit 10.5 to Form 10-K for fiscal year 1992)	29
10.5	Amendment dated May 31, 1977 to Water Supply Contract between Cal Water and Stockton-East Water District relating to Cal Water's Stockton District. (Exhibit 10.6 to Form 10-K for fiscal year 1992)	29
10.6	Second Amended Contract dated September 25, 1987 among Stockton East Water District, California Water Service Company, the City of Stockton, the Lincoln Village Maintenance District, and the Colonial Heights Maintenance District Providing for the Sale of Treated Water. (Exhibit 10.7 to Form 10-K for fiscal year 1987).	29
10.7	Water Supply Contract dated April 19, 1927, and Supplemental Agreement dated June 5, 1953, between Cal Water and Pacific Gas and Electric Company relating to Cal Water's Oroville District. (Exhibit 10.9 to Form 10-K for fiscal year 1992)	29
10.8	California Water Service Company Pension Plan (Exhibit 10.10 to Form 10-K for fiscal year 1992)	29
10.9	California Water Service Company Supplemental Executive Retirement Plan. (Exhibit 10.11 to Form 10-K for fiscal year 1992)	30
10.10	California Water Service Company Employees Savings Plan. (Exhibit 10.12 to Form 10-K for fiscal year 1992)	30
		29
10.11	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)	30
10.12	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)	30
10.13	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)	30
10.14	Shareholder Rights Plan; an agreement between California Water	30

	Service Group and BankBoston, N.A., rights agent, dated January 28, 1998 (Exhibit 1 to Form 8-A and Exhibit 1 to Form 8-K dated February 13, 1998)	
10.15	Dividend Reinvestment and Stock Purchase Plan dated February 17, 1998 (Filed on Form S-3 dated February 17, 1998)	30
10.16	California Water Service Group Directors Deferred Compensation Plan (Exhibit 10.17 to Form 10-K for fiscal year 1997)	30
10.17	California Water Service Group Directors Retirement Plan (Exhibit 10.18 to Form 10-K for fiscal year 1997)	30
10.18	\$50,000,000 Business Loan Agreements between California 1 California Water Service Group, California Water Service Company and CWS Utility Services and Bank of America Bank of America dated May 3, 1999, expiring April 30, 2001 (Exhibit 10.18 to Form 10-K for the year 1999)	133
		30
10.20	Certificate of Determination regarding Series D Participating Preferred Shares. These shares are relative to the Shareholder Rights Plan and would be issued if the rights plan were triggered. This is a revised filing at the California Secretary of State's request in a revised form (Exhibit 10.19 to Form 10Q for the quarter ending September 30, 1998)	31
10.21	Amendment to the California Water Service Company Supplemental Executive Retirement Plan (refer to Exhibit 10.9) to allow benefits to be received by Plan participants at age 60 without a reduction in the level of benefit	31
10.22	Amendment to the California Water Service Group Deferred Director Compensation Plan (refer to Exhibit 10.16) regarding the timing for electing Plan benefits	31
10.24	Executive Severance Plan (Exhibit 10.24 to Form 10K for the fiscal year 1998)	31
10.25	Water Supply Contract dated November 16, 1994 between California Water Service Company and Alameda County Flood Control and Water Conservation District relating to Cal Water's Livermore District (Exhibit 10.15 to Form 10-K for fiscal year 1994)	31
13.	Annual Report to Security Holders, Form 10-Q or Quarterly Report to Security Holders:	
13.1	1999 Annual Report. Certain sections of the 1999 Annual Report to stockholders are incorporated by reference in this 10-K filing and filed with this Form 10-K as Exhibit 13. 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.	32
27.	Financial Data Schedule as of December 31, 1999	66
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</TABLE>

<TABLE>
 Exhibit 13.1
 <CAPTION>

Regulated and Non-Regulated Customers

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		NON	
DISTRICT NAME <S>	INCLUDING	REGULATED <C>	REGULATED <C>
CALIFORNIA			
Bakersfield	O&M contracts for the City of Bakersfield and Spicer City and Rancho Verdugo MWC	56,700	24,900
Bear Gulch	Atherton, Woodside, Portola Valley, portions of Menlo Park and City of Menlo Park service contract	17,500	4,000
Chico+	Hamilton City	22,800	
Dixon		2,800	
East Los Angeles	O&M contracts for cities of Commerce and Montebello	26,400	2,700
Hawthorne	15-year lease-- full service water operations	6,100	
Hermosa-Redondo+	a portion of Torrance	25,400	
King City+		2,200	
Livermore	O&M contracts for Castlewood Country Club and Crane Ridge MWC	16,500	400
Los Altos	portions of Cupertino, Los Altos Hills, Mountain View and Sunnyvale	18,300	
Marysville+		3,700	
Mid-Peninsula	San Mateo and San Carlos	35,700	
Oroville		3,500	
Palos Verdes+	Palos Verdes Estates, Rancho Palos Verdes, Rolling Hills Estates and Rolling Hills	23,700	
Salinas	O&M contracts for Country Meadows MWC and Spreckels Water Co.	25,600	300
Selma		5,100	
South San Francisco	Colma and Broadmoor	16,200	
Stockton		41,600	
Visalia+	four O&M contracts	28,600	1,100
Westlake	a portion of Thousand Oaks	6,900	
Willows+		2,300	
	Subtotal	381,500	39,500
WASHINGTON			
Harbor	numerous O&M contracts	9,300	1,700
South Sound	numerous O&M contracts	2,700	1,100
	Subtotal	12,000	2,800
	Current Total	393,500	42,300
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DOMINGUEZ*			
Antelope Valley	Fremont Valley, Lake Hughes, Lancaster and Leona Valley	1,300	300
Dominguez	Carson and portions of Compton, Harbor City, Long Beach and Torrance	32,500	
Kern River Valley	Bodfish, Kernville, Lakeland, Mountain Shadows, Onyx, Squirrel Valley, South Lake and Wofford Heights	4,100	700
Redwood Valley	Lucerne, Duncans Mills and Guerneville	1,900	
	Subtotal	39,800	1,000
	Total with Dominguez	433,300	43,300

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MAP OF SERVICE TERRITORIES

This page is a map of the Western United States with Washington, California and New Mexico highlighted. The California Water Service Company, Washington Water Service Company and Dominguez Services Corporation service areas noted. In New Mexico, a contract operation is noted near Santa Fe.

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Balance Sheet Data

Net utility plant \$331,352	\$515,354	\$489,017	\$469,897	\$452,441	\$430,636	\$415,747	\$399,088	\$381,683	\$356,172
Utility plant expenditures 27,402	44,493	35,878	33,931	36,820	28,409	29,117	29,445	36,275	34,994
Total assets 375,746	587,618	560,508	542,783	522,870	507,732	471,855	455,055	411,479	400,698
Long-term debt including current portion 105,948	159,223	141,401	142,013	143,840	147,062	130,983	131,199	123,445	104,494
Capitalization ratios:									
Common stockholders' equity 51.3%	52.1%	54.2%	53.3%	51.5%	49.7%	52.0%	48.1%	48.7%	52.4%
Preferred stock 1.5%	1.0%	1.1%	1.1%	1.1%	1.2%	1.2%	1.3%	1.4%	1.5%
Long-term debt 47.2%	46.9%	44.7%	45.6%	47.4%	49.1%	46.8%	50.6%	49.9%	46.1%

Other Data

Water production (million gallons)									
Wells 52,272	57,934	51,139	57,652	54,457	50,688	51,352	48,012	52,909	49,692
Purchased 45,431	52,340	49,436	53,190	51,700	49,068	49,300	48,089	40,426	36,686
Total water production 97,703	110,274	100,575	110,842	106,157	99,756	100,652	96,101	93,335	86,378
Metered customers 278,639	322,478	317,178	312,732	308,455	298,730	295,831	290,513	286,465	282,377
Flat-rate customers 81,721	77,091	77,340	77,649	77,961	78,099	79,103	81,360	82,566	82,979
Customers at year-end 360,360	399,569	394,518	390,381	386,416	376,829	374,934	371,873	369,031	365,356
New customers added 1,251	5,051	4,137	3,965	9,587	1,895	3,061	2,842	3,675	4,996
Revenue per customer \$ 349	\$ 517	\$ 481	\$ 508	\$ 480	\$ 445	\$ 426	\$ 413	\$ 384	\$ 352

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Utility plant per customer 1,247	1,845	1,764	1,694	1,633	1,582	1,520	1,460	1,399	1,320
Employees at year-end 605	708	689	679	663	660	653	642	637	618

<FN>

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

</FN>

</TABLE>

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

California Water Service Group (Company) is a holding company with three operating subsidiaries, California Water Service Company (Cal Water), CWS Utility Services (Services) and Washington Water Service Company (Washington Water). Cal Water and Washington Water are regulated public utilities. Their assets and operating revenues currently make up the majority of the Company's assets and revenues. Services provides non-regulated water operations and related services to other private companies and municipalities. The following discussion and analysis provides information regarding the Company and its assets, operations and financial condition.

Forward-Looking Statements

This annual report, including the Letter to Stockholders, Management's Discussion and Analysis and other sections, contains forward-looking statements within the meaning of the federal securities laws. Such statements are based on currently available information, expectations, estimates, assumptions and projections, and management's judgment about the Company, 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 or anticipated include regulatory commission decisions, new legislation, increases in suppliers' prices, changes in environmental compliance requirements, acquisitions, changes in customer water use patterns and the impact of weather on operating results. The Company assumes no obligation to provide public updates on forward-looking statements.

Business

Cal Water is a public utility supplying water service to 387,600 customers in 60 California communities through 21 separate water systems or districts. Cal Water's 20 regulated systems, which are subject to regulation by the California Public Utilities Commission (CPUC), serve 381,500 customers as shown on the enclosed map. An additional 6,100 customers receive service through a lease of the City of Hawthorne's water system, which is not subject to CPUC regulation. Cal Water derives non-regulated income from contracts with other private companies and municipalities to operate water systems and provide billing services to 33,400 customers. It also leases communication antenna sites and operates two reclaimed water systems.

Washington Water's utility operations are regulated by the Washington Utilities and Transportation Commission (WUTC). Washington Water provides domestic water service to 12,000 customers through two operating districts near Tacoma and Olympia. An additional 2,800 customers are served under operating agreements with private

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owners. Refer to the separate section titled "Washington Acquisitions" for further information concerning Washington Water.

Rates and operations for regulated customers are subject to the jurisdiction of the respective state's regulatory commission. The commissions require that water rates for each regulated district be independently determined. 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 Operation

Restatement During 1999, the Company issued 316,472 shares of common stock in exchange for all of the outstanding shares of Harbor Water Company and South Sound Utility Company. Both acquisitions were accounted for as poolings of interests. Financial statements for the current and prior periods have been restated to include the accounts of both companies.

Earnings and Dividends Net income in 1999 was \$19,919,000, compared to \$18,936,000 in 1998 and \$23,736,000 in 1997. Earnings per common share were \$1.53 in 1999, \$1.45 in 1998 and \$1.82 in 1997. Net income and earnings per share in 1997 were the highest levels ever achieved by the Company. The weighted average number of common shares outstanding in each of the three years was 12,936,000.

At its January 1999 meeting, the Board of Directors increased the common stock dividend rate for the 32nd consecutive year. 1999 also marked the 55th consecutive year that a dividend had been paid on the Company's common stock. The annual dividend paid in 1999 was \$1.085, an increase of 1.4% over the 1998 rate of \$1.07 per share, which in turn was an increase of 1.4% from the 1997 dividend of \$1.055 per share. The dividend increases were based on projections that the higher dividend could be sustained while still providing the Company with adequate financial flexibility. Earnings not paid as dividends are reinvested in the business. The dividend payout ratio was 71% in 1999, 74% in 1998 and 58% in 1997, an average of 67% for the three-year period.

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Operating Revenue Operating revenue, including revenue from City of Hawthorne customers, was \$206.4 million, \$16.8 million or 9% more than the \$189.7 million recorded last year. Revenue in 1997 was \$198.3 million. Operating revenue exceeded \$200 million for the first time in 1999. The source of changes in operating revenue were:

dollars in millions	1999	1998	1997
Customer water usage	\$11.8	\$ (12.6)	\$ 3.9
General and step rate increases	3.0	1.9	6.4
Offset rate increases - water production costs	0.2	0.2	0.2

Usage by new customers	1.8	1.9	2.3
Net change	\$16.8	\$ (8.6)	\$12.8
Average revenue per customer	\$ 517	\$ 481	\$ 508

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Average metered customer usage (ccf)	305	284	315
New customers added	5,000	4,100	4,000

Weather in the first half of 1999 was normal, while in the prior year it was cool and wet; as a result, customer usage and revenue were higher this year. Third-quarter weather in both years was normal. Fourth-quarter 1999 weather was mild and drier than 1998, causing an increase in customer usage and an increase in revenue. The year-end customer count was 399,600, an increase of 1.3%.

During the first half of 1998, weather in our service areas was wet and cool, very much the reverse of 1997's favorable weather pattern. Weather in the second half of 1998 returned to a more normal pattern. However, the wet, cool weather in the early part of the year resulted in an overall 9% decrease in 1998 water usage, negatively impacting revenue. The year-end customer count in 1998 was 394,500, a 1.1% increase.

Rainfall for the 1996-97 season was concentrated in December 1996 and January 1997, then virtually ceased. Average consumption per metered account reached a record level due to dry and warm summer months. The customer count in 1997 increased 1.0% to 390,400.

Operating and Interest Expenses Operating expenses, including those for the Hawthorne operation, were \$175.8 million in 1999, \$159.1 million in 1998 and \$163.4 million in 1997.

Wells provided 52.4% of water requirements in 1999 and purchased water provided 47.2%, with 0.4% obtained from a surface supply. In 1998, the corresponding percentages were 50.6%, 48.9% and 0.5%, and in 1997, 51.8%, 47.8% and 0.4%. The table below provides information regarding water production costs, which includes purchased water, purchased power and pump taxes:

dollars in millions	1999	1998	1997
Purchased water	\$58.1	\$50.4	\$52.2
Purchased power	13.0	11.4	12.7
Pump taxes	4.5	3.8	4.3
Total water production costs	\$75.6	\$65.6	\$69.2
Change from prior year	15%	(5)%	2%
Water production (billion gallons)	110	101	111
Change from prior year	10%	(9)%	5%

The year-to-year water production cost changes were influenced by each year's predominant weather pattern. In each of the three years, purchased water expense, the largest component of annual operating expense, was affected by wholesale suppliers' rate increases. Water production costs in 1999 reflect an increase in customer usage and significant purchased water price increases for the San Francisco Peninsula districts, where the wholesale supplier's rates increased 37%.

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Production levels in 1998 decreased from 1997 due to lower customer usage in response to weather conditions. Despite some wholesaler price increases, overall water

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production expenses declined. Well production decreased due to the decline in water sales and because several wells were out of service for maintenance. With reduced well production, purchased power and pump tax expenses declined.

In 1997, nonrecurring refunds totaling \$2.5 million received from two wholesale water suppliers reduced purchased water expense. Well production increased 6% in 1997 because of increased demand, causing an increase in pump taxes and purchased power costs.

Employee payroll and benefits charged to operations and maintenance expense was \$38.4 million in 1999, \$34.9 million in 1998 and \$34.1 million in 1997. The increases in payroll and related benefits are attributable to wage increases effective at the start of each year and additional hours worked. At year-end 1999, 1998 and 1997, there were 708, 689 and 679 employees.

Income tax expense was \$12.2 million in 1999, \$10.8 million in 1998 and \$14.1 million in 1997. The changes in taxes are generally due to variations in

taxable income. There is no state income tax in Washington.

Long-term debt interest expense increased \$1.0 million in 1999 because of the issuance of Series B, 6.77% senior notes in March. Long-term interest costs decreased \$0.4 million in 1998 and \$0.3 million in 1997 due to the retirement of Series K bonds in November 1996 and Series L bonds in November 1997, annual sinking fund payments each year and the absence of new long-term financing.

Interest expense from short-term bank borrowings in 1999 decreased \$0.4 million. Short-term borrowings were reduced after the issue of the Series B senior notes and by strong cash flow from operations. In 1998, short-term interest expense was \$0.7 million greater than in 1997. In 1997, short-term interest expense was \$0.3 million more than in the prior year. Interest coverage of long-term debt before income taxes was 3.5 times in 1999 and 1998, and 4.1 times in 1997. There was \$13.5 million in short-term borrowings at the end of 1999, and \$22.5 million at the end of 1998.

Other Income Other income is derived from management contracts by which the Company operates private and municipally-owned water systems, agreements for operation of two reclaimed water systems, contracts for meter reading and billing services to various cities, leases of communication antenna sites, surplus property sales, other nonutility sources and interest on short-term investments. Total other income was \$2.7 million in 1999, \$1.3 million in 1998 and \$1.4 million in 1997. During 1999, \$1.3 million in pretax revenues were realized as part of the Real Estate Program that is described in more detail in "Liquidity and Capital Resources." Income from the various operating and billing contracts, excluding short-term interest income, was \$2.5 million in 1999 and \$1.3 million in 1998 and 1997.

Rates and Regulation

The Company's regulatory staff completed a review of 14 Cal Water districts that were eligible for general rate application filings in 1999. Based on current earnings levels, projected expense increases and expected capital expenditures, a determination was made that no general rate increase applications were necessary. During 2000, eligible districts will again be reviewed. It is anticipated that general rate application filings will be made in mid-year with CPUC decisions expected in late spring 2001.

In May 1999, the CPUC authorized rate increases in four districts serving about 25% of Cal Water's total customers. The applications were filed in July 1998.

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Subsequently, the Company and CPUC staff agreed to a stipulated settlement. The decision is estimated to generate \$4,095,000 in new revenue during the twelve months following its mid-June effective date. The decision authorized a 9.55% return on equity, providing \$1.9 million in additional revenue. In addition, the decision provided another \$2.2 million in revenue for environmental compliance, specific capital budget expenditures and recovery of General Office expenses. The \$2.2 million is not reflected in the 9.55% return on equity calculation.

CPUC decisions were received in July 1998 for the general rate applications filed in July 1997. Additional annual revenue from these decisions is expected to total \$299,000 in 1998, \$267,000 in 1999 and \$121,000 in the years 2000 and 2001. In a variance from its past practice, future rate increases for operating costs and capital requirements over the next five years in the Oroville and Selma districts are tied to changes in a price index. The decision maintained the ROE at 10.35%.

In 1997, the CPUC's general rate application decisions granted an ROE of 10.35% and additional revenue of \$2.4 million.

No rate applications were filed for the Washington operations during 1999. The most recent authorized rate of return was 11.1%, granted in a 1998 decision. General rate application filings for both districts are expected in 2000.

Water Supply

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The Company's source of supply varies among its 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 a combination of wells and purchased sources. Historically, about half of the water is provided from wells and about half is purchased.

Generally, between mid-spring and mid-fall, little precipitation falls in the California service areas. The Washington service areas receive precipitation in all seasons. Water demand is highest during the warm summers and lowest in the cool winters. 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 1999-2000 water year has been less than normal, but the prior four years exceeded normal levels. Water storage in state reservoirs at the end of 1999 exceeds historic amounts. The Company believes that its supply from both underground aquifers and purchased sources should be adequate to meet customer demand during 2000.

Environmental Matters

The Company is subject to regulations of the United States Environmental Protection Agency (EPA), state health service departments and various local 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 requirements set forth by the various agencies.

The Safe Drinking Water Act was amended in 1996 to provide a new process for the EPA to select and regulate waterborne contaminants. The EPA can now regulate only contaminants that are known or likely to occur at levels that would pose a risk to public

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health when such regulation would provide a meaningful opportunity to reduce a health risk. New drinking water regulations will be based primarily on risk assessment and measurement of cost/benefit considerations for minimizing overall health risk. Over 90 contaminants for possible regulation have been listed by the EPA and the list must be updated every five years. Also, every five years the EPA must select at least five listed contaminants and determine if they should be regulated.

The Company has an established water supply monitoring program to test for contaminants as mandated by the EPA. As necessary or required, water treatment is added to provide disinfection for water extracted from underground sources. The Company also owns and operates three surface water treatment plants. The cost of treatment is being recovered in customer rates as authorized by the regulatory authorities. Water purchased from wholesale suppliers is treated before delivery to the Company's systems.

Enforcement of the EPA standards is the responsibility of individual states, which could impose more stringent regulation. In addition to the EPA's requirements, 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 bank lines of credit and internally generated funds. The Company and Cal Water have a \$50 million bank line of credit. The Company's portion is \$20 million and Cal Water's portion is \$30 million. The Company's \$20 million portion may be drawn on for use by the Company, including funding operations of either of its two California subsidiaries. Cal Water's \$30 million portion can be used solely for purposes of the regulated utility. Washington Water has loan commitments from two banks to meet its operating and capital equipment purchase requirements. Generally, short-term borrowings under the commitments are converted annually to long-term borrowings with repayment terms tied to system and equipment acquisitions. Additional information regarding the bank borrowings is presented in Note 6 to the Consolidated Financial Statements. Internally generated funds come from retention of earnings not paid out as dividends, 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 when water sales are lower. With greater summer usage and increased billings comes increased cash flow from operations, allowing bank borrowings to 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 Cal Water's first mortgage bonds at AA- and Aa3. Long-term financing, which includes common stock, first mortgage bonds, senior notes and other debt securities, has been 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.

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In March 1999, Cal Water completed its first long-term financing in four years when Series B, 6.77%, 30-year senior notes were issued. Prior to the Series B issue,

operating and capital requirements were met by borrowings under the bank short-term line of credit and by internally generated funds.

In 1998, the Company introduced a Dividend Reinvestment and Stock Purchase Plan (Plan), replacing the existing plan. Under the Plan, stockholders may reinvest dividends to purchase additional Company common stock. The Plan also allows existing stockholders and other interested investors to purchase Company common stock through the transfer agent. Shares required for the Plan may be purchased on the open market or newly issued shares. Therefore, the Plan will provide the Company with an alternative means of developing additional equity if new shares are issued. During 1999 and 1998, shares required by the Plan were purchased on the open market. At this time, the Company intends to continue purchasing shares required for the Plan on the open market. However, if new shares were issued to satisfy future Plan requirements, the impact on earnings per share could be dilutive because of the added shares outstanding. Also, stockholders not participating in the Plan may experience dilution of their ownership percentage.

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 1999, total utility plant expenditures were \$44.5 million. For 1998, utility plant expenditures totaled \$35.9 million, compared to \$33.9 million in 1997. Expenditures in 1999 included \$31.5 million provided by Company funds and \$13.0 million received from developers through contributions in aid of construction and refundable advances for construction. Company projects were funded by internally generated funds, borrowings under bank credit lines and commitments, and issuance of the \$20 million Series B senior notes.

The Company's 2000 construction program is authorized for \$35.7 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 about \$175 million.

Capital Structure Common stockholders' equity increased by the amount of earnings not paid out for dividends. No new equity was issued in the past three years. The long-term debt portion of the capital structure increased due to the issuance of Series B senior notes. It was reduced by first mortgage bond sinking fund payments.

The Company's total capitalization at December 31, 1999 was \$337.2 million, compared to \$313.9 million at the end of 1998.

Capital ratios were:	1999	1998
Common equity	52.1%	54.2%
Preferred stock	1.0%	1.1%
Long-term debt	46.9%	44.7%

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The 1999 return on average common equity was 11.4%, compared with 11.3% in 1998 and 14.7% in 1997. Refer to the discussion of authorized return on equity in the "Rates and Regulation" section.

Real Estate Program The Company's subsidiaries own more than 900 real estate parcels. Certain parcels are not necessary for or used in water utility operations. A program has been developed to realize the value of certain surplus properties through sale or lease of those properties. Most surplus properties have a low cost basis. The program, which commenced in 1999, will be ongoing for a period of several years. During the next four years, the Company estimates that gross property transactions totaling over six million dollars could be completed.

Stockholder Rights Plan As explained in Note 5 to the Consolidated Financial Statements, in January 1998, the Board of Directors adopted a Stockholder Rights Plan (Plan). In connection with the Plan, a dividend distribution of one right for each common share to purchase preferred stock under certain circumstances was also authorized. The Plan is designed to protect stockholders and maximize stockholder value in the event of an unsolicited takeover proposal by encouraging a prospective acquirer to negotiate with the Board.

On November 13, 1998, the boards of the Company and Dominguez Services Corporation (Dominguez) agreed to the merger of the two companies. The agreement was subsequently amended on March 22, 1999.

Dominguez is a utility holding company whose subsidiaries provide water service to about 40,000 customers in 20 California communities. Its primary subsidiary, Dominguez Water Company, is a regulated water utility with its largest operation serving over 32,000 accounts in the South Bay area of Los Angeles County adjacent to Cal Water's Hermosa Redondo and Palos Verdes districts. Dominguez also has operations in Kern County east of Cal Water's Bakersfield district serving over 4,100 accounts, in the Antelope Valley area serving about 1,300 accounts and in an area north of San Francisco serving about 1,900 customers.

Dominguez' 1998 operating revenue was \$25.3 million. Its net utility plant was \$44.8 million and it had total assets of \$52.6 million.

The amended agreement provides that each outstanding Dominguez common share will be exchanged for between 1.25 and 1.49 shares of Company common stock. The precise conversion ratio will depend upon the average closing price of Company common stock for a twenty-day period preceding the transaction's closing date. The conversion ratio is designed to yield Dominguez shareholders a \$33.75 value for each Dominguez share. At December 31, 1998, there were 1,561,000 shares of Dominguez common stock outstanding. The Company also expects to assume approximately \$12 million of outstanding Dominguez debt.

Dominguez shareholders approved the merger at a meeting in May 1999. Necessary approvals from federal agencies, including the Securities and Exchange Commission and Federal Trade Commission, have been received. Final approval of the CPUC is now anticipated in March 2000.

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Washington Acquisitions

During the fourth quarter of 1999, the Company completed the acquisitions of Harbor Water Company near Tacoma and South Sound Utility Company near Olympia. The two companies, which serve 14,800 customers, were merged into a new subsidiary, Washington Water Service Company. The transactions were completed through tax-free exchanges of 316,472 Company common shares, valued at \$8.5 million for all of the shares of the two companies. The Company also assumed \$3 million in outstanding debt. Both transactions were accounted for on a pooling of interest basis.

New Accounting Standard

In 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." The statement establishes new accounting and reporting standards for derivative financial instruments and hedging activities. The Company expects to adopt the standard in 2000. Its adoption is not anticipated to have a material impact on the Company's results of operations or financial position.

Year 2000 Update

Readiness The Company successfully transitioned from 1999 to 2000 without technology or customer service disruptions as a result of preparation efforts by our employees in the districts and at the corporate office. A Year 2000 (Y2K) Transition Team was assembled to ensure the Company's Y2K preparedness. Computer applications are currently processed on a mainframe-based system and a local area network (LAN) computer system. Most billing applications are processed on the mainframe computer. The information systems department (IS) inventoried software programs and modified them to be Y2K ready. A Y2K compatible accounting, purchasing and human resources software package was installed and operated on the LAN during 1999 as scheduled. The Company identified non-computer equipment and operating systems that potentially contained embedded date-sensitive chips. Steps were taken to make the equipment and systems Y2K ready. The Company continues to monitor its computer-based systems for possible Y2K disruptions and is ready to respond in the event of a Y2K related problem.

Suppliers and vendors with whom the Company has material business relationships were contacted throughout 1998 and 1999 to assess their Y2K preparedness. Those contacted included water wholesalers, power supply companies, chemical vendors, fuel suppliers, banks and the stock registrar. Operating units continue in 2000 to work with suppliers and vendors to assure availability of necessary products and supplies.

The Company's water systems operate independent of each other. Each system is unique as to its operating requirements. Each operating district prepared a Y2K readiness and response plan. The plans were continually reviewed and updated as testing was completed and new information received that could affect the Y2K transition.

Costs The estimated remediation cost for Y2K preparedness was about \$500,000. This includes the cost of an outside consultant, vendors and computer programming time. The costs of a new computer system and software package are not included since their

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selection and installation were not Y2K driven. No IS projects were deferred as a result of the Y2K efforts. The Company did accelerate the acquisition of several portable boosters for use in moving water in the event of a power outage, with a capitalized cost of about \$400,000.

Risks In a worst case scenario, the Company could have been unable to deliver water to some or all of its customers if wholesale suppliers had not provided water or power supplies. Additionally, it could have been impossible to produce customer bills or maintain accounting functions if power sources were not available or computer billing programs did not properly function. Insurance coverage was reviewed and the Company and its broker believed that the policies afforded Y2K coverage.

Contingency Plans Each district maintains an emergency response plan that is reviewed and updated on a regular basis. These plans are designed to provide for alternative operating plans and procedures in the event normal operations are interrupted. The emergency plans were the basis for developing separate Y2K service interruption preparedness and response plans.

Fixed site and portable auxiliary power generators are located throughout the service territories. These generators are designed to produce electric power for wells and pumps to supply water to customers in the event power companies experience outages. Emergency water connections are maintained between the Company's water systems and those of adjacent purveyors to provide an emergency water supply.

Each district has identified high-profile water users, such as hospitals, and developed contingency plans for continued service in the event of a service disruption. Detailed Y2K plans included the following: establishing a timeline to ascertain vendors' ability to provide crucial products and services; informing employees of Y2K efforts and responsibilities; scheduling maintenance so that water delivery facilities were on line at year-end; arranging for alternate water and power supplies; conducting "what if" exercises to develop responses to loss of water or power outages from normal sources and preparing for manual water system operations if necessary; identifying plans to provide water service to critical vendors, such as hospitals; assuring that measures were in place to maintain water quality and that water testing alternatives were available; arranging for equipment needs and supplies should Y2K problems develop; and scheduling employees to be on duty or available for duty as needed.

<TABLE>

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CONSOLIDATED BALANCE SHEET

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December 31, 1999 and 1998

	In thousands	
	1999	1998
<S>	<C>	<C>
ASSETS		
Utility plant:		
Land	\$ 9,424	\$ 8,221
Depreciable plant and equipment	704,009	667,902
Construction work in progress	13,740	10,829
Intangible assets	10,179	8,807
		44
Total utility plant	737,352	695,759
Less depreciation and amortization	221,998	206,742
Net utility plant	515,354	489,017
Current assets:		
Cash and cash equivalents	1,437	1,051
Receivables:		
Customers	12,533	10,700
Other	3,041	3,436
Unbilled revenue	7,145	5,958
Materials and supplies at average cost	2,229	2,235
Taxes and other prepaid expenses	4,437	4,512
Total current assets	30,822	27,892

Other assets:		
Regulatory assets	36,458	39,538
Unamortized debt premium and expense	3,503	3,556
Other	1,481	505
Total other assets	41,442	43,599
	\$587,618	\$560,508

CAPITALIZATION AND LIABILITIES

Capitalization:

Common stock, \$.01 par value; 25,000 share authorized, 12,936 shares outstanding	\$ 129	\$ 129
Additional paid-in capital	44,881	44,881
Retained earnings	132,689	126,687
Accumulated other comprehensive loss	(517)	--
Total common stockholders' equity	177,182	171,697
Preferred stock without mandatory redemption provision, \$25 par value; 380 shares authorized, 139 shares outstanding	3,475	3,475
Long-term debt, less current maturities	156,572	138,758
Total capitalization	337,229	313,930

Current liabilities:

Current maturities of long-term debt	2,651	2,643
Short-term borrowings	13,599	22,500
Accounts payable	23,707	16,010
Accrued taxes	3,556	4,726
Accrued interest	2,092	1,944
Other accrued liabilities	9,906	9,428
Total current liabilities	55,511	57,251

Unamortized investment tax credits	2,842	2,937
Deferred income taxes	21,427	27,200

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Regulatory and other liabilities	18,001	12,697
Advances for construction	99,991	95,917
Contributions in aid of construction	52,617	50,576

\$587,618 \$560,508

<FN>
See accompanying notes to consolidated financial statements.
</FN>

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</TABLE>

<TABLE>

Consolidated Statement of Income
For the years ended December 31, 1999, 1998 and 1997
<CAPTION>

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In thousands, except per share data

	1999	1998	1997
<S>	<C>	<C>	<C>
Operating revenue	\$206,440	\$189,659	\$198,347
Operating expenses:			
Operations:			
Purchased water	58,132	50,378	52,155
Purchased power	13,033	11,389	12,679
Pump taxes	4,537	3,850	4,302
Administrative and general	27,987	25,418	24,566
Other	26,425	25,065	24,505
Maintenance	9,183	9,164	9,445
Depreciation and amortization	15,802	14,870	13,959
Income taxes	12,176	10,808	14,057
Property and other taxes	8,555	8,178	7,763
Total operating expenses	175,830	159,120	163,431
Net operating income	30,610	30,539	34,916
Other income and expenses, net	2,510	1,094	949
Income before interest expense	33,120	31,633	35,865
Interest expense:			
Long-term debt interest	12,144	11,259	11,405
Other interest	1,057	1,438	724
Total interest expense	13,201	12,697	12,129
Net income	\$ 19,919	\$ 18,936	\$ 23,736

Basic earnings per share of common stock	\$ 1.53	\$ 1.45	\$ 1.82
Average number of common shares outstanding	12,936	12,936	12,936

<FN>
See accompanying notes to consolidated financial statements.
</FN>

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</TABLE>

<TABLE>
Consolidated Statement of Common Stockholders' Equity
For the years ended December 31, 1999, 1998 and 1997
<CAPTION>

Page 25

	In thousands				
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
<S>	<C>	<C>	<C>	<C>	<C>
Balance at December 31, 1996	\$129	\$44,881	\$111,137	\$ --	\$156,147
Net income			23,736		23,736
Dividends paid:					
Preferred stock			153		153
Common			13,313		13,313
Total dividends paid			13,466		13,466
Income reinvested in business			10,270		10,270
Balance at December 31, 1997	129	44,881	121,407	--	166,417
Net income			18,936		18,936
Dividends paid:					
Preferred stock			153		153
Common stock			13,503		13,503
Total dividends paid			13,656		13,656
Income reinvested in business			5,280		5,280
Balance at December 31, 1998	129	44,881	126,687	--	171,697
Net income			19,919		19,919
Dividends paid:					
Preferred stock			153		153
Common stock			13,764		13,764
Total dividends paid			13,917		13,917
Income reinvested in business			6,002		6,002
Comprehensive lo				(517)	(517)
Balance at December 31, 1999	\$129	\$44,881	\$132,689	\$ (517)	\$177,182

<FN>
See accompanying notes to consolidated financial statements.
</FN>

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</TABLE>

<TABLE>

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<CAPTION>

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended December 31, 1999, 1998 and 1997

	In thousands		
	1999	1998	1997
<S>	<C>	<C>	<C>
Operating activities			
Net income	\$19,919	\$18,936	\$23,736
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	15,802	14,870	13,959
Deferred income taxes, investment tax credits, and regulatory assets and liabilities, net	1,056	273	1,072
Changes in operating assets and liabilities:			
Receivables	(1,438)	1,013	(1,855)
Unbilled revenue	(1,187)	(780)	399
Accounts payable	7,697	374	739
Other current liabilities	(544)	2,726	365
Other changes, net	1,352	805	1,507
Net adjustments	22,738	19,281	16,186
Net cash provided by operating activities	42,657	38,217	39,922
Investing activities:			
Utility plant expenditures:			
Company funded	(31,509)	(30,780)	(26,153)
Developer advances and contributions			

in aid of construction	(12,984)	(5,098)	(7,778)
Net cash used in investing activities	(44,493)	(35,878)	(33,931)
Financing activities:			
Net short-term borrowings	(8,901)	8,000	6,900
Issuance of long-term debt	20,062	--	--
Advances for construction	7,435	3,737	4,559
Refunds of advances for construction	(3,902)	(3,760)	(3,701)
Contributions in aid of construction	3,685	2,746	2,770
Retirement of long-term debt	(2,240)	(733)	(2,324)
Dividends paid	(13,917)	(13,656)	(13,466)
Net cash provided (used) in financing activities	2,222	(3,666)	(5,262)
Change in cash and cash equivalents	386	(1,327)	729
Cash and cash equivalents at beginning of year	1,051	2,378	1,649
Cash and cash equivalents at end of year	\$ 1,437	\$ 1,051	\$2,378
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest (net of amounts capitalized)	\$12,900	\$11,319	\$11,976
Income taxes	10,849	8,851	14,666

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<FN>

See accompanying notes to consolidated financial statements.

</FN>

</TABLE>

Notes To Consolidated Financial Statements
December 31, 1999, 1998, and 1997

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Note 1. Organization And Operations

California Water Service Group (Company) is a holding company and through its wholly owned subsidiaries provides water utility and other related services in California and Washington. During 1999, the Company reincorporated as a Delaware corporation. California Water Service Company and Washington Water Service Company provide regulated utility services under the rules and regulations of their respective regulatory commissions (jointly referred to as Commissions). CWS Utility Services provides non-regulated water utility and related utility services.

The Company operates primarily in one business segment, providing water and related utility services.

Note 2. Summary of Significant Accounting Policies

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. The financial statements give retroactive effect to acquisitions, which were accounted for as poolings of interests. 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 Commissions. 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 Commissions and billings to certain non-regulated 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 is charged primarily to operation expenses. Interest is capitalized on plant expenditures during the construction period and amounted to \$324,000 in 1999, \$224,000 in 1998, and \$267,000 in 1997.

Intangible assets acquired as part of water systems purchased are stated at amounts as prescribed by the Commissions. All other intangibles have been recorded at

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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 Company 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.

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 2.6% in 1999, 1998, and 1997. 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.

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.

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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.

Accumulated Other Comprehensive Loss The Company has an unfunded Supplemental Executive Retirement Plan. The unfunded accumulated benefit obligation of the plan exceeds the accrued benefit cost. This amount exceeds the unrecognized prior service cost, therefore accumulated other comprehensive loss has been recorded as a separate component of Stockholders' Equity.

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 the extensions. 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, 1999, the amounts refundable under the 20-year contracts were \$7,664,000 and under 40-year contracts \$92,327,000. Estimated refunds for 2000 for all water main extension contracts are \$4,100,000.

Contributions in Aid of Construction Contributions in Aid of Construction represent payments received from developers, primarily for fire protection purposes, which are not

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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 Company accounts for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax 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 Commissions will reflect revenue requirements for the tax effects of temporary differences recognized, which have previously been flowed through to customers.

The Commissions have 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

for book purposes. 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 were subject to California income tax. In 1996 the federal tax law, and in 1997 the California tax law, changed and the major portion of future advances and contributions are nontaxable.

Earnings per Share Basic earnings per share (EPS) is calculated using income available to common stockholders divided by the weighted average shares outstanding during the year. The Company has no dilutive securities; accordingly, diluted EPS is not shown.

Note 3. Acquisitions

The Company acquired all of the outstanding stock of Harbor Water Company and South Sound Utility Company, which form the operations of Washington Water Service Company, serving 14,800 regulated and non-regulated customers. The acquisitions, which were completed in 1999, were accounted for as poolings of interests in exchange for 316,472 shares of Company stock and assumption of long-term debt of \$2,959,000. The results of operations previously reported by the separate entities and included in the accompanying financial statements are not significant.

Note 4. Preferred Stock

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As of December 31, 1999 and 1998, 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 election 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

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due upon voluntary liquidation of Series C. There is no premium in the event of an involuntary liquidation.

Note 5. Common Stockholders' Equity

The Company is authorized to issue 25,000,000 shares of \$.01 par value common stock. As of December 31, 1999 and 1998, 12,935,612 shares of common stock were issued and outstanding. All shares of common stock are eligible to participate in the Company's dividend reinvestment plan. Approximately 10% of stockholders participate in the plan.

Stockholder Rights Plan In January 1998, the Board of Directors adopted a Stockholder Rights Plan (the 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 became effective in February 1998 and expire in February 2008. The Plan is designed to provide stockholders protection and to maximize stockholder 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 stockholder election. The Rights become exercisable upon occurrence of a Distribution Date. A Distribution Date event occurs if (a) any person accumulates 15% of the then outstanding Common Stock, (b) any person presents a tender offer which causes the person's ownership level to exceed 15% and the Board determines the tender offer not to be fair to the Company's stockholders, or (c) the Board determines that a stockholder maintaining a 10% interest in the Common Stock could have an adverse impact on the Company or could attempt to pressure the Company 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) the Company would distribute separate Rights Certificates to Common Stockholders 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 the Company merges into the acquiring person or enters into any transaction that unfairly favors the acquiring person or disfavors the Company's other stockholders, 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 that

would cause a distribution date is in the Company stockholders' best interest. Therefore, the Board may, at its option, redeem the Rights at a redemption price of \$.001 per Right.

Note 6. Short-Term Borrowings

As of December 31, 1999, the Company maintained a bank line of credit providing unsecured borrowings of up to \$20,000,000 at the prime lending rate or lower rates as quoted by the bank. Cal Water maintained a bank line of credit for an additional \$30,000,000 on the same terms as the Company. The line of credit agreements, which

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<TABLE>
expire April 2001, do not require minimum or specific compensating balances. The following table represents borrowings under these bank lines of credit.

<CAPTION>

Dollars in Thousands					
<S>	<C>	<C>	1999	1998	1997
<S>	<C>	<C>	<C>	<C>	<C>
Maximum short-term borrowings			\$24,000	\$24,000	\$14,500
Average amount outstanding			9,084	15,750	5,164
Weighted average interest rate			6.52%	7.09%	7.22%
Interest rate at December 31			7.11%	6.97%	7.29%

Note 7. Long-Term Debt

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As of December 31, 1999 and 1998, long-term debt outstanding was:

In Thousands					
				1999	1998
First Mortgage Bonds:	Series P	7.875%	due 2002	\$ 2,595	\$ 2,610
	Series S	8.50%	due 2003	2,610	2,625
	Series BB	9.48%	due 2008	14,940	16,650
	Series CC	9.86%	due 2020	18,700	18,800
	Series DD	8.63%	due 2022	19,300	19,400
	Series EE	7.90%	due 2023	19,400	19,500
	Series FF	6.95%	due 2023	19,400	19,500
	Series GG	6.98%	due 2023	19,400	19,500
				116,345	118,585
Senior Notes:	Series A	7.28%	due 2025	20,000	20,000
	Series B	6.77%	due 2028	20,000	--
Other long-term debt				2,878	2,816
Total long-term debt				159,223	141,401
Less current maturities				2,651	2,643
				\$156,572	\$138,758

</TABLE>

The first mortgage bonds are held by institutional investors and secured by substantially all of Cal Water's utility plant. The senior notes are held by institutional investors and are unsecured and require interest-only payments until maturity. Other long-term debt is primarily equipment financing arrangements with other financial institutions. Aggregate maturities and sinking fund requirements for each of the succeeding five years (2000 through 2004) are \$2,651,000, \$2,613,000, \$5,072,000, \$5,265,000, and \$2,373,000.

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<TABLE>

Note 8. Income Taxes

Income tax expense consists of the following:

<CAPTION>

In Thousands					
<S>	<C>		Federal	State	Total
<S>	<C>		<C>	<C>	<C>
1999		Current	\$ 7,476	\$ 2,351	\$ 9,827
		Deferred	2,524	(175)	2,349
		Total	\$10,000	\$ 2,176	\$12,176
1998		Current	\$ 6,368	\$ 2,281	\$ 8,649
		Deferred	2,515	(356)	2,159
		Total	\$ 8,883	\$ 1,925	\$10,808

1997	Current	\$ 9,118	\$ 2,894	\$12,012
	Deferred	2,239	(194)	2,045
	Total	\$11,357	\$ 2,700	\$14,057

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Income tax expense computed by applying the current federal tax rate of 35% tax rate 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		
	1999	1998	1997
Computed "expected" tax expense	\$11,233	\$10,410	\$13,228
Increase (reduction) in taxes due to:			
State income taxes net of federal tax benefit	1,414	1,251	1,755
Investment tax credits	(173)	(156)	(152)
Other	(298)	(697)	(774)
Total income tax	\$12,176	\$10,808	\$14,057

The components of deferred income tax expense were:

	In Thousands		
	1999	1998	1997
Depreciation	\$ 2,629	\$ 2,691	\$ 2,457
Developer advances and contributions	(749)	(798)	(334)
Bond redemption premiums	(62)	(62)	(62)
Investment tax credits	(94)	(93)	(93)
Other	625	421	77
Total deferred income tax expense	\$ 2,349	\$ 2,159	\$ 2,045

The tax effects of differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 1999 and 1998 are presented in the following table:

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	In Thousands	
	1999	1998
Deferred tax assets:		
Developer deposits for extension agreements and contributions in aid of construction	\$ 40,595	\$42,251
Federal benefit of state tax deductions	6,040	2,524
Book plant cost reduction for future deferred ITC amortization	1,679	1,727
Insurance loss provisions	821	271
Other	2,856	1,365
Total deferred tax assets	51,991	48,138
Deferred tax liabilities:		
Utility plant, principally due to depreciation differences	72,327	74,186
Premium on early retirement of bonds	1,091	1,152
Total deferred tax liabilities	73,418	75,338
Net deferred tax liabilities	\$ (21,427)	\$ (27,200)

</TABLE>

A valuation allowance was not required during 1999 and 1998. Based on historic taxable income and future taxable income projections over the period in which the deferred assets are deductible, management believes it is more likely than not that the Company will realize the benefits of the deductible differences.

Note 9. Employee Benefit Plans

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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, bonds and short-term investment accounts. The data below includes the unfunded, non-qualified, supplemental executive retirement plan.

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%. Company contributions were \$1,126,000, \$1,078,000, and \$1,045,000, for the years 1999, 1998 and 1997.

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. Plan assets are invested in a mutual fund, short-term

money market instruments and commercial paper.

The Company records the costs of postretirement benefits during the employees' years of active service. The Commissions have issued decisions that authorize rate recovery of tax deductible funding of postretirement benefits and permit recording of a regulatory asset for the portion of costs that will be recoverable in future rates.

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<TABLE>

The following table reconciles the funded status of the plans with the accrued pension liability and the net postretirement benefit liability as of December 31, 1999 and 1998:

<CAPTION>

<S>	In Thousands			
	Pension Benefits		Other Benefits	
	1999	1998	1999	1998
	<C>	<C>	<C>	<C>
Change in benefit obligation:				
Beginning of year	\$ 49,934	\$ 44,576	\$ 9,221	\$ 8,230
Service cost	2,339	1,899	456	370
Interest cost	3,149	3,011	646	577
Assumption change	(6,669)	2,313	(929)	303
Plan amendment	744	--	--	1,101
Experience (gain) or loss	(2,378)	220	507	(872)
Benefits paid	(2,204)	(2,085)	(368)	(488)
End of year	\$ 44,915	\$ 49,934	\$ 9,533	\$ 9,221
Change in plan assets:				
Fair value of plan assets at beginning of year	\$ 44,946	\$ 42,390	\$ 1,214	\$ 936
Actual return on plan assets	5,110	2,433	136	131
Employer contributions	177	2,208	--	635
Retiree contributions	--	--	343	357
Benefits paid	(2,204)	(2,085)	(711)	(845)
Fair value of plan assets at end of year	\$ 48,029	\$ 44,946	\$ 982	\$ 1,214
Funded status	\$ 3,114	\$ (4,988)	\$ (8,551)	\$ (8,007)
Unrecognized actuarial (gain) or loss	(12,332)	(1,708)	964	1,485
Unrecognized prior service cost	4,828	4,758	959	1,030
Unrecognized transition obligation	--	--	3,228	3,476
Unrecognized net initial asset	572	858	--	--
Net amount recognized	\$ (3,818)	\$ (1,080)	\$ (3,400)	\$ (2,016)

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Amounts recognized on the balance sheet consist of:

	In Thousands			
	Pension Benefits		Other Benefits	
	1999	1998	1999	1998
Accrued benefit costs	\$ (3,818)	\$ (1,080)	\$ (3,400)	\$ (2,016)
Additional minimum liability	(1,460)	--	--	--
Intangible asset	943	--	--	--
Accumulated other comprehensive loss	517	--	--	--
Net amount recognized	\$ (3,818)	\$ (1,080)	\$ (3,400)	\$ (2,016)

	In Thousands			
	Pension Benefits		Other Benefits	
	1999	1998	1999	1998
Weighted-average assumptions as of December 31:				
Discount rate	7.50%	6.75%	7.50%	6.75%

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Long-term rate of return on plan assets	8.0%	8.0%	8.0%	8.0%
Rate of compensation increases	4.5%	4.5%	--	--

</TABLE>

<TABLE>

Net periodic benefit costs for the pension and other postretirement plans for the years ending December 31, 1999, 1998 and 1997 included the following components:

<CAPTION>

<S>	In Thousands					
	Pension Plan			Other Benefits		
	1999	1998	1997	1999	1998	1997
	<C>	<C>	<C>	<C>	<C>	<C>
Service cost	\$2,339	\$1,899	\$1,545	\$ 456	\$ 370	\$ 280
Interest cost	3,149	3,011	2,805	646	577	549
Expected return on						

plan assets	(3,542)	(3,320)	(2,876)	(107)	(83)	(52)
Net amortization and deferral	969	823	768	389	346	338
Net periodic benefit cost	\$2,915	\$2,413	\$2,242	\$1,384	\$1,210	\$1,115

</TABLE>

Postretirement benefit expense recorded in 1999, 1998, and 1997 was \$680,000, \$635,000, and \$581,000. \$3,400,000, 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.

For 1999 measurement purposes, a 5.5% 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. A one-percentage point change in assumed health care cost trends would have the following effect:

	In Thousands	
	1-percentage Point Increase	1-percentage Point Decrease
Effect on total service and interest costs	\$250	\$(166)
Effect on accumulated postretirement benefit obligation	\$1,378	\$(1,121)

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Note 10. Agreement Of Merger With Dominguez Services Corporation

On November 13, 1998, the Boards of Directors of the Company and Dominguez Services Corporation (Dominguez) agreed to a merger of the two companies. Dominguez is a utility holding company whose wholly owned subsidiaries provide water service to about 40,000 accounts in 20 California communities. Dominguez' 1998 operating revenue was \$25.3 million, net income was \$0.9 million and basic earnings per share was \$0.61. At December 31, 1998, its net utility plant was \$44.8 million and its total assets were \$52.6 million.

The merger agreement provides that each outstanding Dominguez common share will be exchanged on a tax-free basis for Company common shares yielding an equivalent value of \$33.75 per Dominguez share. At December 31, 1999, there were

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1,506,512 shares of Dominguez common stock outstanding. The Company also expects to assume approximately \$12.0 million of Dominguez' long-term debt. The transaction is expected to be accounted for as a pooling of interests.

The only approval the Company has yet to receive is that of the CPUC. The CPUC's approval of the merger is expected in March of 2000.

Note 11. Fair Value Of Financial Instruments

For those financial instruments for which it is practicable to estimate a fair value the following methods and assumptions were used. For cash equivalents, the carrying amount approximates fair value because of the short-term maturity of the instruments. The fair value of the Company's long-term debt is estimated at \$175,700,000 as of December 31, 1999, and \$153,900,000 as of December 31, 1998, using a discounted cash flow analysis, based on the current rates available to the Company for debt of similar maturities. The fair value of advances for construction contracts is estimated at \$31,000,000 as of December 31, 1999, and \$30,000,000 as of December 31, 1998, based on data provided by brokers.

Note 12. Quarterly Financial And Common Stock Market Data (Unaudited)

The Company's common stock is traded on the New York Stock Exchange under the symbol "CWT." There were approximately 11,000 holders of common stock at December 31, 1999. Quarterly dividends have been paid on common stock for 220 consecutive quarters and the quarterly rate has been increased each year since 1968.

1999 - in thousands except per share amounts

	first	second	third	fourth
Operating revenue	\$39,853	\$52,112	\$64,021	\$50,454
Net operating income	4,862	8,062	11,051	6,635
Net income	2,621	5,649	8,020	3,629
Basic earnings per share	.20	.43	.62	.28
Common stock market price range:				
High	31.25	27.63	31.88	32.00
Low	23.38	22.69	25.88	24.13
Dividends paid	.27125	.27125	.27125	.27125

	first	second	third	fourth
Operating revenue	\$35,920	\$45,275	\$63,380	\$45,084
Net operating income	4,598	6,660	12,273	7,008
Net income	1,709	3,638	9,662	3,927
Basic earnings per share	.13	.28	.74	.30
Common stock market price range:				
High	33.75	30.19	27.69	33.13
Low	24.31	21.50	20.75	21.25
Dividends paid	.2675	.2675	.2675	.2675

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Independent Auditors' Report

The Stockholders 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, 1999 and 1998, and the related consolidated statements of income, common stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1999. 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, 1999 and 1998, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1999, in conformity with generally accepted accounting principles.

KPMG (signature)

Mountain View, California
January 21, 2000

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Corporate Information

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Stock Transfer, Dividend Disbursing and Reinvestment Agent
The First National Bank of Boston
(Boston EquiServe)
P.O. Box 644
Boston, MA 02102-0644
800.736.3001

To Transfer Stock

A change of ownership of shares (such as when stock is sold or gifted or when owners are deleted from or added to stock certificates) requires a transfer of stock. To transfer stock, the owner must complete the assignment on the back of the certificate and sign it exactly as his or her name appears on the front. This signature must be guaranteed by an eligible guarantor institution (banks, stock brokers, savings and loan associations and credit unions with membership in approved signature medallion programs) pursuant to SEC Rule 17AD-15. A notary's acknowledgement is not acceptable. This certificate should then be sent to Boston EquiServe, Stockholder Services, by registered or certified mail with complete transfer instructions.

Bond Registrar
US Bank Trust, N.A.
One California Street
San Francisco, CA 94111-5402
415.273.4580

Executive Office
California Water Service Group
1720 North First Street
San Jose, CA 95112-4598
408.367.8200

Annual Meeting

The Annual Meeting of Stockholders will be held on Wednesday, April 19, 2000 at 10 a.m. at the Company's Executive Office, located at 1720 North First Street in San Jose, California. Details of the business to be transacted during the meeting will be contained in the proxy material, which will be mailed to stockholders on or about March 17, 2000.

Annual Report for 1999 on Form 10-K

A copy of the Company's report for 1999 filed with the Securities and Exchange Commission on Form 10-K will be available in April 2000 and can be obtained by any stockholder at no charge upon written request to the address below.

Stockholder Information
California Water Service Group
Attn: Stockholder Relations
1720 North First Street
San Jose, CA 95112-4598

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408.367.8200 or 800.750.8200
<http://www.calwater.com>
- -----

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Inside Back Cover

Board Of Directors

California Water Service Group, California Water Service Company, CWS Utility Services (PHOTOGRAPHS: a picture of each director appears above the caption)

Peter C. Nelson*
President and Chief Executive Officer

Robert W. Foy*
Chairman of the Board

C.H. Stump*++
Former Chairman of the Board and former
CEO of California Water Service Company

Linda R. Meier+++
Member, National Advisory Board, Haas Public
Service Center; Member of the Board of
Directors, Comerica Bank-California

George A. Vera+
Chief Financial Officer,
the David & Lucile Packard Foundation

J.W. Weinhardt*+
Chairman of SJW Corp. and Chairman of its subsidiary, San Jose Water Company

Edward D. Harris, JR., M.D.*+
George DeForest Barnett Professor of Medicine,
Stanford University Medical Center

Richard P. Magnuson++
Private Venture Capital Investor

Robert K. Jaedicke+++
Professor Emeritus of Accounting and former
Dean, Stanford Graduate School of Business

Officers

California Water Service Company

Robert W. Foy (1,2,3)

Chairman of the Board

Peter C. Nelson (1,2,3)
President and Chief Executive Officer

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Gerald F. Feeney (1,2,3)
Vice President, Chief Financial Officer and Treasurer

Francis S. Ferraro
Vice President, Regulatory Matters

James L. Good (2)
Vice President, Corporate Communications and Marketing

Robert R. Guzzetta (2)
Vice President, Engineering and Water Quality

Christine L. McFarlane
Vice President, Human Resources

Raymond H. Taylor
Vice President, Operations

Raymond L. Worrell
Vice President, Chief Information Officer

Calvin L. Breed (1)
Controller, Assistant Secretary and Assistant Treasurer

Paul G. Ekstrom (1,2,3)
Corporate Secretary

John S. Simpson
Assistant Secretary, Manager of New Business

Washington Water Service Company

Michael P. Ireland
President

- + Member of the Audit Committee
- ++ Member of the Compensation Committee
- o Member of the Executive Committee
- o 1 Holds the same position with California Water Service Group
- o 2 Holds the same position with CWS Utility Services
- o 3 Also an officer of Washington Water Service Company

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California Water Service Group

(back cover)

1720 North First Street
San Jose, California 95112-4598
408.367.8200
www.calwater.com

Four company logos appear on the back cover:

California Water Service Group
California Water Service Company
CWS Utility Services
Washington Water Service Company

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CALIFORNIA WATER SERVICE COMPANY

NOTE AGREEMENT

Dated as of March 1, 1999

Re: \$20,000,000 6.77% Series B Senior Notes
Due November 1, 2028

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(Not a part of the Agreement)

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ATTACHMENTS TO NOTE AGREEMENT:

- Schedule I - Information Relating to Purchasers
- Schedule II - Liens Securing Funded Debt
- Exhibit A - Form of Series B Notes
- Exhibit B - Representations and Warranties of the Company
- Exhibit C - Form of Opinion of Special Counsel for the Purchasers
- Exhibit D - Form of Opinion of Counsel to the Company
- Exhibit E - Form of Supplement to Note Agreement

CALIFORNIA WATER SERVICE COMPANY
 1720 North First Street
 San Jose, California 95112

NOTE AGREEMENT

Re: \$20,000,000 6.77% Series B Senior Notes
 Due November 1, 2028

Dated as of
 March 1, 1999

To the Purchasers named on Schedule I
 to this Agreement

The undersigned, CALIFORNIA WATER SERVICE COMPANY, a California corporation (the "Company"), agrees with the Purchasers named on Schedule I to this Agreement (the "Purchasers") as follows:

SECTION 1. DESCRIPTION OF NOTES AND COMMITMENT.

Section 1.1. Description of Notes. The Company will authorize the issue and sale of \$20,000,000 aggregate principal amount of its 6.77% Series B Senior Notes (the "Series B Notes") to be dated the date of issue, to bear interest from such date at the rate of 6.77% per annum, payable semiannually on the first day of each May and November in each year (commencing May 1, 1999) and at maturity and to bear interest on overdue principal (including any overdue required or optional prepayment of principal) and premium, if any, and (to the extent legally enforceable) on any overdue installment of interest at the rate of 8.77% per annum after the date due, whether by acceleration or otherwise, until paid, to be expressed to mature on November 1, 2028, and to be substantially in the form attached hereto as Exhibit A. Interest on the Series B Notes shall be computed on the basis of a 360-day year of twelve 30-day months. The Series B Notes are not subject to prepayment or redemption at the option of the Company prior to their expressed maturity dates except on the terms and conditions and in the amounts and with the premium, if any, set forth in ss.2 of this Agreement. The Series B Notes together with each Series of Additional Notes which may from time to time be issued pursuant to the provisions of ss.1.4 of this Agreement are collectively referred to as the "Notes."

Section 1.2. Commitment, Closing Date for Series B Notes. Subject to the terms and conditions hereof and on the basis of the representations and warranties hereinafter set forth, the

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Company agrees to issue and sell to each Purchaser, and such Purchaser agrees to purchase from the Company, Series B Notes in the principal amount set forth opposite such Purchaser's name on Schedule I hereto at a price of 100% of the principal amount thereof on the Closing Date hereinafter mentioned.

Delivery of the Series B Notes will be made at the offices of Chapman and Cutler, 111 West Monroe Street, Chicago, Illinois 60603-4080, against payment therefor in Federal Reserve or other funds current and immediately available at the principal office of Bank of America National Trust and Savings Association, San Jose Commercial Banking Group #1487, ABA No. 1210-00358, for credit to the Company's Security Sales Account No. 14879-00161, in the amount of the purchase price at 10:00 A.M. San Francisco time, on March 23, 1999 or such later date (not later than March 31, 1999) as shall mutually be agreed upon by the Company and the Purchasers (the "Closing Date"). The Series B Notes delivered to each Purchaser on the Closing Date will be delivered to such Purchaser in the form of a single registered Note in the form attached hereto as Exhibit A for the full amount of such Purchaser's purchase (unless different denominations are specified by such Purchaser), registered in such Purchaser's name or in the name of such Purchaser's nominee, all as such Purchaser may specify at any time prior to the date fixed for delivery.

Section 1.3. Several Commitments. The obligations of Purchasers shall be several and not joint and no Purchaser shall be liable or responsible for the acts or defaults of any other Purchaser. The Purchasers shall have no obligations under any Supplement and no liability to any Person for the performance or non-performance by any Additional Purchaser thereunder.

Section 1.4. Additional Series of Notes. The Company may, from time to time, in its sole discretion but subject to the terms hereof, issue and sell one or more additional series of its unsecured promissory notes under the provisions of this Agreement (each series being a "Series") pursuant to a supplement (a "Supplement") substantially in the form of Exhibit E. Each additional Series of Notes (the "Additional Notes") issued pursuant to a Supplement shall be subject to the following terms and conditions:

(i) each Series of Additional Notes, when so issued, shall be differentiated from all previous series by sequential designation inscribed thereon;

(ii) each Series of Additional Notes shall be dated the date of issue, bear interest at such rate, mature on such date, be subject to such mandatory and optional prepayment on the dates and at the premiums, if any, have such additional or different conditions precedent to closing, such representations and warranties and such additional covenants as shall be specified in the Supplement under which such Additional Notes are issued, provided, that any such additional covenants shall inure to the benefit of all holders of Notes so long as any Additional Notes issued pursuant to such Supplement remain outstanding;

(iii) each Series of Additional Notes issued under this

Agreement shall be in substantially the form of Exhibit 1 to Exhibit E hereto with such variations, omissions and insertions as are necessary or permitted hereunder;

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(iv) the minimum principal amount of any Note issued under a Supplement shall be \$100,000, except as may be necessary to evidence the outstanding amount of any Note originally issued in a denomination of \$100,000 or more which has been paid down to less than \$100,000;

(v) all Additional Notes shall constitute Indebtedness of the Company and shall rank pari passu with all other outstanding Notes; and

(vi) no Additional Notes shall be issued hereunder if at the time of issuance thereof and after giving effect to the application of the proceeds thereof, any Default or Event of Default shall have occurred and be continuing.

SECTION 2. PREPAYMENT OF NOTES.

Section 2.1. Required Prepayments. No prepayments are required to be made with respect to the Series B Notes prior to the expressed maturity date thereof other than prepayments made in connection with an acceleration of the Series B Notes pursuant to the provisions of ss.6.3 hereof. Prepayments required to be made with respect to any other Series of Notes shall be specified in the Supplement pursuant to which such Series is issued.

Section 2.2. Optional Prepayment with Premium. Upon compliance with ss.2.4 the Company shall have the privilege, at any time and from time to time, of prepaying the outstanding Notes of any Series, either in whole or in part (but if in part then in a minimum principal amount of \$100,000) by payment of the principal amount of the Notes of such Series, or portion thereof to be prepaid, and accrued interest thereon to the date of such prepayment, together with a premium equal to the Make-Whole Amount, determined as of five Business Days prior to the date of such prepayment pursuant to this ss.2.2.

Section 2.3. Optional Prepayment at Par in the Event of Condemnation. In the event a Material Condemnation shall have occurred with respect to any property of the Company or a Restricted Subsidiary, then upon compliance with ss.2.4 the Company shall have the privilege of applying the proceeds of any condemnation award received in connection with such Material Condemnation to the prepayment of the principal amount of the Notes of any Series then outstanding, or any portion thereof to the extent of such proceeds, together with accrued interest thereon to the date of such prepayment. Any optional prepayment made pursuant to this ss.2.3 shall be without premium.

Section 2.4. Notice of Optional Prepayments. The Company will give notice of any prepayment of the Notes pursuant to ss.2.2 or ss.2.3 to each Holder of Notes to be prepaid not less than 30 days nor more than 60 days before the date fixed for such optional prepayment specifying (a) such date, (b) the Section of this Agreement under which the prepayment is to be made, (c) the principal amount of the Holder's Notes to be prepaid on such date, (d) whether a premium may be payable, (e) the date when the premium, if any, will be calculated, (f) the estimated premium, together with a reasonably detailed computation of such estimated premium, and (g) the accrued interest applicable to the prepayment. Such notice of prepayment shall also certify all facts, if any, which are conditions precedent to any such prepayment. Notice of

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prepayment having been so given, the aggregate principal amount of the Notes to be prepaid specified in such notice, together with accrued interest thereon and the premium, if any, payable with respect thereto shall become due and payable on the prepayment date specified in said notice. Not later than two Business Days prior to the prepayment date specified in such notice, the Company shall provide each Holder of a Note to be prepaid written notice of the premium, if any, payable in connection with such prepayment and, whether or not any premium is payable, a reasonably detailed computation of the Make-Whole Amount.

Section 2.5. Application of Prepayments. In the case of each partial prepayment of the Notes pursuant to the provisions of ss.2.2 or 2.3, the principal amount of the Notes of the Series to be prepaid shall be allocated among all of the Notes of such Series at the time outstanding in proportion, as nearly as practicable, to the respective unpaid principal amounts thereof.

Section 2.6. Direct Payment. Notwithstanding anything to the contrary contained in this Agreement, a Supplement or the Notes, in the case of any Note owned by any Holder that is a Purchaser, Additional Purchaser or any other Institutional Holder which has given written notice to the Company requesting that the provisions of this ss.2.6 shall apply, the Company will punctually pay

when due the principal thereof, interest thereon and premium, if any, due with respect to said principal, without any presentment thereof, directly to such Holder at its address set forth herein or such other address as such Holder may from time to time designate in writing to the Company or, if a bank account with a United States bank is so designated for such Holder, the Company will make such payments in immediately available funds to such bank account, marked for attention as indicated, or in such other manner or to such other account in any United States bank as such Holder may from time to time direct in writing.

SECTION 3. REPRESENTATIONS.

Section 3.1. Representations of the Company. The Company represents and warrants that all representations and warranties set forth in Exhibit B are true and correct as of the date hereof and are incorporated herein by reference with the same force and effect as though herein set forth in full.

Section 3.2. Representations of the Purchasers. (a) Each Purchaser represents that such Purchaser is acquiring the Series B Notes for the purpose of investment and not with a view to the distribution thereof, and that such Purchaser has no present intention of selling, negotiating or otherwise disposing of the Series B Notes; it being understood, however, that the disposition of such Purchaser's property shall at all times be and remain within its control. Each Purchaser further represents that (i) such Purchaser is an "Accredited Investor" as defined in Regulation D under the Securities Act of 1933, as amended (the "Act"), (ii) such Purchaser understands that the Series B Notes will be issued by the Company without registration under the Act and without qualification and/or registration under applicable state securities laws pursuant to specific exemptions from registration and/or qualification contained in the Act and in applicable state securities laws, and that the foregoing exemptions depend upon, among other things, the bona fide nature of such Purchaser's investment interests as expressed herein, (iii) such Purchaser has been advised by counsel concerning, and is otherwise familiar with, the restrictions imposed by the Act on resales of securities acquired in a transaction exempt from registration under

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Section 4(2) of the Act, (iv) such Purchaser has been afforded access to the Company's financial statements and other documents concerning the Company, has been afforded an opportunity to ask such questions of the Company's officers and employees as such Purchaser deemed necessary or desirable and has been given all information requested in order to evaluate the merits and risks of purchasing the Series B Notes, (v) such Purchaser is experienced in evaluating and investing in companies such as the Company and has the capacity to protect its interests in connection with the purchase of the Series B Notes and (vi) such Purchaser has the ability to bear the economic risks connected with the purchase of the Series B Notes. Each Purchaser covenants and agrees to conduct any resale of the Series B Notes solely in accordance with the restrictions contained in the legend appearing on the Series B Notes.

(b) Each Purchaser represents that at least one of the following statements is an accurate representation as to each source of funds (a "Source") to be used by such Purchaser to pay the purchase price of the Series B Notes to be purchased by such Purchaser hereunder:

(i) if such Purchaser is an insurance company, the Source is an "insurance company general account" within the meaning of Department of Labor Prohibited Transaction Exemption 95-60 (issued July 12, 1995) and there is no "employee benefit plan" (within the meaning of Section 3(3) of ERISA or Section 4975(e)(1) of the Code), treating as a single plan, all plans maintained by the same employer or employee organization, with respect to which the amount of the general account reserves and liabilities for all contracts held by or on behalf of such plan, exceed ten percent (10%) of the total reserves and liabilities of such general account (exclusive of separate account liabilities) plus surplus, as set forth in the NAIC Annual Statement filed with your such Purchaser's state of domicile; or

(ii) the Source is either (a) an insurance company pooled separate account, within the meaning of Prohibited Transaction Exemption ("PTE") 90-1 (issued January 29, 1990), or (b) a bank collective investment fund, within the meaning of the PTE 91-38 (issued July 12, 1991) and, except as such Purchaser has disclosed to the Company in writing pursuant to this paragraph (ii), no employee benefit plan or group of plans maintained by the same employer or employee organization beneficially owns more than 10% of all assets allocated to such pooled separate account or collective investment fund; or

(iii) the Source constitutes assets of an "investment fund" (within the meaning of Part V of the QPAM Exemption) managed by a "qualified professional asset manager" or "QPAM" (within the meaning of Part V of the QPAM Exemption), no employee benefit plan's assets that are included in such investment fund, when combined with the assets of

all other employee benefit plans established or maintained by the same employer or by an affiliate (within the meaning of Section V(c)(1) of the QPAM Exemption) of such employer or by the same employee organization and managed by such QPAM, exceed 20% of the total client assets managed by such QPAM, the conditions of Part 1(c) and (g) of the QPAM Exemption are satisfied, neither the QPAM nor a person controlling or controlled by the QPAM (applying the definition of "control" in Section V(e) of the QPAM Exemption) owns a 5% or more interest in the Company

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and (a) the identity of such QPAM and (b) the names of all employee benefit plans whose assets are included in such investment fund have been disclosed to the Company in writing pursuant to this paragraph (iii); or

(iv) the Source is a governmental plan; or

(v) the Source is one or more employee benefit plans, or a separate account or trust fund comprised of one or more employee benefit plans, each of which has been identified to the Company in writing pursuant to this paragraph (v); or

(vi) the Source does not include assets of any employee benefit plan, other than a plan exempt from the coverage of ERISA.

The Company shall deliver a certificate on the date of the Closing, with respect to any Purchaser, on the date of the issuance of any Additional Notes, with respect to any Additional Purchasers and on or prior to the date of any transfer of any Notes, with respect to any subsequent holder of such Notes, which certificate shall either state that (A) it is neither a "party in interest" (as defined in Title I, Section 3(14) of ERISA) nor a "disqualified person" (as defined in Section 4975(e)(2) of the Code), with respect to any plan identified pursuant to paragraphs (ii) or (v) above, or (B) with respect to any plan, identified pursuant to paragraph (iii) above, neither it nor any "affiliate" (as defined in Section V(c) of the QPAM Exemption) has at this time, and during the immediately preceding one year has exercised the authority to appoint or terminate said QPAM as manager of the assets of any plan identified in writing pursuant to paragraph (iii) above or to negotiate the terms of said QPAM's management agreement on behalf of any such identified plans.

As used in this ss.3.2, the terms "employee benefit plan", "governmental plan", "party in interest" and "separate account" shall have the respective meanings assigned to such terms in Section 3 of ERISA.

SECTION 4. CLOSING CONDITIONS.

Section 4.1. Conditions. (a) The obligation of each Purchaser to purchase the Series B Notes on the Closing Date shall be subject to the performance by the Company of its agreements hereunder which by the terms hereof are to be performed at or prior to the time of delivery of the Series B Notes and to the following further conditions precedent:

(i) Closing Certificate. Such Purchaser shall have received a certificate dated the Closing Date, signed by the President or a Vice President of the Company, the truth and accuracy of which shall be a condition to such Purchaser's obligation to purchase the Series B Notes proposed to be sold to such Purchaser and to the effect that (1) the representations and warranties of the Company set forth in Exhibit B hereto are true and correct on and with respect to the Closing Date, (2) the Company has performed all of its obligations hereunder which are to be performed on or prior to the Closing Date, and (3) no Default or Event of Default has occurred and is continuing.

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(ii) Legal Opinions. Such Purchaser shall have received from Chapman and Cutler, special counsel to the Purchasers in this transaction, and from McCutchen, Doyle, Brown & Enersen LLP, counsel for the Company, their respective opinions dated the Closing Date, in form and substance satisfactory to such Purchaser, and covering the matters set forth in Exhibits C and D, respectively, hereto.

(iii) Regulatory Approval. Prior to the Closing Date, the issue and sale of the Series B Notes shall have been duly authorized or approved by appropriate order of the Public Utilities Commission of the State of California (the "Commission"). Such order shall be final and in full force and effect and not subject to any appeal, hearing, rehearing or contest. All conditions contained in any such order which are to be fulfilled on or prior to the issuance of the Series B Notes

shall have been fulfilled. The Company shall have delivered to the Purchasers and their special counsel a certified copy of such order and the application therefor.

(iv) Related Transactions. The Company shall have consummated the sale of the entire principal amount of the Series B Notes scheduled to be sold on the Closing Date pursuant to this Agreement.

(v) Satisfactory Proceedings. All proceedings taken in connection with the transactions contemplated by this Agreement, and all documents necessary to the consummation thereof, shall be satisfactory in form and substance to such Purchaser and such Purchaser's special counsel, and such Purchaser shall have received a copy (executed or certified as may be appropriate) of all legal documents or proceedings taken in connection with the consummation of said transactions.

(vi) Purchase Permitted By Applicable Law. On the date of the Closing, the purchase of Series B Notes shall (a) be permitted by the laws and regulations of each jurisdiction to which any Purchaser is subject, without recourse to provisions (such as Section 1405(a)(8) of the New York Insurance Law) permitting limited investments by insurance companies without restriction as to the character of the particular investment, (b) not violate any applicable law or regulation (including, without limitation, Regulation U, T or X of the Board of Governors of the Federal Reserve System) and (c) not subject any Purchaser to any tax, penalty or liability under or pursuant to any applicable law or regulation, which law or regulation was not in effect on the date hereof. If requested by any Purchaser, such Purchaser shall have received an Officer's Certificate certifying as to such matters of fact as such Purchaser may reasonably specify to enable such Purchaser to determine whether such purchase is so permitted.

(vii) Payment of Special Counsel Fees. The Company shall have paid, on or before the Closing Date, the fees, charges and disbursements of the Purchasers' special counsel referred to in this ss.4.1 to the extent reflected in a statement of such counsel rendered to the Company at least one Business Day prior to the Closing Date.

(viii) Private Placement Number. A Private Placement Number issued by Standard & Poor's CUSIP Service Bureau (in cooperation with the Securities Valuation

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Office of the National Association of Insurance Commissioners) shall have been obtained for the Series B Notes.

(b) The obligation of the Company to deliver the Series B Notes hereunder is subject to the conditions that (i) the Commission shall have authorized the issuance and sale by the Company of the Series B Notes at the price herein provided and said authorization shall be in full force and effect and (ii) the entire principal amount of the Series B Notes scheduled to be sold on the Closing Date pursuant to this Agreement shall have been tendered by the Purchasers. If the condition specified in this ss.4.1(b) shall not have been fulfilled prior to or on the Closing Date, this Agreement and all the obligations of the Company hereunder, except as provided in ss.9.4 hereof, may be cancelled by the Company.

Section 4.2. Waiver of Conditions. If on the Closing Date the Company fails to tender to any Purchaser the Series B Notes to be issued to any Purchaser on such date or if the conditions specified in ss.4.1 have not been fulfilled, such Purchaser may thereupon elect to be relieved of all further obligations under this Agreement. Without limiting the foregoing, if the conditions specified in ss.4.1 have not been fulfilled, such Purchaser may waive compliance by the Company with any such condition to such extent as such Purchaser may in its sole discretion determine. Nothing in this ss.4.2 shall operate to relieve the Company of any of its obligations hereunder or to waive any Purchaser's rights against the Company.

Section 4.3. Conditions to Issuance of Additional Notes. The obligations of the Additional Purchasers to purchase such Additional Notes shall be subject to the following conditions precedent, in addition to the conditions specified in the Supplement pursuant to which such Additional Notes may be issued:

(a) Compliance Certificate. A duly authorized Senior Financial Officer shall execute and deliver to each Additional Purchaser an Officer's Certificate dated the date of issue of such Series of Additional Notes stating that such officer has reviewed the provisions of this Agreement (including any Supplements hereto) and setting forth the information and computations (in sufficient detail) required in order to establish whether the Company is in compliance

with the requirements of ss.5.6 on such date.

(b) Execution and Delivery of Supplement. The Company and each such Additional Purchaser shall execute and deliver a Supplement substantially in the form of Exhibit E hereto.

(c) Representations of Additional Purchasers. Each Additional Purchaser shall have confirmed in the Supplement that the representations set forth in ss.3.2(b) are true with respect to such Additional Purchaser on and as of the date of issue of the Additional Notes.

SECTION 5. COMPANY COVENANTS.

From and after the Closing Date and continuing so long as any amount remains unpaid on any Note:

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Section 5.1. Corporate Existence, Etc. The Company will preserve and keep in full force and effect, and will cause each Subsidiary to preserve and keep in full force and effect, its corporate existence and all licenses and permits necessary to the proper conduct of its business, except where the failure to so keep and preserve any such existence, license or permit would not, individually or in the aggregate, materially and adversely affect the properties, business, profits or financial condition of the Company and its Subsidiaries, taken as a whole; provided, however, that the foregoing shall not prevent any transaction permitted by ss.5.8.

Section 5.2. Insurance. The Company will maintain, and will cause each Subsidiary to maintain, insurance coverage by financially sound and reputable insurers in such forms and amounts (including self-insurance if adequate reserves are maintained with respect thereto) and against such risks as are customary for corporations of established reputation engaged in the same or a similar business and owning and operating similar properties.

Section 5.3. Taxes, Claims for Labor and Materials, Compliance with Laws. (a) The Company will promptly pay and discharge, and will cause each Subsidiary promptly to pay and discharge, prior to delinquency, all lawful taxes, assessments and governmental charges or levies imposed upon the Company or such Subsidiary, respectively, or upon or in respect of all or any part of the property or business of the Company or such Subsidiary, all trade accounts payable, and all claims for work, labor or materials, which if unpaid might become a Lien upon any property of the Company or such Subsidiary; provided, however, that the Company or such Subsidiary shall not be required to pay any such tax, assessment, charge, levy, account payable or claim if (i) the validity, applicability or amount thereof is being contested in good faith by appropriate actions or proceedings which will prevent the forfeiture or sale of any material property of the Company or such Subsidiary or any material interference with the use thereof by the Company or such Subsidiary, and (ii) the Company or such Subsidiary shall set aside on its books, reserves deemed by it to be adequate with respect thereto.

(b) The Company will promptly comply and will cause each Subsidiary to comply with all laws, ordinances or governmental rules and regulations to which it is subject including, without limitation, the Occupational Safety and Health Act of 1970, as amended, ERISA and all laws, ordinances, governmental rules and regulations relating to environmental protection in all applicable jurisdictions, the violation of which could materially and adversely affect the properties, business, profits or financial condition of the Company and its Subsidiaries, taken as a whole, or would result in any Lien not permitted under ss.5.7.

Section 5.4. Maintenance. The Company will maintain, preserve and keep, and will cause each Subsidiary to maintain, preserve and keep, its properties which are used or useful in the conduct of its business (whether owned in fee or a leasehold interest) in good repair and working order and from time to time will make all necessary repairs, replacements, renewals and additions so that at all times the efficiency thereof shall be maintained, provided that nothing in this ss.5.4 shall prohibit the Company from abandoning or discontinuing the maintenance of properties which the Chief Engineer or Assistant Chief Engineer of the Company determines in good faith to be no longer necessary for the conduct of the business of the Company and its Subsidiaries, taken as a whole.

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Section 5.5. Nature of Business. Neither the Company nor any Subsidiary will engage in any business if, as a result, the general nature of the business, taken on a consolidated basis, which would then be engaged in by the Company and its Subsidiaries would be substantially changed from the general nature of the business engaged in by the Company on the Closing Date.

Section 5.6. Limitations on Current Debt and Funded Debt. (a) The Company will not, and will not permit any Restricted Subsidiary to, create, assume or incur or in any manner be or become liable in respect of any Current Debt or Funded Debt, except:

(1) Funded Debt evidenced by the Series B Notes;

(2) Current Debt and Funded Debt of the Company outstanding as of the date of this Agreement and reflected on Annex A to Exhibit B hereto;

(3) Additional Funded Debt of the Company, provided that at the time of issuance thereof and after giving effect thereto and to the application of the proceeds thereof:

(i) Consolidated Funded Debt shall not exceed 66-2/3% of Consolidated Total Capitalization, and,

(ii) Net Income Available for Interest Charges for any period of 12 consecutive calendar months during the immediately preceding 14 consecutive calendar months prior to the issuance of such Funded Debt shall have been at least 175% of Pro Forma Interest Charges for such 12-month period;

(4) Additional unsecured Current Debt of the Company;

(5) Current Debt or Funded Debt of a Restricted Subsidiary owed to the Company or to a Wholly-owned Restricted Subsidiary; and

(6) Funded Debt of the Company issued after the Closing Date evidenced by First Mortgage Bonds, provided that the Company shall have complied with the requirements of ss.5.14 hereof.

(b) Indebtedness described in or issued or incurred in accordance with the limitations of ss.5.6(a) (1) through (3) may be renewed, extended or refunded without regard to ss.5.6(a) (3), provided that the principal amount thereof remaining unpaid at the time of such renewal, extension or refunding shall not be increased.

(c) Any corporation which becomes a Restricted Subsidiary after the date hereof shall for all purposes of this ss.5.6 be deemed to have created, assumed or incurred at the time it becomes a Restricted Subsidiary all Funded Debt of such corporation existing immediately after it becomes a Restricted Subsidiary.

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Section 5.7. Limitation on Liens. The Company will not, and will not permit any Restricted Subsidiary to, create or incur, or suffer to be incurred or to exist, any Lien on its or their property or assets, whether now owned or hereafter acquired, or upon any income or profits therefrom, or transfer any property for the purpose of subjecting the same to the payment of obligations in priority to the payment of its or their general creditors, or acquire or agree to acquire, or permit any Restricted Subsidiary to acquire, any property or assets upon conditional sales agreements or other title retention devices, except:

(a) Liens for property taxes and assessments or governmental charges or levies and Liens securing claims or demands of mechanics and materialmen, provided that payment thereof is not at the time required by ss.5.3;

(b) Liens of or resulting from any litigation or legal proceeding which are currently being contested in good faith by appropriate proceedings and for which the Company or the relevant Restricted Subsidiary shall have set aside on its books, reserves deemed by it to be adequate with respect thereto, unless the judgment they secure shall not have been stayed, bonded or discharged within 60 days of its entry;

(c) Liens incidental to the conduct of the Company's business or the ownership of properties and assets (including Liens in connection with worker's compensation, unemployment insurance and other like laws, warehousemen's and attorneys' liens and statutory landlords' liens) and Liens to secure the performance of bids, tenders or trade contracts, or to secure statutory obligations, surety or appeal bonds or other Liens of like general nature incurred in the ordinary course of business and not in connection with the borrowing of money; provided in each case, the obligation secured is not overdue or, if overdue, is being contested in good faith by appropriate actions or proceedings;

(d) minor survey exceptions or minor encumbrances, easements,

licenses or reservations, or rights of others for rights-of-way, utilities and other similar purposes, or zoning or other restrictions as to the use of real properties, which are necessary for the conduct of the activities of the Company and its Restricted Subsidiaries or which customarily exist on properties of corporations engaged in similar activities and similarly situated and which do not in any event materially impair their use in the operation of the business of the Company and its Restricted Subsidiaries;

(e) Liens securing Indebtedness of a Restricted Subsidiary to the Company or to another Restricted Subsidiary;

(f) Leases on property owned by the Company or a Restricted Subsidiary wherein the Company or such Restricted Subsidiary is the lessor thereunder, provided that (i) the Rentals payable under any lease are for fair rental value and otherwise contain appropriate provisions to protect and preserve the Company's or such Restricted Subsidiary's interest in such property and (ii) any such lease will not interfere with the ordinary course of business of the Company or such Restricted Subsidiary;

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(g) Liens existing as of the Closing Date and reflected in Schedule II hereto;

(h) Liens created or incurred after the Closing Date given pursuant to pollution control, industrial revenue or other similar tax exempt financings of the Company to secure the payment of the purchase price incurred in connection with the acquisition of fixed assets useful and intended to be used in carrying on the business of the Company or its Restricted Subsidiaries, provided that (i) the Liens shall attach solely to the fixed assets acquired or purchased, (ii) at the time of acquisition of such fixed assets, the Indebtedness secured by Liens thereon shall not exceed the total purchase price of such fixed assets, (iii) such Indebtedness shall have been incurred within the applicable limitations provided in ss.5.6(a), and (iv) the aggregate principal amount of all Indebtedness secured by Liens described in this clause (h) shall not at any time exceed an amount equal to 10% of Consolidated Total Assets;

(i) Liens created or incurred after the Closing Date given to secure Indebtedness of the Company and its Restricted Subsidiaries in addition to the Liens permitted by the preceding clauses (a) through (h) hereof, provided that all Indebtedness secured by such Liens shall have been incurred within the limitations provided in ss.5.6(a) (6);

(j) Liens created or incurred after the Closing Date in addition to the Liens permitted by the preceding clauses (a) through (i) hereof, provided that (i) the aggregate principal amount of all Indebtedness secured by such Liens shall not at any time exceed an amount equal to 10% of Consolidated Total Capitalization and (ii) all such Indebtedness shall have been incurred within the applicable limitations provided in ss.5.6; and

(k) any extension, renewal or refunding of any Lien permitted by the preceding clauses (a) through (i) hereof in respect of the same property theretofore subject to such Lien in connection with the extension, renewal or refunding of the Indebtedness secured thereby; provided that (i) such extension, renewal or refunding of Indebtedness shall be without increase in the principal amount remaining unpaid as of the date of such extension, renewal or refunding, and (ii) such Lien shall attach solely to the same such property.

Section 5.8. Mergers, Consolidations and Sales of Assets. (a) The Company will not, and will not permit any Restricted Subsidiary to, (i) consolidate with or be a party to a merger with any other corporation or (ii) sell, lease or otherwise dispose of all or any substantial part (as defined in paragraph (d) of this ss.5.8) of the assets of the Company and its Restricted Subsidiaries (other than sales in the ordinary course of business or sales of properties sold pursuant to any Condemnation); provided, however, that:

(1) any Restricted Subsidiary may merge or consolidate with or into the Company or any Wholly-owned Restricted Subsidiary so long as in any merger or consolidation involving the Company, the Company shall be the surviving or continuing corporation;

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(2) the Company may consolidate or merge with or into, and may sell all or substantially all of its assets in a single transaction

to, any other corporation if (i) the corporation which results from such consolidation, merger or sale (the "surviving entity") is organized under the laws of any state of the United States or the District of Columbia, (ii) the due and punctual payment of the principal of and premium, if any, and interest on all of the Notes, according to their tenor, and the due and punctual performance and observation of all of the covenants in the Notes and this Agreement to be performed or observed by the Company are expressly assumed in writing by the surviving entity and the surviving entity shall furnish to the holders of the Notes an opinion of counsel reasonably satisfactory to such holders to the effect that the instrument of assumption has been duly authorized, executed and delivered and constitutes the legal, valid and binding contract and agreement of the surviving entity enforceable in accordance with its terms, except as enforcement of such terms may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws affecting the enforcement of creditors' rights generally and by general equitable principles, and (iii) at the time of such consolidation, merger or sale and immediately after giving effect thereto, (A) no Default or Event of Default would exist and (B) the surviving entity would be permitted by the provisions of ss.5.6(a) (3) to incur at least \$1.00 of additional Funded Debt;

(3) any Restricted Subsidiary may sell, lease or otherwise dispose of all or any substantial part of its assets to the Company or any Wholly-owned Restricted Subsidiary.

(b) The Company will not permit any Restricted Subsidiary to issue any shares of stock of any class (including as "stock" for the purposes of this ss.5.8, any warrants, rights or options to purchase or otherwise acquire stock or other Securities exchangeable for or convertible into stock) of such Restricted Subsidiary to any Person other than the Company or a Restricted Subsidiary, unless immediately after the consummation of such transaction and after giving effect thereto, such Restricted Subsidiary shall remain a Restricted Subsidiary of the Company.

(c) The Company will not sell, transfer or otherwise dispose of any shares of stock of any Restricted Subsidiary or any Indebtedness of any Restricted Subsidiary, and will not permit any Restricted Subsidiary to sell, transfer or otherwise dispose of (except to the Company or a Restricted Subsidiary) any shares of stock or any Indebtedness of any other Restricted Subsidiary, unless:

(1) the Board of Directors of the Company shall have determined, as evidenced by a resolution thereof, that the proposed sale, transfer or disposition of said shares of stock and Indebtedness is in the best interests of the Company;

(2) said shares of stock and Indebtedness are sold, transferred or otherwise disposed of to a Person, for cash or other property and on terms reasonably deemed by the Board of Directors to be adequate and satisfactory;

(3) in the case of the sale, transfer, or disposition of all shares of stock and Indebtedness of a Restricted Subsidiary, such Restricted Subsidiary shall not have any

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continuing investment in the Company or any other Restricted Subsidiary not being simultaneously disposed of;

(4) in the case of the sale, transfer, or disposition of less than all of the shares of stock of a Restricted Subsidiary, immediately after the consummation of the transaction and after giving effect thereto, such Restricted Subsidiary shall remain a Restricted Subsidiary of the Company; and

(5) such sale or other disposition does not involve a substantial part (as hereinafter defined) of the consolidated assets of the Company and its Restricted Subsidiaries.

(d) As used in this ss.5.8, a sale, lease or other disposition of assets shall be deemed to be a "substantial part" of the assets of the Company and its Restricted Subsidiaries if the book value of such assets, when added to the book value of all other assets sold, leased or otherwise disposed of by the Company and its Restricted Subsidiaries (other than in the ordinary course of business including without limitation property sold pursuant to any Condemnation) during the immediately preceding 12 months, exceeds 10% of Consolidated Total Assets, determined as of the end of the immediately preceding fiscal year, provided, however, that for purposes of the foregoing calculation, there shall not be included the book value attributable to assets the proceeds from the disposition of which were or are applied within 180 days of the date of sale of such assets to either (1) the acquisition of assets useful and intended

to be used in the operation of the business of the Company and its Restricted Subsidiaries as described in ss.5.5 and having a fair market value (as determined in good faith by the Board of Directors of the Company) at least equal to the assets so disposed of, or (2) the prepayment at any applicable prepayment premium, on a pro rata basis, of Funded Debt of the Company, provided that in the event the assets which are the subject of any such sale or disposition are subject to the Lien of the Mortgage Indenture, such proceeds shall be applied first to the prepayment of the First Mortgage Bonds as and to the extent required by the terms of the Mortgage Indenture. It is understood and agreed by the Company that any such proceeds paid and applied to the prepayment of the Notes as hereinabove provided shall be prepaid as and to the extent provided in ss.2.2.

Section 5.9. Guaranties. The Company will not, and will not permit any Restricted Subsidiary to, become or be liable in respect of any Guaranty except Guaranties by the Company which are limited in amount to a stated maximum dollar exposure or which constitute Guaranties of obligations incurred by any Restricted Subsidiary and otherwise permitted by the provisions of this Agreement.

Section 5.10. Repurchase of Notes. Neither the Company nor any Restricted Subsidiary or Affiliate, directly or indirectly, may repurchase or make any offer to repurchase any Notes unless an offer has been made to repurchase Notes, pro rata, from all Holders at the same time and upon the same terms. In case the Company repurchases or otherwise acquires any Notes, such Notes shall immediately thereafter be canceled and no Notes shall be issued in substitution therefor. Without limiting the foregoing, upon the repurchase or other acquisition of any Notes by the Company, any Restricted Subsidiary or any Affiliate (or upon the agreement of Company, any Restricted Subsidiary or any Affiliate to purchase or otherwise acquire any Notes), such Notes

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shall no longer be outstanding for purposes of any section of this Agreement relating to the taking by the Holders of any actions with respect hereto, including, without limitation, ss.6.3, ss.6.4 and ss.7.1.

Section 5.11. Transactions with Affiliates. Except for water quality testing and analysis services performed for San Jose Water Company, the Company will not, and will not permit any Restricted Subsidiary to, enter into or be a party to any transaction or arrangement with any Affiliate (including, without limitation, the purchase from, sale to or exchange of property with, or the rendering of any service by or for, any Affiliate), except in the ordinary course of and pursuant to the reasonable requirements of the Company's or such Restricted Subsidiary's business and upon fair and reasonable terms no less favorable to the Company or such Restricted Subsidiary than would obtain in a comparable arm's-length transaction with a Person other than an Affiliate.

Section 5.12. Withdrawal from Multiemployer Plans and Termination of Pension Plans. The Company will not, and will not permit any Subsidiary to, withdraw from any Multiemployer Plan if such withdrawal could result in withdrawal liability (as described in Part I of Subtitle E of Title IV of ERISA). The Company will not and will not permit any Subsidiary to terminate any Plan if such termination could result in the imposition of a Lien on any property of the Company or any Subsidiary pursuant to Section 4068 of ERISA.

Section 5.13. Reports and Rights of Inspection. The Company will keep, and will cause each Restricted Subsidiary to keep, proper books of record and account in which full and correct entries will be made of all dealings or transactions of, or in relation to, the business and affairs of the Company or such Restricted Subsidiary, in accordance with GAAP consistently applied (except for changes disclosed in the financial statements furnished to the Holders pursuant to this ss.5.13 and concurred in by the independent public accountants referred to in ss.5.13(b) hereof), and will furnish to each Institutional Holder (in duplicate if so specified below or otherwise requested):

(a) Company Quarterly Statements. As soon as available and in any event within 60 days after the end of each quarterly fiscal period (except the last) of each fiscal year, copies of:

(1) a consolidated balance sheet of the Company and its Restricted Subsidiaries as of the close of such quarterly fiscal period, setting forth in comparative form the consolidated figures for the fiscal year then most recently ended,

(2) a consolidated statement of income of the Company and its Restricted Subsidiaries for such quarterly fiscal period and for the portion of the fiscal year ending with such quarterly fiscal period, in each case setting forth in comparative form the consolidated figures for the corresponding periods of the preceding fiscal year, and

(3) a consolidated statement of cash flows of the Company and its Restricted Subsidiaries for the portion of the fiscal year ending with such quarterly fiscal period, setting forth in comparative form the consolidated figures for the corresponding period of the preceding fiscal year,

all in reasonable detail and certified as complete and correct by an authorized financial officer of the Company;

(b) Company Annual Statements. As soon as available and in any event within 90 days after the close of each fiscal year of the Company, copies of:

(1) a consolidated balance sheet of the Company and its Restricted Subsidiaries as of the close of such fiscal year, and

(2) consolidated statements of income, common shareholders' equity and cash flows of the Company and its Restricted Subsidiaries for such fiscal year,

in each case setting forth in comparative form the consolidated figures for the preceding fiscal year, all in reasonable detail and accompanied by a report thereon of a firm of independent public accountants of recognized national standing selected by the Company to the effect that the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company and its Restricted Subsidiaries as of the end of the fiscal year being reported on and the consolidated results of the operations and cash flows for said year in conformity with GAAP and that the examination of such accountants in connection with such financial statements has been conducted in accordance with generally accepted auditing standards and included such tests of the accounting records and such other auditing procedures as said accountants deemed necessary in the circumstances;

(c) CWSG Quarterly Statements. As soon as available but in any event within ninety (90) days after the end of each of the first three quarterly fiscal periods in each year of CWSG, a balance sheet of CWSG at the end of such period, and a statement of earnings and retained earnings of CWSG for such period and for the portion of the fiscal year ending with such period, together with a statement of cash flows for the portion of the fiscal year ending with such period, in each case setting forth in comparative form figures for the corresponding period of the previous year, all in reasonable detail and certified, subject to changes resulting from year-end and audit adjustments, by an authorized financial officer of CWSG, it being understood that this requirement may be satisfied by delivering a copy of CWSG's Quarterly Report to the SEC on Form 10-Q for such fiscal quarter (or such successor form as may be prescribed by the SEC);

(d) CWSG Annual Statements. As soon as available but in any event within one hundred twenty (120) days after the end of the fiscal year of CWSG, a balance sheet of CWSG as at the end of such year, and a consolidated statement of earnings and retained earnings and cash flows of CWSG, in each case setting forth in comparative

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form the figures for the previous fiscal year, all in reasonable detail and accompanied by a report thereon of independent public accountants of recognized national standing selected by CWSG to the effect that such financial statements have been prepared in accordance with generally accepted accounting principles applied on a basis consistent with the prior fiscal year (except for such changes, if any, as may be specified in such opinion) and fairly present, in all material respects, the financial position of CWSG as of the end of such year and the results of operations for such year, and that the examination by such accountants in connection with such financial statements has been made in accordance with generally accepted auditing standards, it being understood that this requirement may be satisfied by delivering a copy of CWSG's Annual Report to the SEC on Form 10-K for such fiscal year (or such successor form as may be prescribed by the SEC);

(e) Audit Reports. Promptly upon receipt thereof, one copy of each report submitted by independent public accountants selected by the Company of interim examinations, if any, by such accountants of the financial statements of the Company or any Restricted Subsidiary, and one copy of any report as to material inadequacies in accounting controls (including reports as to the absence of any such inadequacies)

submitted by such accountants in connection with any audit of the Company or any Restricted Subsidiary;

(f) SEC and Other Reports. Promptly upon their becoming available, one copy of each financial statement, report, notice or proxy statement sent by the Company to stockholders generally and, within 15 Business Days of their filing with the SEC, copies of each regular or periodic report, and any registration statement or prospectus so filed by the Company, CWSG or any Subsidiary;

(g) ERISA Reports. Promptly upon the occurrence thereof, written notice of (i) a Reportable Event with respect to any Plan; (ii) the institution of any steps by the Company, any ERISA Affiliate, the PBGC or any other person to terminate any Plan; (iii) the institution of any steps by the Company or any ERISA Affiliate to withdraw from any Plan; (iv) a non-exempt "prohibited transaction" within the meaning of Section 406 of ERISA in connection with any Plan; (v) any material increase in the contingent liability of the Company or any Restricted Subsidiary with respect to any post-retirement welfare liability; or (vi) the taking of any action by, or the threatening of the taking of any action by, the Internal Revenue Service, the Department of Labor or the PBGC with respect to any of the foregoing;

(h) Officer's Certificates. Within the periods provided in paragraphs (a) and (b) above, a certificate of an authorized financial officer of the Company stating that such officer has reviewed the provisions of this Agreement and setting forth: (i) the information and computations (in sufficient detail) required in order to establish whether the Company was in compliance with the requirements of ss.5.6 through ss.5.12 at the end of the period covered by the financial statements then being furnished, and (ii) whether there existed as of the date of such financial statements and whether, to the best of such officer's knowledge, there exists on the date of the certificate or existed at any time

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during the period covered by such financial statements any Default or Event of Default and, if any such condition or event exists on the date of the certificate, specifying the nature and period of existence thereof and the action the Company is taking and proposes to take with respect thereto;

(i) Accountant's Certificates. Within the period provided in paragraph (b) above, a certificate of the accountants who render an opinion with respect to such financial statements, stating that they have reviewed this Agreement and stating further whether, in making their audit, such accountants have become aware of any Default or Event of Default under any of the terms or provisions of this Agreement insofar as any such terms or provisions pertain to or involve accounting matters or determinations, and if any such condition or event then exists, specifying the nature and period of existence thereof;

(j) Supplements. Promptly and in any event within 10 Business Days after the execution and delivery of any Supplement, a copy thereof; and

(k) Requested Information. With reasonable promptness, such other data and information as such Institutional Holder may reasonably request.

Without limiting the foregoing, the Company will permit each Institutional Holder (or such Persons as such Institutional Holder may designate), to visit and inspect, under the Company's guidance, any of the properties of the Company or any Restricted Subsidiary, to examine all of their books of account, records, reports and other papers, and to discuss their respective affairs, finances and accounts with their respective officers, employees, and independent public accountants (and by this provision the Company authorizes said accountants to discuss with any Institutional Holder the finances and affairs of the Company and its Restricted Subsidiaries) all at such reasonable times, with reasonable prior notice, and as often as may be reasonably requested. The Company shall not be required to pay or reimburse any Holder for expenses which such Holder may incur in connection with any such visitation or inspection, except that if such visitation or inspection is made during any period when a Default or an Event of Default shall have occurred and be continuing, the Company agrees to reimburse such Holder for all such expenses promptly upon demand.

Section 5.14. Note Exchange Upon Issuance of First Mortgage Bonds. (a) In the event that the Company shall issue additional First Mortgage Bonds under and pursuant to the Mortgage Indenture, then the Company shall, concurrently with the issuance of such additional First Mortgage Bonds, exchange all of the

outstanding Notes of each Series for First Mortgage Bonds of a new series (the "Exchange Bonds"). The Exchange Bonds of each new series shall be issued under and secured by the Mortgage Indenture, shall rank pari passu with all other First Mortgage Bonds issued and outstanding under the Mortgage Indenture, shall have payment and maturity terms identical to the Series of Notes for which they were exchanged, shall have required and optional prepayment provisions and provisions relating to amounts payable upon acceleration of maturity identical to those applicable to the Series of Notes for which they were exchanged and shall otherwise be in the form required by the Mortgage Indenture.

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(b) The Company covenants and agrees to take all actions necessary for the due authorization, execution and delivery of such Exchange Bonds including, without limitation, (i) the filing of applications with the Commission in order to obtain the requisite approvals, authorizations and orders necessary for the issuance of the Exchange Bonds, (ii) compliance with all requirements of the Mortgage Indenture, (iii) the taking of all other actions the holders of the Notes may reasonably request in connection with the delivery of the Exchange Bonds, including the delivery of legal opinions and an exchange agreement between the Company and the Holders in form and substance reasonably satisfactory to the Holders of 66-2/3% of the Notes of each Series then outstanding.

SECTION 6. EVENTS OF DEFAULT AND REMEDIES THEREFOR.

Section 6.1. Events of Default. Any one or more of the following shall constitute an "Event of Default" as such term is used herein:

(a) Default shall occur in the payment of interest on any Note when the same shall have become due and such default shall continue for more than five Business Days; or

(b) Default shall occur in the payment of the principal of any Note or premium, if any, thereon at the expressed or any accelerated maturity date or at any date fixed for prepayment; or

(c) Default shall be made in the payment when due (whether by lapse of time, by declaration, by call for redemption or otherwise) of the principal of or interest on any Funded Debt or Current Debt (other than the Notes) of the Company or any Restricted Subsidiary aggregating in excess of \$5,000,000 in principal amount outstanding and such default shall continue beyond the period of grace, if any, allowed with respect thereto; or

(d) Default or the happening of any event shall occur under any indenture (including, without limitation, the Mortgage Indenture), agreement or other instrument under which any Funded Debt or Current Debt (other than the Notes) of the Company or any Restricted Subsidiary aggregating in excess of \$5,000,000 in principal amount outstanding may be issued and such default or event shall continue for a period of time sufficient to permit the acceleration of the maturity of any Funded Debt or Current Debt of the Company or any Restricted Subsidiary outstanding thereunder; or

(e) Default shall occur in the observance or performance of any covenant or agreement contained in ss.5.5 through ss.5.8, ss.5.11 or ss.5.14; or

(f) Default shall occur in the performance of or compliance with any other provision contained herein or in any Supplement (other than those referred to in paragraphs (a) and (b) of this ss.6.1) and such default is not remedied within 30 days after the earlier of (i) a Responsible Officer obtaining actual knowledge of such default and (ii) the Company receiving written notice of such default from any Holder (any such

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written notice to be identified as a "notice of default" and to refer specifically to this paragraph (f) of ss.6.1); or

(g) Any representation or warranty made by the Company herein or in any Supplement, or made by the Company in any statement or certificate furnished by the Company in connection with the consummation of the issuance and delivery of the Notes or furnished by the Company pursuant hereto, is untrue in any material respect as of the date of the issuance or making thereof; or

(h) Final judgment or judgments for the payment of money aggregating in excess of \$5,000,000 (net of (i) insurance proceeds to

the extent the insurer has acknowledged liability with respect thereto or which insurer's liability is being contested in good faith by appropriate proceedings by the Company or the relevant Restricted Subsidiary and (ii) reserves established by the Company or the relevant Restricted Subsidiary on its books with respect to such judgment) is or are outstanding against the Company or any Restricted Subsidiary or against any property or assets of either and any one of such judgments has remained unpaid, unvacated, unbonded or unstayed by appeal or otherwise for a period of 45 days from the date of its entry; or

(i) A custodian, liquidator, trustee or receiver is appointed for the Company or any Material Restricted Subsidiary or for the major part of the property of either and is not discharged within 60 days after such appointment; or

(j) The Company or any Material Restricted Subsidiary becomes insolvent or bankrupt, is generally not paying its debts as they become due or makes an assignment for the benefit of creditors, or the Company or any Material Restricted Subsidiary applies for or consents to the appointment of a custodian, liquidator, trustee or receiver for the Company or such Material Restricted Subsidiary or for the major part of the property of either; or

(k) Bankruptcy, reorganization, arrangement or insolvency proceedings, or other proceedings for relief under any bankruptcy or similar law or laws for the relief of debtors, are instituted by or against the Company or any Material Restricted Subsidiary and, if instituted against the Company or any Material Restricted Subsidiary, are consented to or are not dismissed within 60 days after such institution.

Section 6.2. Notice to Holders. When any Event of Default described in the foregoing ss.6.1 has occurred, or if any Holder or the holder of any other evidence of Funded Debt or Current Debt of the Company gives any notice or takes any other action with respect to a claimed default, the Company agrees to give notice within three Business Days of such event to all Holders.

Section 6.3. Acceleration of Maturities. (a) If an Event of Default with respect to the Company described in paragraph (i), (j) or (k) of ss.6.1 has occurred, all the Notes of every Series then outstanding shall automatically become immediately due and payable.

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(b) If any other Event of Default has occurred and is continuing, any holder or holders of more than 50% in aggregate principal amount of the Notes at the time outstanding of each Series may at any time at its or their option, by notice or notices to the Company, declare all the Notes then outstanding of such Series to be immediately due and payable.

(c) If any Event of Default described in paragraph (a) or (b) of ss.6.1 has occurred and is continuing any holder or holders of Notes at the time outstanding affected by such Event of Default may at any time, at its or their option, by notice or notices to the Company, declare all the Notes held by it or them to be immediately due and payable.

Upon any Note becoming due and payable under this ss.6.3, whether automatically or by declaration, such Note will forthwith mature and the entire unpaid principal amount of such Note, plus (x) all accrued and unpaid interest thereon and (y) the Make-Whole Amount determined in respect of such principal amount (to the full extent permitted by applicable law), shall all be immediately due and payable, in each and every case without presentment, demand, protest or further notice, all of which are hereby waived. The Company acknowledges, and the parties hereto agree, that each holder of a Note has the right to maintain its investment in the Notes free from repayment by the Company (except as herein specifically provided for), and that the provision for payment of a Make-Whole Amount by the Company in the event that the Notes are prepaid or are accelerated as a result of an Event of Default, is intended to provide compensation for the deprivation of such right under such circumstances.

No course of dealing on the part of the Holder or Holders nor any delay or failure on the part of any Holder to exercise any right shall operate as a waiver of such right or otherwise prejudice such Holder's rights, powers and remedies. The Company further agrees, to the extent permitted by law, to pay to the Holder or Holders all reasonable costs and expenses incurred by them in the collection of any Notes upon any default hereunder or thereon, including reasonable compensation to such Holder's or Holders' attorneys for all services rendered in connection therewith.

Section 6.4. Rescission of Acceleration. At any time after any Notes of any Series have been declared due and payable pursuant to clause (b) or (c) of ss.6.3, the holders of more than 50% in aggregate principal amount of the Notes then outstanding of such Series, by written notice to the Company, may rescind

and annul any such declaration and its consequences if (a) the Company has paid all overdue interest on the Notes of such Series, all principal of and Make-Whole Amount, if any, on any Notes of such Series that are due and payable and are unpaid other than by reason of such declaration, and all interest on such overdue principal and Make-Whole Amount, if any, and (to the extent permitted by applicable law) any overdue interest in respect of the Notes of such Series, (b) all Events of Default and Defaults, other than non-payment of amounts that have become due solely by reason of such declaration, have been cured or have been waived pursuant to ss.7, and (c) no judgment or decree has been entered for the payment of any monies due pursuant hereto or to any Note of such Series. No rescission and annulment under this ss.6.4 will extend to or affect any subsequent Event of Default or Default or impair any right consequent thereon.

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SECTION 7. AMENDMENTS, WAIVERS AND CONSENTS.

Section 7.1. Consent Required. Any term, covenant, agreement or condition of this Agreement or any Supplement may, with the consent of the Company, be amended or compliance therewith may be waived (either generally or in a particular instance and either retroactively or prospectively), if the Company shall have obtained the consent in writing of the Holders holding more than 50% in aggregate principal amount of outstanding Notes of each Series; provided, however, that no such amendment or waiver shall be effective as to the Notes of a Series without the unanimous written consent of the Holders of all Notes of such Series (i) which will change the time of payment (including any modifications regarding required prepayments as provided in ss.2.1 or a Supplement) of the principal of or the interest on any Note of such Series or change the principal amount thereof or change the rate of interest thereon, or (ii) which will change any of the provisions with respect to optional prepayments of any Note of such Series, or (iii) which will change the percentage of Holders of Notes of such Series required to consent to any such amendment or waiver of any of the provisions of ss.6 or this ss.7.

Section 7.2. Solicitation of Holders. So long as there are any Notes outstanding, the Company will not solicit, request or negotiate for or with respect to any proposed waiver or amendment of any of the provisions of this Agreement or the Notes of a Series unless each Holder of the Notes of such Series (irrespective of the amount of Notes then owned by it) shall be informed thereof by the Company and shall be afforded the opportunity of considering the same and shall be supplied by the Company with sufficient information to enable it to make an informed decision with respect thereto. The Company will not, directly or indirectly, pay or cause to be paid any remuneration, whether by way of supplemental or additional interest, fee or otherwise, to any Holder of a Series as consideration for or as an inducement to entering into by any Holder of any waiver or amendment of any of the terms and provisions of this Agreement, a Supplement or the Notes of such Series unless such remuneration is concurrently offered, on the same terms, ratably to all Holders of such Series.

Section 7.3. Effect of Amendment or Waiver. Any such amendment or waiver shall apply equally to all of the Holders of the Notes of the Series to which the amendment or waiver applies and shall be binding upon them, upon each future Holder of the Notes of such Series and upon the Company, whether or not any Note of such Series shall have been marked to indicate such amendment or waiver. No such amendment or waiver shall extend to or affect any obligation not expressly amended or waived or impair any right consequent thereon.

Section 7.4. Supplements. Notwithstanding anything to the contrary contained herein, the Company may enter into any Supplement providing for the issuance of one or more Series of Additional Notes consistent with ss.1.4 and ss.4.3 without obtaining the consent of any holder of any other Series of Notes.

SECTION 8. INTERPRETATION OF AGREEMENT; DEFINITIONS.

Section 8.1. Definitions. Unless the context otherwise requires, the terms hereinafter set forth when used herein shall have the following meanings and the following definitions shall be equally applicable to both the singular and plural forms of any of the terms herein defined:

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"Additional Notes" shall have the meaning set forth in ss.1.4.

"Additional Purchasers" shall mean purchasers of Additional Notes.

"Affiliate" shall mean any Person (other than a Restricted Subsidiary) (i) which directly or indirectly through one or more intermediaries controls, or is controlled by, or is under common control with, the Company, (ii) which beneficially owns or holds 5% or more of any class of the Voting Stock of the

Company or (iii) 5% or more of the Voting Stock (or in the case of a Person which is not a corporation, 5% or more of the equity interest) of which is beneficially owned or held by the Company or a Subsidiary. The term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of Voting Stock, by contract or otherwise.

"Agreement" shall mean this Note Agreement.

"Business Day" shall mean any day other than a Saturday, Sunday or other day on which banks in San Francisco, California or Chicago, Illinois are required by law to close or are customarily closed.

"CWSG" shall mean California Water Service Group, which is the parent of the Company.

"Capitalized Lease" shall mean any lease the obligation for Rentals with respect to which is required to be capitalized on a consolidated balance sheet of the lessee and its subsidiaries in accordance with GAAP.

"Capitalized Rentals" of any Person shall mean as of the date of any determination thereof the amount at which the aggregate Rentals due and to become due under all Capitalized Leases under which such Person is a lessee would be reflected as a liability on a consolidated balance sheet of such Person.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Company" shall mean California Water Service Company, a California corporation, and any Person who succeeds to all, or substantially all, of the assets and business of California Water Service Company.

"Company Information" shall mean financial statements and other information concerning the Company delivered to any Purchaser or Additional Purchaser by or on behalf of the Company in connection with its purchase of any Notes.

"Commission" shall have the meaning set forth in ss.4.1(a) (iii).

"Condemnation" with respect to any property shall have occurred if all or any portion of such property shall have been condemned or taken for any public or quasi-public use under any governmental law, order, or regulation or by right of eminent domain or sold to a municipality or

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other public body or agency or any other entity having the power of eminent domain or the right to purchase or order the sale of such property (a "Condemning Authority"), or any third-party designated by any such Condemning Authority, under threat of condemnation.

"Consolidated Funded Debt" shall mean all Funded Debt of the Company and its Restricted Subsidiaries, determined on a consolidated basis eliminating intercompany items.

"Consolidated Net Income" for any period shall mean the gross revenues of the Company and its Restricted Subsidiaries for such period less all expenses and other proper charges (including taxes on income), determined on a consolidated basis after eliminating earnings or losses attributable to outstanding Minority Interests, but excluding in any event:

(a) any gains or losses on the sale or other disposition of Investments or fixed or capital assets, and any taxes on such excluded gains and any tax deductions or credits on account of any such excluded losses;

(b) the proceeds of any life insurance policy;

(c) net earnings and losses of any Restricted Subsidiary accrued prior to the date it became a Restricted Subsidiary;

(d) net earnings and losses of any corporation (other than a Restricted Subsidiary), substantially all the assets of which have been acquired in any manner by the Company or any Restricted Subsidiary, realized by such corporation prior to the date of such acquisition;

(e) net earnings and losses of any corporation (other than a Restricted Subsidiary) with which the Company or a Restricted Subsidiary shall have consolidated or which shall have merged into or with the Company or a Restricted Subsidiary prior to the date of such consolidation or merger;

(f) net earnings of any business entity (other than a

Restricted Subsidiary) in which the Company or any Restricted Subsidiary has an ownership interest unless such net earnings shall have actually been received by the Company or such Restricted Subsidiary in the form of cash distributions;

(g) any portion of the net earnings of any Restricted Subsidiary which for any reason is unavailable for payment of dividends to the Company or any other Restricted Subsidiary;

(h) earnings resulting from any reappraisal, revaluation or write-up of assets;

(i) any deferred or other credit representing any excess of the equity in any Subsidiary at the date of acquisition thereof over the amount invested in such Subsidiary;

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(j) any gain arising from the acquisition of any Securities of the Company or any Restricted Subsidiary;

(k) any reversal of any contingency reserve, except to the extent that provision for such contingency reserve shall have been made from income arising during such period; and

(l) any other extraordinary, or nonrecurring gain or loss.

"Consolidated Net Worth" shall mean, as of the date of any determination thereof the amount of the capital stock accounts (net of treasury stock, at cost) plus (or minus in the case of a deficit) the surplus in retained earnings of the Company and its Restricted Subsidiaries as determined on a consolidated basis in accordance with GAAP.

"Consolidated Total Assets" shall mean, as the date of any determination thereof, total assets of the Company and its Restricted Subsidiaries determined on a consolidated basis in accordance with GAAP.

"Consolidated Total Capitalization" shall mean the sum of (i) Consolidated Funded Debt, and (ii) Consolidated Net Worth.

"Current Debt" of any Person shall mean as of the date of any determination thereof (i) all Indebtedness of such Person for borrowed money other than Funded Debt of such Person and (ii) Guaranties by such Person of Current Debt of others.

"Default" shall mean any event or condition the occurrence of which would, with the lapse of time or the giving of notice, or both, constitute an Event of Default.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended, and any successor statute of similar import, together with the regulations thereunder, in each case as in effect from time to time. References to sections of ERISA shall be construed to also refer to any successor sections.

"ERISA Affiliate" shall mean any corporation, trade or business that is, along with the Company, a member of a controlled group of corporations or a controlled group of trades or businesses, as described in section 414(b) and 414(c), respectively, of the Code or Section 4001 of ERISA.

"Event of Default" shall have the meaning set forth in ss.6.1.

"First Mortgage Bonds" shall mean and include all secured mortgage bonds issued by the Company under and pursuant to the Mortgage Indenture.

"Funded Debt" of any Person shall mean (i) all Indebtedness of such Person for borrowed money or which has been incurred in connection with the acquisition of assets in each case having a final maturity of one or more than one year from the date of origin thereof (or

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which is renewable or extendible at the option of the obligor for a period or periods more than one year from the date of origin), including all payments in respect thereof that are required to be made within one year from the date of any determination of Funded Debt, whether or not the obligation to make such payments shall constitute a current liability of the obligor under GAAP, (ii) all Capitalized Rentals of such Person, and (iii) all Guaranties by such Person of Funded Debt of others.

"GAAP" shall mean generally accepted accounting principles at the time in the United States.

"Guaranties" by any Person shall mean all obligations (other than endorsements in the ordinary course of business of negotiable instruments for deposit or collection) of such Person guaranteeing, or otherwise creating contingent liability with respect to, any Indebtedness, dividend or other obligation of any other Person (the "primary obligor") in any manner, whether directly or indirectly, including, without limitation, all obligations incurred through an agreement, contingent or otherwise, by such Person: (i) to purchase such Indebtedness or obligation or any property or assets constituting security therefor, (ii) to advance or supply funds (x) for the purchase or payment of such Indebtedness or obligation, (y) to maintain working capital or other balance sheet condition or otherwise to advance or make available funds for the purchase or payment of such Indebtedness or obligation, (iii) to lease property or to purchase Securities or other property or services primarily for the purpose of assuring the owner of such Indebtedness or obligation of the ability of the primary obligor to make payment of the Indebtedness or obligation, or (iv) otherwise to assure the owner of the Indebtedness or obligation of the primary obligor against loss in respect thereof. Notwithstanding the foregoing, the Company's obligations in respect of long term water supply contracts shall not be treated as Guaranties under this Agreement. For the purposes of all computations made under this Agreement, a Guaranty in respect of any Indebtedness for borrowed money shall be deemed to be Indebtedness equal to the principal amount of such Indebtedness for borrowed money which has been guaranteed, and a Guaranty in respect of any other obligation or liability or any dividend shall be deemed to be Indebtedness equal to the maximum aggregate amount of such obligation, liability or dividend.

"Holder" shall mean any Person which is, at the time of reference, the registered Holder of any Note.

"Indebtedness" of any Person shall mean and include all obligations of such Person which in accordance with GAAP shall be classified upon a balance sheet of such Person as liabilities of such Person, and in any event shall include all (i) obligations of such Person for borrowed money or which has been incurred in connection with the acquisition of property or assets, (ii) obligations secured by any Lien upon property or assets owned by such Person, even though such Person has not assumed or become liable for the payment of such obligations, (iii) obligations created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person, notwithstanding the fact that the rights and remedies of the seller, lender or lessor under such agreement in the event of default are limited to repossession or sale of property, (iv) Capitalized Rentals and (v) Guaranties of obligations of others of the character referred to in this definition. Notwithstanding the foregoing, the term

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"Indebtedness" as it relates to the Company shall not include obligations of the Company with respect to advances for construction from third parties.

"Institutional Holder" shall mean any Holder which is a Purchaser or an insurance company, bank, savings and loan association, trust company, investment company, charitable foundation, employee benefit plan (as defined in ERISA) or other institutional investor or financial institution and, for purposes of the direct payment provisions of this Agreement, shall include any nominee of any such Holder.

"Interest Charges" of any Person for any period shall mean all interest and all amortization of debt discount and expense on any particular Indebtedness of such Person for which such calculations are being made. Computations of Interest Charges on a pro forma basis for (a) Indebtedness having a variable interest rate, (b) Indebtedness bearing interest at different fixed rates, (c) Indebtedness with respect to which interest has not begun to accrue as of the date of any determination of Interest Charges or (d) Indebtedness with respect to which interest shall not become payable until a specified date which is more than one year after the date of any such determination, shall, in all such cases, be calculated at the rate equal to the greater of (i) the rate in effect on the date of any determination and (ii) the average interest rate payable on all Funded Debt of such Person during the three-month period immediately preceding the date of any determination.

"Lien" shall mean any interest in property securing an obligation owed to, or a claim by, a Person other than the owner of the property, whether such interest is based on the common law, statute or contract, and including but not limited to the security interest lien arising from a mortgage, encumbrance, pledge, conditional sale or trust receipt or a lease, consignment or bailment for security purposes. The term "Lien" shall include reservations, exceptions, encroachments, easements, rights-of-way, covenants, conditions, restrictions, leases and other title exceptions and encumbrances (including, with respect to stock, stockholder agreements, voting trust agreements, buy-back agreements and all similar arrangements) affecting property of such Person. For the purposes of this Agreement, the Company or a Restricted Subsidiary shall be deemed to be the owner of any property which it has acquired or holds subject to a conditional

sale agreement, Capitalized Lease or other arrangement, in any such case, pursuant to which title to the property has been retained by or vested in some other Person for security purposes and such retention or vesting shall constitute a Lien.

"Make-Whole Amount" shall mean (i) with respect to any Series of Notes other than the Series B Notes, that which is set forth in the applicable Supplement and (ii) with respect to the Series B Notes in connection with any prepayment or acceleration, the following: the excess, if any, of (a) the aggregate present value as of the date of such prepayment of each dollar of principal being prepaid and the amount of interest (exclusive of interest accrued to the date of prepayment) that would have been payable in respect of such dollar if such prepayment had not been made, determined by discounting such amounts at the Reinvestment Rate from the respective dates on which they would have been payable, over (b) 100% of the principal amount of the outstanding Series B Notes being prepaid. If the Reinvestment Rate is equal to or higher than 6.77%, the Make-Whole Amount shall be zero. For purposes of any determination of the Make-Whole Amount for the Series B Notes, the following terms have the following meanings:

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"Reinvestment Rate" shall mean (1) the sum of 0.50%, plus the yield reported on page "USD" of the Bloomberg Financial Markets Services Screen (or, if not available, any other nationally recognized trading screen reporting on-line intraday trading in the United States government Securities) at 10:00 A.M. (Chicago, Illinois time) for the United States government Securities have a maturity (rounded to the nearest month) corresponding to the Remaining Life to Maturity of the principal of the Notes being prepaid or (2) in the event that no nationally recognized trading screen reporting on-line intraday trading in the United States government Securities is available, Reinvestment Rate shall mean 0.50%, plus the arithmetic mean of the yields for the two columns under the heading "Week Ending" published in the Statistical Release under the caption "Treasury Constant Maturities" for the maturity (rounded to the nearest month) corresponding to the Remaining Life to Maturity of the principal being prepaid. If no maturity exactly corresponds to such Remaining Life to Maturity, yields for the published maturity next longer than the Remaining Life to Maturity and for the published maturity next shorter than the Remaining Life to Maturity shall be calculated pursuant to the immediately preceding sentence and the Reinvestment Rate shall be interpolated from such yields on a straight-line basis, rounding in each of such relevant periods to the nearest month. For the purposes of calculating the Reinvestment Rate, the most recent Statistical Release published prior to the date of determination of the Make-Whole Amount shall be used.

"Statistical Release" shall mean the then most recently published statistical release designated "H.15(519)" or any successor publication which is published weekly by the Federal Reserve System and which establishes yields on actively traded U.S. Government Securities adjusted to constant maturities or, if such statistical release is not published at the time of any determination hereunder, then such other reasonably comparable index which shall be designated by the Holders holding 66-2/3% in aggregate principal amount of the outstanding Series B Notes, subject to approval of the Company which approval will not be unreasonably withheld.

"Remaining Life to Maturity" of the principal amount of the Series B Notes being prepaid shall mean, as of the time of any determination thereof, the number of years (calculated to the nearest one-twelfth) which will elapse between the date of determination and the final maturity of the Series B Notes being prepaid.

"Material Condemnation" shall mean any Condemnation of any property of the Company or a Restricted Subsidiary pursuant to which a condemnation award in excess of \$100,000 shall have been received by the Company.

"Material Restricted Subsidiary" shall mean any Restricted Subsidiary if:

(a) the aggregate sum of all assets (valued at the greater of book or fair market value) of such Restricted Subsidiary, when combined with the assets of all other Restricted Subsidiaries to which subclauses (i), (j) or (k) of ss.6.1 hereof would have applied, if not for the fact that such Restricted Subsidiaries did not constitute Material Restricted Subsidiaries during the twelve-month period immediately preceding the date

of such determination, exceeds 5% of Consolidated Total Assets determined as of the end of the immediately preceding fiscal year; or

(b) the portion of Consolidated Net Income which was contributed by such Restricted Subsidiary during the immediately preceding fiscal year, when combined with the portions of Consolidated Net Income so contributed by all other Restricted Subsidiaries to which subclauses (i), (j) or (k) of ss.6.1 hereof would have applied, if not for the fact that such Restricted Subsidiaries did not constitute Material Restricted Subsidiaries during the twelve-month period immediately preceding the date of such determination, exceeds 5% of Consolidated Net Income.

"Minority Interests" shall mean any shares of stock of any class of a Restricted Subsidiary (other than directors' qualifying shares as required by law) that are not owned by the Company and/or one or more of its Restricted Subsidiaries. Minority Interests shall be valued by valuing Minority Interests constituting preferred stock at the voluntary or involuntary liquidating value of such preferred stock, whichever is greater, and by valuing Minority Interests constituting common stock at the book value of capital and surplus applicable thereto adjusted, if necessary, to reflect any changes from the book value of such common stock required by the foregoing method of valuing Minority Interests in preferred stock.

"Mortgage Indenture" shall mean the Company's Mortgage of Chattels and Trust Indenture, dated April 1, 1928, as such Trust Indenture may be amended, supplemented or modified from time to time.

"Multiemployer Plan" shall have the same meaning as in ERISA.

"Net Income Available for Interest Charges" for any period shall mean the sum of (i) Consolidated Net Income during such period plus (to the extent deducted in determining Consolidated Net Income), (ii) all provisions for any Federal, state or other income taxes made by the Company and its Restricted Subsidiaries in a manner consistent with GAAP during such period and (iii) Interest Charges of the Company and its Restricted Subsidiaries during such period.

"Notes" have the meaning, set forth in ss.1.1.

"PBGC" means the Pension Benefit Guaranty Corporation and any entity succeeding to any or all of its functions under ERISA.

"Person" shall mean an individual, partnership, corporation, trust or unincorporated organization, and a government or agency or political subdivision thereof.

"Plan" means a "pension plan," as such term is defined in ERISA, established or maintained by the Company or any ERISA Affiliate or as to which the Company or any ERISA Affiliate contributed or is a member or otherwise may have any liability.

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"Pro Forma Interest Charges" for any period shall mean, as of the date of any determination thereof, the maximum aggregate amount of Interest Charges which would have become payable by the Company and its Restricted Subsidiaries in such period determined on a pro forma basis giving effect as of the beginning of such period to the incurrence of any Funded Debt thereof (including Capitalized Rentals) and the concurrent retirement of outstanding Funded Debt or Current Debt or termination of any Capitalized Leases thereof.

"Purchasers" shall have the meaning set forth in ss.1.1.

"Rentals" shall mean and include as of the date of any determination thereof all fixed payments (including as such all payments which the lessee is obligated to make to the lessor on termination of the lease or surrender of the property) payable by the Company or a Restricted Subsidiary, as lessee or sublessee under a lease of real or personal property, but shall be exclusive of any amounts required to be paid by the Company or a Restricted Subsidiary (whether or not designated as rents or additional rents) on account of maintenance, repairs, insurance, taxes and similar charges. Fixed rents under any so-called "percentage leases" shall be computed solely on the basis of the minimum rents, if any, required to be paid by the lessee regardless of sales volume or gross revenues.

"Reportable Event" shall have the same meaning as in ERISA.

"Responsible Officer" shall mean any Senior Financial Officer or any other officer of the Company with responsibility for the administration of the relevant portion of the Agreement.

"Restricted Subsidiary" shall mean any Subsidiary (i) which is

organized under the laws of the United States or any State thereof; (ii) which conducts substantially all of its business and has substantially all of its assets within the United States; (iii) of which at least 80% (by number of votes) of the Voting Stock is beneficially owned, directly or indirectly, by the Company and/or one or more Restricted Subsidiaries; and (iv) which is hereafter designated by the Board of Directors of the Company, or any Director or committee of Directors duly designated by such Board of Directors, to be included in the definition of Restricted Subsidiary for all purposes of this Agreement, provided that, at the time of such designation and after giving effect thereto, no Default or Event of Default shall have occurred hereunder.

"SEC" shall mean the Securities and Exchange Commission or any successor agency.

"Security" shall have the same meaning as in Section 2(1) of the Securities Act of 1933, as amended.

"Senior Financial Officer" shall mean chief financial officer or assistant treasurer of the Company.

"Series" shall have the meaning set forth in ss.1.4.

"Series B Notes" shall have the meaning set forth in ss.1.1.

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The term "subsidiary" shall mean as to any particular parent corporation any corporation of which more than 50% (by number of votes) of the Voting Stock shall be beneficially owned, directly or indirectly, by such parent corporation. The term "Subsidiary" shall mean a subsidiary of the Company.

"Supplement" shall have the meaning set forth in ss.1.4.

"Unrestricted Subsidiary" shall mean any Subsidiary which is not a Restricted Subsidiary.

"Voting Stock" shall mean Securities of any class or classes, the holders of which are ordinarily, in the absence of contingencies, entitled to elect a majority of the corporate directors (or Persons performing similar functions).

"Wholly-owned" when used in connection with any Subsidiary shall mean a Subsidiary of which all of the issued and outstanding shares of stock (except shares required as directors' qualifying shares) and all Funded Debt and Current Debt shall be owned by the Company and/or one or more of its Wholly-owned Subsidiaries.

Section 8.2. Accounting Principles. Where the character or amount of any asset or liability or item of income or expense is required to be determined or any consolidation or other accounting computation is required to be made for the purposes of this Agreement, the same shall be done in accordance with GAAP, to the extent applicable, except where such principles are inconsistent with the requirements of this Agreement.

Section 8.3. Directly or Indirectly. Where any provision in this Agreement refers to action to be taken by any Person, or which such Person is prohibited from taking, such provision shall be applicable whether the action in question is taken directly or indirectly by such Person.

SECTION 9. MISCELLANEOUS.

Section 9.1. Registered Notes. The Company shall cause to be kept at its principal office a register for the registration and transfer of the Notes (hereinafter called the "Note Register"), and the Company will register or transfer or cause to be registered or transferred as hereinafter provided any Note issued pursuant to this Agreement or any Supplement.

At any time and from time to time any Holder of a Note which has been duly registered as hereinabove provided may transfer such Note upon surrender thereof at the principal office of the Company duly endorsed or accompanied by a written instrument of transfer duly executed by the Holder or its attorney duly authorized in writing.

The Person in whose name any registered Note shall be registered shall be deemed and treated as the owner and holder thereof and a Holder for all purposes of this Agreement or any Supplement. Payment of or on account of the principal, premium, if any, and interest on any registered Note shall be made to or upon the written order of such Holder.

Section 9.2. Exchange of Notes. At any time and from time to time, upon not less than ten days' notice to that effect given by the Holder of any Note initially delivered or of any Note substituted therefor pursuant to ss.9.1, this ss.9.2 or ss.9.3, and, upon surrender of such Note at its office, the Company will deliver in exchange therefor, without expense to such Holder, except as set forth below, a Note of an identical Series for the same aggregate principal amount as the then unpaid principal amount of the Note so surrendered, or Notes in the denomination of \$250,000 or any amount in excess thereof as such Holder shall specify, dated as of the date to which interest has been paid on the Note so surrendered or, if such surrender is prior to the payment of any interest thereon, then dated as of the date of issue, registered in the name of such Person or Persons as may be designated by such Holder, and otherwise of the same form and tenor as the Notes so surrendered for exchange. The Company may require the payment of a sum sufficient to cover any stamp tax or governmental charge imposed upon such exchange or transfer.

Section 9.3. Loss, Theft, Etc. of Notes. Upon receipt of evidence satisfactory to the Company of the loss, theft, mutilation or destruction of any Note, and in the case of any such loss, theft or destruction upon delivery of a bond of indemnity in such form and amount as shall be reasonably satisfactory to the Company, or in the event of such mutilation upon surrender and cancellation of the Note, the Company will make and deliver without expense to the Holder thereof, a new Note, of like tenor, in lieu of such lost, stolen, destroyed or mutilated Note. If an Institutional Holder is the owner of any such lost, stolen or destroyed Note, then the affidavit of an authorized officer of such owner, setting forth the fact of loss, theft or destruction and of its ownership of such Note at the time of such loss, theft or destruction shall be accepted as satisfactory evidence thereof and no further indemnity shall be required as a condition to the execution and delivery of a new Note of the same Series other than the written agreement of such owner to indemnify the Company.

Section 9.4. Expenses, Stamp Tax Indemnity. Whether or not the transactions herein contemplated shall be consummated, the Company agrees to pay directly all of the Purchasers' out-of-pocket expenses in connection with the preparation, execution and delivery of this Agreement and the transactions contemplated hereby (including all expenses relating to any exchange of the Notes for First Mortgage Bonds as contemplated by ss.5.14 hereof), including but not limited to the reasonable charges and disbursements of Chapman and Cutler, special counsel to the Purchasers, duplicating and printing costs and charges for shipping the Notes, adequately insured to each Purchaser's home office or at such other place as such Purchaser may designate, and all such expenses of the Holders relating to any amendment, waivers or consents pursuant to the provisions hereof, including, without limitation, any amendments, waivers, or consents resulting from any work-out, renegotiation or restructuring relating to the performance by the Company of its obligations under this Agreement, a Supplement and the Notes. The Company also agrees that it will pay and save each Purchaser and Additional Purchaser harmless against any and all liability with respect to stamp and other taxes, if any, which may be payable or which may be determined to be payable in connection with the execution and delivery of this Agreement, a Supplement or the Notes, whether or not any Notes are then outstanding. The Company agrees to protect and indemnify each Purchaser and Additional Purchaser against any liability for any and all brokerage fees and commissions payable or claimed to be payable to any Person in connection with the original issuance of the Notes as contemplated by this Agreement.

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Section 9.5. Powers and Rights Not Waived; Remedies Cumulative. No delay or failure on the part of any Holder in the exercise of any power or right shall operate as a waiver thereof; nor shall any single or partial exercise of the same preclude any other or further exercise thereof, or the exercise of any other power or right, and the rights and remedies of each Holder are cumulative to, and are not exclusive of, any rights or remedies any such Holder would otherwise have.

Section 9.6. Notices. All communications provided for hereunder shall be in writing and, if to a Holder, delivered or mailed prepaid by registered or certified mail or overnight air courier, or by facsimile communication, in each case addressed to such Holder at its address appearing on Schedule I or in a Supplement, as the case may be, or such other address as any Holder may designate to the Company in writing, and if to the Company, delivered or mailed by registered or certified mail or overnight air courier, or by facsimile communication, to the Company at the address beneath its signature at the foot of this Agreement or to such other address as the Company may in writing designate to the Holders; provided, however, that a notice to a Holder by overnight air courier shall only be effective if delivered to such Holder at a street address designated for such purpose in accordance with thiss.9.6, and a notice to such Holder by facsimile communication shall only be effective if made by confirmed transmission to such Holder at a telephone number designated for such purpose in accordance with thiss.9.6 and promptly followed by the delivery of such notice by registered or certified mail or overnight air courier, as set forth above.

Section 9.7. Successors and Assigns. This Agreement shall be binding upon the Company and its successors and assigns and shall inure to the benefit of each Purchaser and its successor and assigns, including each successive Holder.

Section 9.8. Survival of Covenants and Representations. All covenants, representations and warranties made by the Company herein and in any certificates delivered pursuant hereto, whether or not in connection with the Closing Date, shall survive the closing and the delivery of this Agreement, any Supplement and the Notes.

Section 9.9. Severability. Should any part of this Agreement for any reason be declared invalid or unenforceable, such decision shall not affect the validity or enforceability of any remaining portion, which remaining portion shall remain in force and effect as if this Agreement had been executed with the invalid or unenforceable portion thereof eliminated and it is hereby declared the intention of the parties hereto that they would have executed the remaining portion of this Agreement without including therein any such part, parts or portion which may, for any reason, be hereafter declared invalid or unenforceable.

Section 9.10. Governing Law. This Agreement and the Notes issued and sold hereunder shall be governed by and construed in accordance with California law.

Section 9.11. Captions. The descriptive headings of the various Sections or parts of this Agreement are for convenience only and shall not affect the meaning or construction of any of the provisions hereof.

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The execution hereof by the Purchasers shall constitute a contract among the Company and the Purchasers for the uses and purposes hereinabove set forth. This Agreement may be executed in any number of counterparts, each executed counterpart constituting an original but all together only one agreement.

CALIFORNIA WATER SERVICE COMPANY

By

Name: _____

Title: _____

CALIFORNIA WATER SERVICE COMPANY
1720 North First Street
San Jose, California 95112-4598
Attention: Chief Financial Officer
Telefacsimile: (408) 367-8430
Confirmation: (408) 367-8200

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Accepted, separately for each of the respective institutions named below, as of March 23, 1999:

AMERICAN GENERAL LIFE AND ACCIDENT
INSURANCE COMPANY
THE VARIABLE ANNUITY LIFE INSURANCE
COMPANY
AMERICAN GENERAL LIFE INSURANCE
COMPANY OF NEW YORK

By

Name:

Title

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INFORMATION RELATING TO PURCHASERS

NAME OF PURCHASER	TO BE PURCHASED
AMERICAN GENERAL LIFE AND ACCIDENT INSURANCE COMPANY	\$10,000,000

All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds (identifying each payment as: "California Water Service Company, 6.77% Series B Senior Notes due 2028, PPN 130789 L*9 principal or interest") to:

ABA #011000028
State Street Bank and Trust Company
Boston, Massachusetts 02101
Re: American General Life and Accident Insurance Company
AC-0125-934-0
Fund Number PA 10

Notices

All notices of payment on or in respect of the Notes and written confirmation of each such payment to:

American General Life and Accident Insurance Company and PA 10
c/o State Street Bank and Trust Company
Insurance Services, WES2S
105 Rosemont Road
Westwood, Massachusetts 02090
Facsimile Number: (781) 302-8005

Duplicate payment notices and all other correspondences to:

American General Life and Accident Insurance Company
c/o American General Corporation
P. O. Box 3247
Houston, Texas 77253-3247
Attention: Investment Research Department, A37-01
Facsimile Number: (713) 831-1366

Overnight Mailing Address:
2929 Allen Parkway, A37-01
Houston, Texas 77019-2155

Name of Nominee in which Notes are to be issued: None

Taxpayer I.D. Number: 62-0306330

SCHEDULE I
(to Note Agreement)

NAME OF PURCHASER	TO BE PURCHASED
THE VARIABLE ANNUITY LIFE INSURANCE COMPANY	\$8,000,000

Payments

All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds (identifying each payment as "California Water Service Company, 6.77% Series B Senior Notes due 2028, PPN 130789 L*9, principal or interest") to:

ABA #011000028
State Street Bank and Trust Company
Boston, Massachusetts 02101
Re: The Variable Annuity Life Insurance Company
AC-0125-821-9
Fund Number PA 54

Notices

All notices of payment on or in respect of the Notes and written confirmation of each such payment to:

The Variable Annuity Life Insurance Company and PA 54
c/o State Street Bank and Trust Company
Insurance Services WES2S
105 Rosemont Road
Westwood, Massachusetts 02090
Facsimile Number: (781) 302-8005

Duplicate payment notices and all other correspondences to:

The Variable Annuity Life Insurance Company
c/o American General Corporation
P. O. Box 3247
Houston, Texas 77253-3247
Attention: Investment Research Department, A37-01
Facsimile Number: (713) 831-1366

Overnight Mailing Address:
2929 Allen Parkway, A37-01
Houston, Texas 77019-2155

Name of Nominee in which Notes are to be issued: None

Taxpayer I.D. Number: 74-1625348

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NAME OF PURCHASER	TO BE PURCHASED
AMERICAN GENERAL LIFE INSURANCE COMPANY OF NEW YORK	\$2,000,000

Payments

All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds (identifying each payment as "California Water Service Company, 6.77% Series B Senior Notes due 2028, PPN 130789 L*9, principal or interest") to:

ABA #0110 0002 8
State Street Bank and Trust Company
Boston, Massachusetts 02101
Re: American General Life Insurance Company of New York
AC-0125-942-3
Fund Number PA 45

Notices

All notices of payment on or in respect of the Notes and written confirmation of each such payment to:

American General Life Insurance Company of New York and PA 45
c/o State Street Bank and Trust Company
Insurance Services Custody (AH2)
1776 Heritage Drive
North Quincy, Massachusetts 02171
Facsimile Number: (617) 985-4923

Duplicate payment notices and all other correspondences to :

American General Life Insurance Company
of New York
c/o American General Corporation
P. O. BOX 3247
Houston, Texas 77253-3247
Attention: Investment Research Department, A37-01
Facsimile Number: (713) 831-1366

Overnight Mailing Address:
2929 Allen Parkway
Houston, Texas 77019-2155

Name of Nominee in which Notes are to be issued: None

Taxpayer I.D. Number: 13-1853201

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LIENS SECURING FUNDED DEBT

Funded Debt of the Company, consisting of various of series of First Mortgage Bonds issued under terms of the Trust Indenture dated April 1, 1928 and its supplemental indentures, is secured by substantially all of the Company's utility plant. As of the Closing Date, an aggregate of \$118,585,000 is outstanding under the First Mortgage Bonds as represented by series P, S, BB, CC, DD, EE, FF and GG. As of December 31, 1998 gross utility plant was \$680,690,000.

SCHEDULE II
(to Note Agreement)

THIS NOTE HAS NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND ANY SALE, TRANSFER, PLEDGE OR OTHER DISPOSITION THEREOF MAY BE MADE ONLY (1) IN A TRANSACTION REGISTERED UNDER SAID ACT OR (2) IF AN EXEMPTION FROM REGISTRATION UNDER SAID ACT IS AVAILABLE.

CALIFORNIA WATER SERVICE COMPANY

6.77% Series B Senior Note
Due November 1, 2028

PPN: 130789 L*9

No. _____, 19__

\$

California Water Service Company, a California corporation (the "Company"), for value received, hereby promises to pay to

or registered assigns
on the first day of November, 2028
the principal amount of

DOLLARS (\$ _____)

and to pay interest (computed on the basis of a 360-day year of twelve 30-day months) on the principal amount from time to time remaining unpaid hereon at the rate of 6.77% per annum from the date hereof until maturity, payable semiannually on the first day of each May and November in each year (commencing on the first of such dates after the date hereof) and at maturity. The Company agrees to pay interest on overdue principal (including any overdue required or optional prepayment of principal) and premium, if any, and (to the extent legally enforceable) on any overdue installment of interest, at the rate of 8.77% per annum after the due date, whether by acceleration or otherwise, until paid. Both the principal hereof and interest hereon are payable at the principal office of the Company in San Jose, California in coin or currency of the United States of America which at the time of payment shall be legal tender for the payment of public and private debts.

This Note is one of a series of Notes (the "Notes") of the Company issued or to be issued under and pursuant to the terms and provisions of the Note Agreement dated as of March 1, 1999 (as from time to time amended and supplemented, the "Note Agreement"), entered into by the Company, the Purchasers named therein and the Additional Purchasers of Notes from time to

EXHIBIT A
(to Note Agreement)

time issued pursuant to any Supplement to the Note Agreement. This Note and the holder hereof are entitled equally and ratably with the holders of all other Notes of all Series from time to time outstanding under the Note Agreement to all the benefits provided for thereby or referred to therein. Reference is hereby made to the Note Agreement for a statement of such rights and benefits. Each holder of this Note will be deemed, by its acceptance hereof, to have made the representations contained in Section 3.2 of the Note Agreement, provided that such holder may (in reliance upon information provided by the Company, which shall not be unreasonably withheld) make a representation to the effect that the purchase by such holder of any Note will not constitute a non-exempt prohibited transaction under Section 406(a) of ERISA.

This Note and the other Notes outstanding under the Note Agreement may be declared due prior to their expressed maturity dates, all in the events, on the terms and in the manner and amounts as provided in the Note Agreement.

The Notes are not subject to prepayment or redemption at the option of the Company prior to their expressed maturity dates except on the terms and conditions and in the amounts and with the premium, if any, set forth in the Note Agreement.

This Note is registered on the books of the Company and is transferable only by surrender thereof at the principal office of the Company duly endorsed or accompanied by a written instrument of transfer duly executed by the registered holder of this Note or its attorney duly authorized in writing. Payment of or on account of principal, premium, if any, and interest on this Note shall be made only to or upon the order in writing of the registered holder.

This Note shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of California, excluding choice-of-law principles of the law of such State that would require the application of the laws of a jurisdiction other than such State.

CALIFORNIA WATER SERVICE COMPANY

By

Name: _____
Title: _____

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REPRESENTATIONS AND WARRANTIES

The Company represents and warrants to each Purchaser that:

1. Corporate Organization, Subsidiaries. The Company is duly organized and existing and in good standing under and by virtue of the laws of the State of California and is duly authorized and empowered to own and operate its properties and to carry on its business, all as and in the places where such properties are now owned and operated and such business is conducted. The Company has no Subsidiaries.

2. Corporate Authority. The Company has full corporate power and corporate authority to sell and issue the Series B Notes. The issuance and sale of the Series B Notes and the execution and delivery of the Agreement will have been duly authorized by the Board of Directors of the Company and by the Public Utilities Commission of the State of California (the "Commission") prior to the Closing Date, and no other action is required to be taken by, and no consents or approvals are required to be obtained from, the shareholders of the Company or any public body or bodies, and no other corporate action of the Company is requisite to such issue and sale.

3. Business and Property. Each Purchaser has heretofore been furnished with a copy of the Company Information which generally sets forth the principal properties of the Company and the business conducted and proposed to be conducted by the Company.

4. Indebtedness. Annex A attached hereto correctly describes all Current Debt, Funded Debt and Capitalized Leases of the Company outstanding on March 1, 1999.

5. Financial Statements and Reports. The Company has furnished each Purchaser with a copy of its Annual Reports and Forms 10-K filed with the Securities and Exchange Commission for 1994, 1995, 1996 and 1997 hereinafter called the "Company Reports," and a copy of the Form 10-K filed by CWSG with the Securities and Exchange Commission for the fiscal year ended December 31, 1998, together with all reports or documents required to be filed by CWSG pursuant to Sections 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, since the filing of such Form 10-K. The financial statements contained in the foregoing Company Reports and the CWSG Form 10-K and such other reports and documents were prepared in accordance with generally accepted accounting principles upon a consistent basis and are complete and correct and the balance sheets included therein fairly present the financial condition of the Company or CWSG, as the case may be, as at the respective dates thereof and the Statements of Income, Common Shareholders' Equity and Cash Flows included therein fairly present the results of the operations of the Company for the periods covered thereby, subject in the case of unaudited statements to normal year-end adjustments.

6. Material Contracts. The Company has no contracts or commitments, whether contingent or other, which are material to the Company and which were not made in the ordinary course of business. Certain material contracts related to water supply are listed in Annex B hereto. The Company has no contracts or commitments, contingent or other, which materially

EXHIBIT B
(to Note Agreement)

and adversely affect or in the future may (so far as the Company can foresee) materially and adversely affect the Company or its business, property, assets, operations or condition, financial or other. As at December 31, 1998, there were no material liabilities of the Company (other than those under contracts entered into in the normal and ordinary course of business), actual, contingent or accrued, which were not reflected in the Annual Reports except for (i) liability in respect of uncompleted construction work under open contracts in connection with the Company's construction program and (ii) the obligations of the Company to contribute to a pension plan, an employees' savings plan and a health and welfare plan.

7. No Material Adverse Change. (a) There has been no change in the condition of the Company, financial or other, from that set forth or reflected in the 1998 Annual Report, other than changes which may have occurred in the ordinary course of business or by reason of ordinary dividends paid or declared or outstanding First Mortgage Bonds redeemed by the Company in accordance with their terms, and no such changes in the ordinary course of business have been material adverse changes.

(b) Since December 31, 1998, neither the business, operations, properties nor assets of the Company have been adversely affected in any material way by any casualties such as fire, windstorm, riot, strike, explosion, accident, flood, earthquake, lockout, sabotage, activities of armed forces, act of God or the public enemy or condemnation of properties by the United States government or any municipal governmental agency, authority or body.

8. Title to Properties. The Company is engaged in the business of a public utility water company serving all or a portion of the California cities and communities listed in the 1998 Annual Report. The Company has good and merchantable title, subject only to the lien of the Mortgage Indenture and to current tax and assessment liens, rights-of-way, easements and certain minor liens, encumbrances, clouds or defects in title which do not materially affect the use thereof, to all the material water distribution facilities (including, without limitation, transmission and distribution mains, pump stations, wells, storage tanks and reservoirs) and other material units of property used in its business except as follows:

(a) most of the offices, except its principal office, are in leased premises and some wells, well sites and other minor distribution facilities are rented; and

(b) several wells are located on property which the Company does not own but in which it has an easement for the location of such wells;

and except as to easements and rights-of-way and certain parcels of land (not exceeding for said parcels of land an aggregate book value of \$250,000) with respect to which there is a possibility of reverter if the property ceases to be used for public utility purposes, and, except that the greater portion of its transmission and distribution systems is located in public highways and streets and in rights-of-way owned by the Company over lands of others, the Company's title thereto is fee simple. Except for parcels of land having an aggregate book value of not more than \$250,000, the Company has good and merchantable title to all its other property and assets subject only to the lien of the Mortgage Indenture and to current tax and assessment liens and minor liens and encumbrances which do not materially affect the use thereof. All of the

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properties of the Company are located in the State of California and substantially all of the properties of the Company used or useful in its public utility business are subject to the Mortgage Indenture.

9. Franchises. The Company has, in its judgment, adequate franchises and permits without burdensome restrictions (other than those typically contained in franchises and permits of this type) to allow the Company to conduct the business in which it is engaged.

The Company has two classes of franchises to install and operate water pipes and mains under public streets and highways:

(a) so-called "constitutional" franchises obtained by virtue of the provisions of Article XI, Section 19, of the California Constitution, as in effect prior to 1911; and

(b) franchises granted pursuant to statutory authority.

The Company believes, based on the advice of counsel (which is itself based upon the assumption of the accuracy of information obtained by the Company from sources believed to be reliable that the following cities served by the Company were all incorporated prior to 1911:

Bakersfield	Marysville	South San Francisco
Chico	Oroville	Stockton
Dixon	Redondo Beach	Visalia
Hermosa Beach	Salinas	Willows
King City	San Mateo	
Livermore	Selma	

that water distribution systems were constructed and service furnished to the inhabitants of each by various predecessors of the Company prior to 1911, and that there were no public water works owned or controlled by the municipality in any of them prior to 1911), that the Company has a "constitutional" franchise in

each of the above cities and under such constitutional franchise has a perpetual right which was not repealed by the repeal of Article XI, Section 19, of the California Constitution to continue to occupy public streets of each of said cities with its pipes and mains and to lay down additional pipes and mains in said streets for the supplying of water, subject to reasonable regulation by the respective municipalities. The Company also believes, based on the advice of counsel, that this right is not limited to streets in which pipes or mains were laid prior to 1911 but extends at least to all streets in the said municipalities as they existed at the date of repeal of the constitutional provision in 1911 and probably also extends to territory incorporated into each respective city after such repeal, although this latter question remains somewhat in doubt in the absence of a final decision of the courts thereon. The Company holds either by assignment or as original grantee franchises granted under statutory authority by the Counties of Kern, Los Angeles, San Joaquin, Santa Clara and Monterey, the Cities of Montebello, Torrance, Cupertino, Sunnyvale, Los Altos, Mountain View, Bakersfield, Commerce, San Carlos, Rolling Hills Estates and Thousand Oaks, and the Towns of Los Altos Hills and Atherton. Following incorporation of the City of Rancho Palos Verdes in 1973, the Company made franchise payments to the City and the City accepted the same as successor in

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interest to the grantor's rights under the Company's former franchise from the County of Los Angeles; the City has agreed that the Company may exercise its rights in the City under its current County franchise until the expiration of that franchise in 2012. The Company's franchises from the Cities of Palos Verdes Estates, Menlo Park and Woodside terminated in 1977, 1993 and 1994, respectively. While none of the Cities and the Company have executed a new franchise agreement, the Company has made and will continue to make franchise payments to each of the Cities in accordance with the provisions of the prior franchise. In other areas where the Company has no franchise, the Company or its predecessors have distributed water for many years and, to the Company's knowledge, no question has ever been raised as to the right to make such distribution and to maintain all pipes and mains necessary therefor.

10. Condition of Assets. The physical assets of the Company are in sound operating condition, there are no material arrears in the maintenance of any such physical assets and the Company believes that its sources of water are adequate to meet its requirements for the foreseeable future.

11. Pending Litigation, Proceedings. (a) There are no actions, suits or proceedings pending at law or in equity or before or by any federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, or, to the knowledge of the Company, threatened against or affecting the Company not adequately covered by insurance or for which reserves adequate in the Company's judgment have not been established which involve, in the opinion of the Company, a reasonable possibility of judgments or liabilities exceeding \$500,000 in the aggregate net of insurance, or which may, in the opinion of the Company result in any material adverse change in the business or properties or in the condition, financial or other, of the Company, or the ability of the Company to perform its obligations under the Agreement or the Series B Notes.

(b) There are no proceedings pending or, to the knowledge of the Company, threatened against the Company before or by any federal, state or municipal commission, board or other administrative agency, which materially and adversely affect the water rates of the Company presently in effect.

(c) The Company is not in default with respect to any order, writ, injunction or decree of any court, or any federal, state or municipal commission, board or other administrative agency and the Company has complied with all applicable statutes and regulations of the United States of America and of any state, municipality or agency of any thereof, in respect of the conduct of its business known or believed by the Company to be applicable thereto, the failure to comply with which could reasonably be expected to have a material adverse effect on the Company or its properties.

12. No Condemnation Proceedings. Since January 1, 1995, no elections have been held or other actions taken authorizing the commencement of proceedings for condemnation of any of the properties of the Company. However, from time to time there are expressions of interest made by public bodies, elected or appointed municipal officials, persons seeking political position or citizens groups urging acquisition of the Company's facilities in one or more of the communities served by the Company. The Company does not believe that any acquisition by a

city or municipality of its properties by condemnation or threat thereof would be adverse to the holders of the Series B Notes.

13. No Burdensome Restrictions. The Company is not subject to any burdensome corporate restrictions in its Articles of Incorporation, By-Laws or otherwise, which materially and adversely affect or in the future may (so far as the Company can foresee) materially and adversely affect the Company or its business, property, assets, operations or condition, financial or other.

14. Regulatory Status, Approval. (a) The Company is not a registered holding company or a subsidiary of a registered holding company and the Company is not required to register under the Public Utility Holding Company Act of 1935, as amended. The Company is subject to the jurisdiction of the Commission.

(b) No consent of, approval or authorization by, filing or registration with, or notice to any governmental or public authority or agency is required for the issuance, sale or delivery of the Series B Notes or the execution, delivery or performance of the Agreement, other than the authorization of the Commission, which authorization has been duly obtained, is in full force and effect and is not subject to any appeal, hearing, rehearing or contest. All conditions contained in any such authorization which were to be fulfilled on or prior to the issuance of the Series B Notes have been fulfilled. The Company has furnished to your special counsel true, correct and complete copies of said authorization and all applications heretofore filed with or submitted to the Commission in connection with its action to obtain said authorization.

15. No Defaults, Compliance with Other Instruments. The Company is not in default under any outstanding indentures, contracts or agreements which are material to the Company including, without limitation, the Mortgage Indenture; and on the Closing Date there will not exist any condition which would be a default under any such indenture, contract or agreement. The execution and delivery of the Agreement, the consummation of the transactions therein provided for and compliance with the provisions of the Agreement and the Series B Notes by the Company will not violate or result in any breach of the terms, conditions or provisions of, or constitute a default under, its Articles of Incorporation, By-Laws or any indenture, mortgage, deed of trust, bank loan or credit agreement, or other material agreement or instrument to which the Company is a party or by which the Company may be bound, nor will such acts result in the violation of any applicable law, rule, regulation or order applicable to the Company of any court or governmental authority having jurisdiction in the premises or in the creation or imposition of any lien, charge or encumbrance of any nature whatsoever, upon any property or assets of the Company.

16. Leases. The Company has the right to, and does, enjoy peaceful and undisturbed possession under all material leases to which it is a party or under which it is operating. All such leases are valid, subsisting and in full force and effect, and the Company is not in default under any thereof and no event has occurred and is continuing, and no condition exists that, after notice or passage of time or both could become a material default under any such Lease.

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17. Use of Proceeds. The Company will use the gross proceeds derived from the sale of the Series B Notes under the Agreement to refinance existing Indebtedness and to finance a portion of the Company's general construction program. None of the transactions contemplated in the Agreement (including, without limitation thereof, the use of the proceeds from the sale of the Series B Notes) will violate or result in a violation of Section 7 of the Securities Exchange Act of 1934, as amended, or any regulations issued pursuant thereto, including without limitation, Regulations U, T and X of the Board of Governors of the Federal Reserve System, 12 C.F.R., Chapter II. The Company does not own or intend to carry or purchase any "margin stock" within the meaning of said Regulation U, including margin stock originally issued by it. None of the proceeds from the sale of the Series B Notes will be used to purchase or carry (or refinance any borrowing the proceeds of which were used to purchase or carry) any margin stock.

18. ERISA. (a) The fair market value of all assets under all "employee pension benefit plans" (as such term is defined in Section 3(2) of ERISA), maintained by the Company, as from time to time in effect, exceeded as of December 31, 1998, the last annual valuation date, the actuarial present value of all benefits vested under the Plans by more than \$8,990,000.

(b) Neither any of the Plans nor any of the trusts created thereunder, nor any trustee or administrator thereof, has engaged in a "prohibited transaction," as such term is defined in Section 4975 of the Code which could subject the Plans or any of them, any such trust, or any trustee or administrator thereof, or any disqualified person with respect to the Plans to the tax or penalty on prohibited transactions imposed by said Section 4975, except that, with respect to any actions or omissions of administrators, trustees, other fiduciaries, parties in interest or disqualified persons of or in respect to the Plans (other than employees of the Company), the Company has no knowledge that any of such persons has committed a prohibited transaction, nor has the Company participated knowingly in or knowingly undertaken to conceal a prohibited transaction with or by any of such persons nor enabled any of them

to commit a prohibited transaction.

(c) Neither any of the Plans subject to Title IV of ERISA nor any trusts related to such plans have been terminated, nor have there been any Reportable Events, as that term is defined in Section 4043 of ERISA (as modified by the regulations thereunder), in respect of those plans since the effective date of ERISA.

(d) Neither any of the Plans which are subject to Section 302 of ERISA nor any trusts related to such plans have incurred any "accumulated funding deficiency," as such term is defined in said Section 302 (whether or not waived), since the effective date of ERISA.

(e) The consummation of the transactions provided for in the Agreement and compliance by the Company with the provisions thereof and the Series B Notes issued thereunder will not involve any prohibited transaction within the meaning of ERISA or Section 4975 of the Code.

19. Taxes. All Federal, state and local taxes and assessments due from the Company have been (a) fully paid or adequately provided for on the books of the Company in accordance

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with generally accepted accounting principles or (b) are being contested in good faith by the Company. There has been no examination of the Federal income tax returns of the Company by the Internal Revenue Service subsequent to the examinations of the returns for tax years 1984-1991.

20. Compliance with Laws. To the best of the Company's knowledge, the Company is in compliance with all applicable Federal, state, or local laws, statutes, rules, regulations or ordinances relating to public health, safety or the environment, including, without limitation, relating to releases, discharges, emissions or disposals to air, water, land or ground water, to the withdrawal or use of ground water, to the use, handling or disposal of polychlorinated biphenyls (PCB's), asbestos or urea formaldehyde, to the treatment, storage, disposal or management of hazardous substances (including, without limitation, petroleum, its derivatives, by-products or other hydrocarbons), and to exposure to hazardous substances, the failure to comply with which could reasonably be expected to have a material adverse effect on the Company or its properties. The Company does not know of any liability of the Company under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986 (42 U.S.C. Section 9601 et seq.) with respect to any property now or heretofore owned or leased by the Company.

21. Full Disclosure. The financial statements referred to in the Agreement do not, nor does the Agreement, the Company Information or any written statement (including without limitation the 1998 Annual Report) furnished by the Company to you in connection with the negotiation of the sale of the Series B Notes, contain any untrue statement of a material fact or, taken together, omit a material fact necessary to make the statements contained therein or herein not misleading. There is no fact which the Company has not disclosed to you in writing which materially affects adversely nor, so far as the Company can now foresee, will materially affect adversely the properties, business, prospects, profits or condition (financial or otherwise) of the Company or the ability of the Company to perform its obligations under the Agreement or the Series B Notes.

22. Private Offering. Neither the Company, directly or indirectly, nor any agent on its behalf has offered or will offer the Series B Notes or any similar Security or has solicited or will solicit an offer to acquire the Series B Notes or any similar Security from or has otherwise approached or negotiated or will approach or negotiate in respect of the Series B Notes or any similar Security with any Person other than the Purchasers and not more than twelve other institutional investors, each of whom was offered a portion of the Series B Notes at private sale for investment. Neither the Company, directly or indirectly, nor any agent on its behalf has offered or will offer the Series B Notes or any similar Security or has solicited or will solicit an offer to acquire the Series B Notes or any similar Security from any Person so as to cause the issuance and sale of the Series B Notes not to be exempt from the provisions of Section 5 of the Securities Act of 1933, as amended.

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DESCRIPTION OF DEBT AND LEASES

1. Current Debt of the Company outstanding on March 1, 1999 as follows:

\$23,500,000 borrowed under the Company's bank line of credit with Bank of America.

2. Funded Debt (other than Capitalized Rentals) of the Company outstanding on March 1, 1999 was as follows:

\$118,585,000 was outstanding under the Company's various series of First Mortgage Bonds.

\$298,000 due to the City of Los Altos for the purchase of the North Los Altos Water System.

\$20,000,000 Series A Senior Notes due November 1, 2025.
3. Capitalized Leases of the Company outstanding on March 1, 1999 were as follows:

None.

ANNEX A
(to Exhibit B)

MATERIAL WATER SUPPLY CONTRACTS

1. Water Supply Contract between the Company and the County of Butte relating to the Company's Oroville District.
2. Water Supply Contract between the Company and Kern County Water Agency relating to the Company's Bakersfield District.
3. Water Supply Contract between the Company and Stockton East Water District relating to the Company's Stockton District.
4. Second Amended Contract between the Company and Stockton East Water District relating to the Company's Stockton District.
5. Settlement Agreement and Master Water Sales Contract between the City and County of San Francisco and Certain Suburban Purchasers.
6. Supplement to Settlement Agreement and Master Water Sales Contract between the Company and the City and County of San Francisco relating to the Company's Bear Gulch District.
7. Supplement to Settlement Agreement and Master Water Sales Contract between the Company and the City and County of San Francisco relating to the Company's San Carlos District.
8. Supplement to Settlement Agreement and Master Water Sales Contract between the Company and the City and County of San Francisco relating to the Company's San Mateo District.
9. Supplement to Settlement Agreement and Master Water Sales Contract between the Company and the City and County of San Francisco relating to the Company's South San Francisco District.
10. Water Supply Contract between the Company and Santa Clara Valley Water District relating to the Company's Los Altos District.
11. Water Supply Contract between the Company and Pacific Gas and Electric Company related to the Company's Oroville District.
12. Water Supply Contract between the Company and Alameda County Flood Control and Water Conservation District related to the Company's Livermore District.
13. Water Supply Contract between the Company and Russell Valley Municipal Water District regarding the Company's Westlake District.

ANNEX B
(to Exhibit B)

DESCRIPTION OF SPECIAL COUNSEL'S CLOSING OPINION

The closing opinion of Chapman and Cutler, special counsel to the Purchasers, called for by ss.4.1 of the Note Agreement, shall be dated the Closing Date and addressed to the Purchasers, shall be satisfactory in form and substance to the Purchasers and shall be to the effect that:

1. The Company is a corporation, validly existing and in good standing under the laws of the State of California and has the corporate power and the corporate authority to execute and deliver the Note Agreement and to issue the Series B Notes.

2. The Note Agreement has been duly authorized by all necessary corporate action on the part of the Company, has been duly executed and delivered by the Company and constitutes the legal, valid and binding contract of the Company enforceable in accordance with its terms, subject to bankruptcy, insolvency, fraudulent conveyance and similar laws affecting creditors' rights generally, and general principles of equity (regardless of whether the application of such principles is considered in a proceeding in equity or at law).

3. The Series B Notes have been duly authorized by all necessary corporate action on the part of the Company, have been duly executed and delivered by the Company and constitute the legal, valid and binding obligations of the Company enforceable in accordance with their terms, subject to bankruptcy, insolvency, fraudulent conveyance and similar laws affecting creditors' rights generally, and general principles of equity (regardless of whether the application of such principles is considered in a proceeding in equity or at law).

4. The issuance, sale and delivery of the Series B Notes under the circumstances contemplated by the Note Agreement do not, under existing law, require the registration of the Series B Notes under the Securities Act of 1933, as amended, or the qualification of an indenture under the Trust Indenture Act of 1939, as amended.

The opinion of Chapman and Cutler may rely upon the opinion of McCutchen, Doyle, Brown & Enersen LLP, as to matters of California law. The opinion of Chapman and Cutler shall also state that the opinion of McCutchen, Doyle, Brown & Enersen LLP, is satisfactory in scope and form to Chapman and Cutler and that, in their opinion, the Purchasers are justified in relying thereon.

In rendering the opinion set forth in paragraph 1 above, Chapman and Cutler may rely, as to matters referred to in paragraph 1, solely upon an examination of the Articles of Incorporation certified by, and a certificate of good standing of the Company from, the Secretary of State of the State of California, the By-laws of the Company and the general business corporation law of the State of California.

With respect to matters of fact upon which such opinion is based, Chapman and Cutler may rely on appropriate certificates of public officials and officers of the Company and upon

EXHIBIT C
(to Note Agreement)

representations of the Company and the Purchasers delivered in connection with the issuance and sale of the Series B Notes.

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DESCRIPTION OF CLOSING OPINION
OF COUNSEL TO THE COMPANY

The closing opinion of McCutchen, Doyle, Brown & Enersen LLP, counsel for the Company, which is called for by ss.4.1 of the Note Agreement, shall be dated the Closing Date and addressed to the Purchasers, shall be satisfactory in scope and form to the Purchasers and shall be to the effect that:

1. The Company is a corporation, duly incorporated, validly existing and in good standing under the laws of the State of California, has the corporate power and the corporate authority to execute and perform the Note Agreement and to issue the Series B Notes and has the full corporate power and the corporate authority to conduct the activities in which it is now engaged.

2. The Note Agreement has been duly authorized by all necessary corporate action on the part of the Company, has been duly executed and delivered by the Company and constitutes the legal, valid and binding contract of the Company enforceable in accordance with its terms, subject to bankruptcy, insolvency, fraudulent conveyance and similar laws affecting creditors' rights generally, and general principles of equity (regardless of whether the application of such principles is considered in a proceeding in equity or at law).

3. The Series B Notes have been duly authorized by all necessary corporate action on the part of the Company, have been duly executed and delivered by the Company and constitute the legal, valid and binding obligations of the Company enforceable in accordance with their terms, subject to bankruptcy, insolvency, fraudulent conveyance and similar laws affecting creditors' rights generally, and general

principles of equity (regardless of whether the application of such principles is considered in a proceeding in equity or at law).

4. No approval, consent or withholding of objection on the part of, or filing, registration or qualification with, any governmental body, Federal or state, is necessary in connection with the execution and delivery of the Note Agreement or the Series B Notes other than the authorization of the Commission, which authorization has been duly obtained, is in full force and effect.

5. The issuance and sale of the Series B Notes and the execution, delivery and performance by the Company of the Note Agreement do not violate or result in any breach of any of the provisions of or constitute a default under or result in the creation or imposition of any Lien upon any of the property of the Company pursuant to the provisions of the Articles of Incorporation or By-laws of the Company or any agreement or other instrument listed as a material contract in the Company's most recent Annual Report.

6. Based upon the representations set forth in Section 3.2 of the Note Agreement, the issuance, sale and delivery of the Series B Notes under the circumstances

EXHIBIT D
(to Note Agreement)

contemplated by the Note Agreement do not, under existing law, require the registration of the Series B Notes under the Securities Act of 1933, as amended, or the qualification of the Note Agreement or an indenture under the Trust Indenture Act of 1939, as amended.

7. Based upon the assumption of the accuracy of information obtained by the Company from sources believed to be reliable that the following cities served by the Company were all incorporated prior to 1911:

Bakersfield	Marysville	South San Francisco
Chico	Oroville	Stockton
Dixon	Redondo Beach	Visalia
Hermosa Beach	Salinas	Willows
King City	San Mateo	
Livermore	Selma	

that water distribution systems were constructed and service furnished to the inhabitants of each by various predecessors of the Company prior to 1911, and that there were no public water works owned or controlled by the municipality in any of them prior to 1911, in the opinion of such counsel, the Company has a "constitutional" franchise in each of the above cities and under such constitutional franchise has a perpetual right which was not repealed by the repeal of Article XI, Section 19, of the California Constitution to continue to occupy public streets of each of said cities with its pipes and mains and to lay down additional pipes and mains in said streets for the supplying of water, subject to reasonable regulation by the respective municipalities as they existed at the date of repeal of the constitutional provision in 1911 and probably also extends to territory incorporated into each respective city after such repeal, although this latter question remains somewhat in doubt in the absence of a final decision of the courts thereon.

The opinion of McCutchen, Doyle, Brown & Enersen LLP shall cover such other matters relating to the sale of the Series B Notes as the Purchasers may reasonably request. With respect to matters of fact on which such opinion is based, such counsel shall be entitled to rely on appropriate certificates of public officials and officers of the Company.

Amendment to Business Loan Agreements

(a) Bank of America

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Business
Loan Agreement

This Agreement dated as of May 3, 1999 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 Million and 00/1 00 Dollars (\$20,000,000.00).
- (b) This is a revolving line of credit providing for cash advances and 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 advances under 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, 2001 (the "Expiration Date") unless any Borrower is in default.

1.3 Interest Rate.

- (a) The interest rate is the Bank's Reference Rate minus 0.5 percentage points.
- (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 June 1, 1999, 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. Any interest period for an optional interest rate (as described below) shall expire no later than the Expiration Date.

1.5 Optional Interest Rates. Instead of the interest rate based on the Bank's Reference Rate, the Borrowers may elect the optional interest rates listed below during interest periods agreed to by the Bank and the Borrowers. The optional interest rates shall be subject to the terms and conditions described

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later in this Agreement. Any principal amount bearing interest at an optional rate under this Agreement is referred to as a "Portion." The following optional interest rates are available:

- (a) Fixed Rates.
- (b) the LIBOR Rate plus 1.25 percentage points.

1.6 Letters of Credit.

(a) This line of credit may be used for financing:

- (i) standby letters of credit with a maximum maturity of 365 days but not to extend beyond December 31, 2001. The standby letters of credit may include a provision providing that the maturity date will 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 must include a final maturity date which will not be subject to automatic extension.
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- (ii) The amount of letters of credit outstanding at any one time (including amounts drawn on letters of credit and not yet reimbursed) may not exceed Ten Million and 00/1 00 Dollars (\$10,000,000.00).

(b) Each Borrower agrees:

- (i) 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.
- (ii) if there is a default under this Agreement, to immediately prepay and make the Bank whole for any outstanding letters of credit.
- (iii) 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.
- (iv) to sign the Bank's form Application and Agreement for Standby Letter of Credit.
- (v) 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.
- (vi) to allow the Bank to automatically charge its checking account for applicable fees, discounts, and other charges.

2. OPTIONAL INTEREST RATES

2.1 Optional Rates. Each optional interest rate is a rate per year. Interest will be paid on the last day of each interest period, and 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 Borrowers have designated another optional interest rate for the Portion. No Portion will be converted to a different interest rate during the applicable interest period. 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.

2.2 Fixed Rate. The election of Fixed Rates shall be subject to the following terms and requirements:

- (a) The "Fixed Rate" means the fixed interest rate the Bank and the Borrowers 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:

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- (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) 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 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).

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2.3 LIBOR Rate. The election of LIBOR Rates shall be subject to the following terms and 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 /1 00 of one percent. (All amounts in the calculation will be determined by the Bank as of the first day of the interest period.)

$$\text{LIBOR Rate} = \frac{\text{London Inter-Bank Offered Rate}}{\text{1.00 - Reserve Percentage}}$$

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 1 1:00 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 /1 00 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 Borrowers 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 Borrowers 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.

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

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- (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).

- (g) 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

3. EXPENSES

3.1 Expenses. The Borrowers agree to immediately repay the Bank for expenses that include, but are not limited to, filing, recording and search fees, appraisal fees, title report fees and documentation fees.

3.2 Reimbursement Costs.

- (a) 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.

4. DISBURSEMENTS, PAYMENTS AND COSTS

4.1 Requests for Credit; Equal Access by all Borrowers. Any Borrower (or a person or persons authorized by any one of the Borrowers), acting alone, can borrow up to the full amount of credit provided under this Agreement. Each Borrower will be liable for all extensions of credit made under this Agreement to any other Borrower. 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.

4.2 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.

4.3 Telephone and Telefax Authorization.

- (a) The Bank may honor telephone or telefax instructions for advances or repayments given by any one of the individuals authorized to sign loan agreements on behalf of each Borrower, or any other individual designated by any one of such authorized signers.

- (b) Advances will be deposited in and repayments will be withdrawn from Borrower 1's account number 14878-03863, 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 or telefax instructions the Bank 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.

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4.4 Direct Debit.

- (a) The Borrowers agree that interest and any fees will be deducted automatically on the due date from Borrower `s account number 14878-03863, or such other of the Borrowers' accounts with the Bank as designated in writing by the Borrowers.
- (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.

4.5 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.

4.6 Taxes. If any payments to the Bank under this Agreement are made from outside the United States, the Borrowers will not deduct any foreign taxes from any payments they make to the Bank. If any such taxes are imposed on any payments made by the Borrowers (including payments under this paragraph), the Borrowers will pay the taxes and will also pay to the Bank, at the time interest is paid, any additional amount which the Bank specifies as necessary to preserve the after-tax yield the Bank would have received if such taxes had not been imposed. 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.

4.7 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.

4.8 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. Installments of principal which are not paid when due under this Agreement shall continue to bear interest until paid.

4.9 Default Rate. Upon the occurrence and during the continuation of any default under this Agreement, principal amounts outstanding under this Agreement will at the option of the Bank bear interest at a rate which is 2 percentage point(s) higher than the rate of interest otherwise provided under this Agreement. This will not constitute a waiver of any default.

4.10 Interest Compounding. At the Bank's sole option in each instance, any interest, fees or costs which are not paid when due under this Agreement shall bear interest from the due date at the Bank's Reference Rate minus 0.05 percentage points. This may result in compounding of interest.

5. 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:

5.1 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.

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

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

6. 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:

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

6.2 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.

6.3 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.

6.4 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.

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

6.6 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 compliance with all government regulations that apply.

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

6.8 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.

6.9 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.

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

6.11 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.

6.12 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.

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6.13 Year 2000 Compliance. Each Borrower has conducted a comprehensive review and assessment of its systems and equipment applications and made inquiry of such Borrower's key suppliers, vendors and customers with respect to the "year 2000 problem" (that is, the inability of computers, as well as embedded microchips in non-computing devices, to properly perform date-sensitive functions with respect to certain dates prior to and after December 31, 1999). Based on that review and inquiry, none of the Borrowers believes the year 2000

problem, including costs of remediation, will result in a material adverse change in its business condition (financial or otherwise), operations, properties or prospects, or ability to repay the credit. Each Borrower has developed adequate contingency plans to ensure uninterrupted and unimpaired business operation in the event of a failure of its own or a third party's systems or equipment due to the year 2000 problem, including those of vendors, customers, and suppliers, as well as a general failure of or interruption in its communications and delivery infrastructure.

7. COVENANTS

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

7.1 Use of Proceeds. To use the proceeds of the credit only for short term operating capital, bridge financing for capital expenditures and issuing standby letters of credit.

7.2 Financial Information. To provide the following financial information and statements in form and content acceptable to the Bank, 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 unqualified opinion) by a Certified Public Accountant ("CPA") acceptable to the Bank. The statements shall be prepared on a consolidated basis.
- (b) Within 60 days of the period's end, Borrower 1's quarterly financial statements including supplemental schedules. These financial statements may be Borrower prepared. The statements shall be prepared on a consolidated and consolidating basis.
- (c) Within 90 days of its fiscal year end, copies of Borrower 1's Form 10-K Annual Report and Form 8-K Current Report (if applicable).
- (d) Within 60 days of the period's end, copies of Borrower 1's Form 10-Q Quarterly Report and Form 8-K Current Report.
- (e) Within 90 days of its fiscal year end, Borrower 2's annual financial statements. These financial statements may be company prepared.

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- (f) Within 60 days of the period's end, Borrower 2's quarterly financial statements. These financial statements may be company prepared.
 - (g) By April 30 of each year, Borrower 2's narrative business plan.
 - (h) Within 90 days of the Borrower's fiscal year end, California Water Company's annual financial statements. These financial statements must be audited (with an unqualified opinion) by a Certified Public Accountant ("CPA") acceptable to the Bank.
 - (i) Within 60 days of the period's end, California Water Company's quarterly financial statements. These financial statements may be Borrower prepared.

7.3 Other Debts. Not to have outstanding or incur any direct or contingent liabilities (other than those to the Bank), or become liable for the liabilities 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.

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- (d) Liabilities in existence on the date of this Agreement disclosed in writing to the Bank.
- (e) First mortgage bonds and/or unsecured senior notes currently outstanding or subsequently issued.

7.4 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.
- (d) Liens securing first mortgage bonds currently outstanding or subsequently issued.

7.5 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 line-year. "Line-year" means the period between the date of this Agreement and December 31, 1999, and each subsequent one-year period (if any). For the purposes of this paragraph, "advances" does not include undrawn amounts of outstanding letters of credit.

7.6 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 (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) business condition (financial or otherwise), operations, properties or prospects, or ability to repay the credit.
- (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.

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

7.8 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.

7.9 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.

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

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

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

7.13 General Business Insurance. To maintain insurance as is usual for the business the Borrowers are in.

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

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- (a) engage in any business activities substantially different from the Borrowers' or any Borrower's present business.
- (b) liquidate or dissolve the Borrowers' or any Borrower's 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 Borrower's business or the Borrower's assets.
- (f) enter into any sale and leaseback agreement covering the Borrowers' or any Borrower's fixed assets.

- (g) acquire or purchase a business or its assets for a consideration, including assumption of direct or contingent debt, where any single transaction exceeds Two Million Five Hundred Thousand Dollars (\$2,500,000).
- (h) 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.

8. DEFAULT

If any of the following events occurs, 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 be due immediately.

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

8.2 False Information. Any Borrower (or any guarantor) has given the Bank false or misleading information or representations.

8.3 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.

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

8.5 Lawsuits. Any lawsuit or lawsuits are filed against any one or more of the Borrowers (or any guarantor) in an aggregate amount of One Million Dollars (\$1,000,000) or more in excess of any insurance coverage.

8.6 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.

8.7 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.

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

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8.9 Cross-default. Any default occurs under any agreement in connection with any credit any Borrower (or any guarantor) or any of the Borrower's related entities or affiliates has obtained from anyone else or which the Borrower (or any guarantor) or any of the Borrower's related entities or affiliates 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.

8.10 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.

8.11 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.

8.12 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. This includes any failure or anticipated failure by any Borrower to comply with any financial covenants set forth in this Agreement, whether such failure is evidenced by financial statements delivered to the Bank or is otherwise known to any Borrower or the Bank.

9. ENFORCING THIS AGREEMENT; MISCELLANEOUS

9.1 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.

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

9.3 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.

9.4 Arbitration.

(a) This paragraph concerns the resolution of any controversies or claims between any one or more of the 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 the 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

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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. 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 all 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.

(o) 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.

9.5 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.

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

9.7 Attorneys' Fees. The Borrowers 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 in connection with any amendment, waiver, "workout" or restructuring under this Agreement. In the event of

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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 any of the Borrowers 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 the Bank's in-house counsel.

9.8 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.

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) Until all obligations of the Borrowers to the Bank under this Agreement have been paid in full, 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, United States 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.

9.9 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;
- (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.

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9.10 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.

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

9.12 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.

9.13 Prior Agreement Superseded. This Agreement supersedes the Business Loan Agreement entered into as of March 16, 1998 between the Bank and the Borrowers, and any credit outstanding thereunder shall be deemed to be outstanding under this Agreement.

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

<CAPTION>	<C>
<S>	
Bank of America	California Water Service Group
National Trust and Savings Association	

By: Jeffrey Perkins, Vice President	By: Gerald F. Feeney, Vice President, C.F.O. and Treasurer
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Address where notices to the Bank are to be sent:	Address for Notices:
San Jose Commercial Banking Office #01487	1720 North First Street
1 01 Park Center Plaza	San Jose, CA 95112
San Jose, CA 95113	

CWS Utility Services

By: Gerald F. Feeney, Vice President,
C.F.O. and Treasurer

</TABLE>

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Bank of America

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Business Loan Agreement

This Agreement dated as of May 3, 1999 is between Bank of America National Trust and Savings Association (the "Bank") and California Water Service Company (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 Borrower. The amount of the line of credit (the "Commitment") is Thirty Million and 00/1 00 Dollars (\$30,000,000.00).
- (b) This is a revolving line of credit providing for cash advances and letters of credit. During the availability period, the Borrower may repay principal amounts and reborrow them.
- (c) The Borrower agrees not to permit the outstanding principal balance of advances under 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, 2001 (the "Expiration Date") unless the Borrower is in default.

1.3 Interest Rate.

- (a) Unless the Borrower elects an optional interest rate as described below, the interest rate is the Bank's Reference Rate minus 0.5 percentage points.
- (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 Borrower will pay interest on June 1, 1999, and then monthly thereafter until payment in full of any principal outstanding under this line of credit.
- (b) The Borrower 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. Any interest period for an optional interest rate (as described below) shall expire 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 the optional interest rates listed below during interest periods agreed to by the Bank and the Borrower. The optional interest rates shall be subject to the terms and conditions described later in this Agreement. Any principal amount bearing interest at an optional rate under this Agreement is referred to as a "Portion." The following optional interest rates are available:

- (a) Fixed Rates.
- (b) the LIBOR Rate plus 1.25 percentage points.

1.6 Letters of Credit.

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(a) This line of credit may be used for financing:

(i) standby letters of credit with a maximum maturity of 365 days but not to extend beyond December 31, 2001. The standby letters of credit may include a provision providing that the maturity date will 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 must include a final maturity date which will not be subject to automatic extension.

(ii) The amount of letters of credit outstanding at any one time (including amounts drawn on letters of credit and not yet reimbursed) may not exceed Ten Million and 00/1 00 Dollars (\$1 0,000,000.00).

(iii) The following letters of credit are outstanding from the Bank for the account of the

Borrower:

Letter of Credit Number Amount 124609 \$1,785,486.00

As of the date of this Agreement, these letters of credit shall be deemed to be outstanding under this Agreement, and shall be subject to all the terms and conditions stated in this Agreement.

(b) The Borrower agrees:

(i) 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.

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

(iii) 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.

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

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

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

2. OPTIONAL INTEREST RATES

2.1 Optional Rates. Each optional interest rate is a rate per year. Interest will be paid on the last day of each interest period, and 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. No Portion will be converted to a different interest rate during the applicable interest period. 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.

2.2 Fixed Rate. The election of Fixed Rates shall be subject to the following terms and requirements:

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

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

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(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) 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 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:

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- (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).

2.3 LIBOR Rate. The election of LIBOR Rates shall be subject to the following terms and 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.

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.)

$$\text{LIBOR Rate} = \frac{\text{London Inter-Bank Offered Rate}}{\text{-----}} \\ (1.00 - \text{Reserve Percentage})$$

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

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 /1 00 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.

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).

(g) 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.

3. EXPENSES

3.1 Expenses. The Borrower agrees to immediately repay the Bank for expenses that include, but are not limited to, filing, recording and search fees, appraisal fees, title report fees and documentation fees.

3.2 Reimbursement Costs.

(a) The Borrower agrees 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.

4. DISBURSEMENTS, PAYMENTS AND COSTS

4.1 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.

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4.2 Disbursements and Payments. Each disbursement by the Bank and each payment by the Borrower 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 Borrower to sign one or more promissory notes.

4.3 Telephone and Telefax Authorization.

- (a) The Bank may honor telephone or telefax instructions for advances or repayments given by any one of the individuals authorized to sign loan agreements on behalf of the Borrower, or any other individual designated by any one of such authorized signers.
- (b) Advances will be deposited in and repayments will be withdrawn from the Borrower's account number 14872-00230, or such other of the Borrower's accounts with the Bank as designated in writing by the Borrower.
- (c) The Borrower indemnifies and excuses the Bank (including its officers, employees, and agents) from all liability, loss, and costs in connection with any act resulting from telephone or telefax instructions the Bank reasonably believes are made by any individual authorized by the Borrower to give such instructions. This indemnity and excuse will survive this Agreement's termination.

4.4 Direct Debit.

- (a) The Borrower agrees that interest and any fees will be deducted automatically on the due date from the Borrower's account number 14872-00230, or such other of the Borrower's accounts with the Bank as designated in writing by the Borrower.
- (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 Borrower 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.

4.5 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.

4.6 Taxes. If any payments to the Bank under this Agreement are made from outside the United States, the Borrower will not deduct any foreign taxes from any payments it makes to the Bank. If any such taxes are imposed on any payments made by the Borrower (including payments under this paragraph), the Borrower will pay the taxes and will also pay to the Bank, at the time interest is paid, any additional amount which the Bank specifies as necessary to preserve the after-tax yield the Bank would have received if such taxes had not been imposed. The Borrower will confirm that it has paid the taxes by giving the Bank official tax receipts (or notarized copies) within 30 days after the due date.

4.7 Additional Costs. The Borrower 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

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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.

4.8 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. Installments of principal which are not paid when due under this Agreement shall continue to bear interest until paid.

4.9 Default Rate. Upon the occurrence and during the continuation of any default under this Agreement, principal amounts outstanding under this Agreement will at the option of the Bank bear interest at a rate which is 2 percentage point(s) higher than the rate of interest otherwise provided under this Agreement. This will not constitute a waiver of any default.

4.10 Interest Compounding. At the Bank's sole option in each instance, any interest, fees or costs which are not paid when due under this Agreement shall bear interest from the due date at the Bank's Reference Rate minus 0.5 percentage points. This may result in compounding of interest.

5. 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 Borrower under this Agreement:

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

5.2 Governing Documents. A copy of the Borrower's articles of incorporation.

5.3 Guaranty. A guaranty signed by California Water Service Group in the amount of Thirty Million Dollars (\$30,000,000).

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

6. REPRESENTATIONS AND WARRANTIES

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

6.1 Organization of Borrower. The Borrower is a corporation duly formed and existing under the laws of the state where organized.

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

6.3 Enforceable Agreement. This Agreement is a legal, valid and binding agreement of the Borrower, enforceable against the 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.

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

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

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6.6 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 Borrower's (and any guarantor's) financial condition, including all material contingent liabilities.

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

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

6.8 Permits, Franchises. The 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.

6.9 Other Obligations. The Borrower is not in default on any obligation for borrowed money, any purchase money obligation or any other material lease, commitment, contract, instrument or obligation.

6.10 Income Tax Matters. The Borrower has no knowledge of any pending assessments or adjustments of its income tax for any year.

6.11 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.

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

6.13 Year 2000 Compliance. The Borrower has conducted a comprehensive review and assessment of the Borrower's systems and equipment applications and made inquiry of the Borrower's key suppliers, vendors and customers with respect to the "year 2000 problem" (that is, the inability of computers, as well as embedded microchips in non-computing devices, to properly perform date-sensitive functions with respect to certain dates prior to and after December 31, 1999). Based on that review and inquiry, the Borrower does not believe the year 2000 problem, including costs of remediation, will 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. The Borrower has developed adequate contingency plans to ensure uninterrupted and unimpaired business operation in the event of a failure of its own or a third party's systems or equipment due to the year 2000 problem, including those of vendors, customers, and suppliers, as well as a general failure of or interruption in its communications and delivery infrastructure.

7. COVENANTS

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

7.1 Use of Proceeds. To use the proceeds of the credit only for short term operating capital, bridge financing for capital expenditures and issuing standby letters of credit.

7.2 Financial Information. To provide the following financial information and statements in form and content acceptable to the Bank, and such additional information as requested by the Bank from time to time:

- (a) 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.
- (b) Within 60 days of the period's end, the Borrower's quarterly financial statements. These financial statements may be Borrower prepared.
- (c) Within 90 days of its fiscal year end, California Water Service Group's annual financial

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statements. These financial statements must be audited (with an unqualified opinion) by a CPA acceptable to the Bank. The statements shall be prepared on a consolidated basis.

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- (f) Within 60 days of the period's end, California Water Service Group's quarterly financial statements including supplemental schedules. These financial statements may be company prepared. The statements shall be prepared on a consolidated and consolidating basis.
 - (e) Within 90 days of its fiscal year end, copies of California Water Service Group's Form 1 O-K Annual Report and Form 8-K Current Report (if applicable).
 - (f) Within 60 days of the period's end, copies of California Water Service Group's Form 10-Q Quarterly Report and Form 8-K Current Report.
 - (g) Within 90 days of its fiscal year end, CWS Utility Services' annual financial statements. These financial statements may be company prepared.
 - (h) Within 60 days of the period's end, CWS Utility Services' quarterly financial statements. These financial statements may be company prepared.
 - (i) By April 30 of each year, CWS Utility Services' narrative business plan.

7.3 Other Debts. Not to have outstanding or incur any direct or contingent liabilities (other than those to the Bank), or become liable for the liabilities 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) Liabilities in existence on the date of this Agreement disclosed in writing to the Bank.
- (e) First mortgage bonds and/or unsecured senior notes currently outstanding or subsequently issued.

7.4 Other Liens. Not to create, assume, or allow any security interest or lien (including judicial liens) on property the 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.
- (d) Liens securing first mortgage bonds currently outstanding or subsequently issued.

7.5 Out of Debt Period. To repay any advances in full, and not to draw any additional advances on its revolving line of credit, for a period of at least 30 consecutive days in each line-year. "Line-year" means the period between the date of this Agreement and December 31, 1999, and each subsequent one-year period (if any). For the purposes of this paragraph, "advances" does not include undrawn amounts of outstanding letters of credit.

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

- (a) any lawsuit over One Million Dollars (\$1,000,000) against the Borrower (or any guarantor).
- (b) any substantial dispute between the Borrower (or any guarantor) and any government authority.
- (c) any failure to comply with this Agreement.

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- (d) any material adverse change in the Borrower's (or any guarantor's) business condition (financial or otherwise), operations, properties or prospects, or ability to repay the credit.
- (e) any change in the Borrower's name, legal structure, place of business, or chief executive office if the Borrower has more than one place of business.

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

7.8 Audits. To allow the Bank and its agents to inspect the Borrower's properties and examine, audit, and make copies of books and records at any reasonable time. If any of the Borrower's properties, books or records are in the possession of a third party, the Borrower authorizes 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.

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

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

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

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

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

7.14 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 Borrower's present business.
- (b) liquidate or dissolve the Borrower's 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 Borrower's business or the Borrower's assets.

enter into any sale and leaseback agreement covering any of its fixed assets.
- (g) acquire or purchase a business or its assets for a consideration, including assumption of direct or contingent debt, where any single transaction exceeds Two Million Five Hundred Thousand Dollars (\$2,500,000).

7.15 Bond Rating. To maintain an investment grade bond rating on its rated securities as defined by Moody's Investors Service, Inc. and Standard & Poor's Rating Group.

8. DEFAULT

If any of the following events occurs, the Bank may do one or more of the following: declare the Borrower in default, stop making any additional credit available to the Borrower, and require the Borrower to repay its

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entire debt immediately and without prior notice. If an event of default occurs under the paragraph entitled "Bankruptcy," below, with respect to the Borrower, then the entire debt outstanding under this Agreement will automatically be due immediately.

8.1 Failure to Pay. The Borrower fails to make a payment under this Agreement when due.

8.2 False Information. The Borrower (or any guarantor) has given the Bank false or misleading information or representations.

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

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

8.5 Lawsuits. Any lawsuit or lawsuits are filed against the Borrower (or any guarantor) in an aggregate amount of One Million Dollars (\$1,000,000) or more in excess of any insurance coverage.

8.6 Judgments. Any judgments or arbitration awards are entered against the Borrower (or any guarantor), or the Borrower (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.

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

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

8.9 Cross-default. Any default occurs under any agreement in connection with any credit the Borrower (or any guarantor) or any of the Borrower's related entities or affiliates has obtained from anyone else or which the Borrower (or any guarantor) or any of the Borrower's related entities or affiliates has guaranteed, if the default consists of failing to make a payment when due or gives other lender the right to accelerate the obligations.

8.10 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.

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

8.12 Other Breach Under Agreement. The 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. This includes any failure or anticipated failure by the Borrower to comply with any financial covenants set forth in this Agreement, whether such failure is evidenced by financial statements delivered to the Bank or is otherwise known to the Borrower or the Bank.

8.13 Guarantor's Covenant. California Water Service Group fails to comply with the following covenant:

- (a) Dividends. Not to enter into any agreement which would restrict the Borrower's ability to declare and pay dividends to California Water Service Group, without the Bank's written consent.

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9. ENFORCING THIS AGREEMENT; MISCELLANEOUS

9.1 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.

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

9.3 Successors and Assigns. This Agreement is binding on the Borrower's and the Bank's successors and assignees. The Borrower agrees that it 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 Borrower 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 Borrower.

9.4 Arbitration.

- (a) This paragraph concerns the resolution of any controversies or claims between the Borrower 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 the Borrower and the Bank, including claims for injury to persons, property or business interests (torts).
- (b) At the request of the 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.

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 Borrower 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 Borrower 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;

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(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 Borrower 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 Borrower 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 Borrower and the Bank to seek resolution through arbitration.

(o) 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.

9.5 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.

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

9.7 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 in connection with 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 the Bank's in-house counsel.

9.8 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 Borrower concerning this credit;

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

(c) are intended by the Bank and the Borrower 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.

9.9 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 Borrower may specify from time to time in writing.

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

9.11 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.

9.12 Prior Agreement Superseded. This Agreement supersedes the Business Loan Agreement entered into as of April 4, 1997, between the Bank and the Borrower, and any credit outstanding thereunder shall be deemed to be outstanding under this 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
By: Jeffrey Perkins, Vice President

California Water Service Company
By: Gerald F. Feeney,
Vice President, CFO and
Treasurer

Address where notices to the Bank are to be sent: Address for Notices:

San Jose Commercial Banking Office #01487
101 Park Center Plaza
San Jose, CA 95113

P.O. Box 1150
San Jose, CA 95108

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