

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

(Mark One)

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

For the quarterly period ended March 31, 2001  
OR

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

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

Commission file number 1-13883

CALIFORNIA WATER SERVICE GROUP

-----  
(Exact name of registrant as specified in its charter)

Delaware 77-0448994

-----  
(State or other jurisdiction (I.R.S. Employer identification No.)  
of incorporation or organization)

1720 North First Street, San Jose, CA. 95112

-----  
(Address of principal executive offices) (Zip Code)

1-408-367-8200

-----  
(Registrant's telephone number, including area code)

Not Applicable

-----  
(Former name, former address and former fiscal year,  
if changed since last report)

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

APPLICABLE ONLY TO ISSUES INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes \_\_\_ No \_\_\_

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common shares outstanding as of April 30, 2001 - 15,182,046. This form 10-Q contains a total of 13 pages.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

The financial information presented in this 10Q filing has been prepared by management and has not been audited.

CALIFORNIA WATER SERVICE GROUP  
CONDENSED CONSOLIDATED BALANCE SHEET

(In thousands, except per share data) March 31, December 31,  
2001 2000

ASSETS

Utility plant:

Utility plant	\$ 865,643	\$ 851,281
Less depreciation and amortization	274,642	269,273

Net utility plant	591,001	582,008
Current assets:		
Cash and cash equivalents	1,779	3,241
Receivables	17,390	20,613
Unbilled revenue	6,036	7,964
Materials and supplies at average cost	2,830	2,718
Taxes and other prepaid expenses	6,796	6,257
Total current assets	34,831	40,793
Other assets:		
Regulatory assets	38,313	38,133
Other assets	5,565	5,671
Total other assets	43,878	43,804
	\$ 669,710	\$ 666,605
	=====	=====
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stock, \$.01 par value	\$ 151	\$ 151
Additional paid-in capital	49,984	49,984
Retained earnings	145,908	149,185
Accumulated other comprehensive loss	(486)	(486)
Total common stockholders' equity	195,557	198,834
Preferred stock	3,475	3,475
Long-term debt, less current maturities	187,393	187,098
Total capitalization	386,425	389,407
Current liabilities:		
Current maturities of long-term debt	2,651	2,881
Short-term borrowings	18,500	14,598
Accounts payable	24,151	26,493
Accrued expenses and other liabilities	21,893	19,764
Total current liabilities	67,195	63,736
Unamortized investment tax credits	2,986	2,989
Deferred income taxes	26,007	25,620
Regulatory and other liabilities	20,350	20,316
Advances for construction	106,916	105,562
Contributions in aid of construction	59,831	58,975
	\$ 669,710	\$ 666,605
	=====	=====

See Notes to Condensed Consolidated Financial Statements

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

For the three months ended:	March 31, 2001	March 31, 2000
	-----	-----
Operating revenue	\$ 47,008	\$ 46,694
Operating expenses:		
Operations	33,119	31,116
Maintenance	2,740	2,995
Depreciation and amortization	4,817	4,471
Income taxes	141	951
Property and other taxes	2,399	2,259
Total operating expenses	43,216	41,792
Net operating income	3,792	4,902
Other income and expenses, net	393	329
Income before interest expense	4,185	5,231
	-----	-----

Interest expense:		
Long-term debt interest	3,516	3,248
Other interest	448	450
	-----	-----
Total interest expense	3,964	3,698
	-----	-----
Net income	\$ 221	\$ 1,533
	=====	=====
Earnings per share		
Basic	\$ 0.01	\$ 0.10
	=====	=====
Diluted	\$ 0.01	\$ 0.10
	=====	=====
Weighted average shares outstanding		
Basic	15,182	15,094
	=====	=====
Diluted	15,294	15,146
	=====	=====
Dividends per share of common stock	\$0.27875	\$0.27500
	=====	=====

See Notes to Condensed Consolidated Financial Statements

<TABLE>  
CALIFORNIA WATER SERVICE GROUP  
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
For the three months ended

<CAPTION>  
(In thousands)

March 31,		March 31,
2000		2001
		-----
<S>		<C>
<C>		
Operating activities		
Net income		\$ 221
\$ 1,533		-----
-----		
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization		4,817
4,471		
Deferred income taxes, investment tax credits regulatory assets and liabilities, net		240
(3,057)		
Changes in operating assets and liabilities:		
Receivables		3,223
4,513		
Unbilled revenue		1,928
1,880		
Accounts payable		(2,342)
(6,251)		
Other current assets and liabilities		2,129
1,821		
Other changes, net		(546)
606		
-----		-----
Net adjustments		9,449
3,983		-----
-----		
Net cash provided by operating activities		9,670
5,516		-----
-----		
Investing activities:		
Utility plant expenditures		(13,405)
(3,980)		-----
-----		
Financing activities:		
Net short-term borrowings		3,902
2,300		
Net long-term debt		

(126)	Advances for construction	2,590
1,018	Refunds of advances for construction	(1,239)
(1,190)	Contributions in aid of construction	1,252
373	Dividends paid	(4,260)
(3,986)		-----
-----	Net cash provided by (used in) financing activities	2,273
(1,611)		-----
-----		
	Change in cash and cash equivalents	(1,462)
(75)		
	Cash and cash equivalents at beginning of period	3,241
1,655		-----
-----		
	Cash and cash equivalents at end of period	\$ 1,779
\$ 1,580		=====
=====		

<FN>  
See Notes to Condensed Consolidated Financial Statements  
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#### Notes to Financial Statements

1. Due to the seasonal nature of the water business, the results for interim periods are not indicative of the results for a twelve month period.
2. The interim financial information is unaudited. In the opinion of management, the accompanying financial statements reflect all adjustments which are necessary to provide a fair statement of the results for the periods covered. The adjustments consist only of normal recurring adjustments.
3. Basic earnings per share is calculated by dividing income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by dividing income available to common stockholders by the weighted average number of common shares outstanding plus potentially dilutive shares.
4. Refer to the Annual Report on Form 10-K for the year ended December 31, 2000 for a summary of significant accounting policies and detailed information regarding the financial statements.
5. The Company operates primarily in one business segment providing water utility services.
6. The Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" on January 1, 2001. Its adoption did not have a material impact on the Company's financial position or results of operations.
7. Acquisitions of two water systems, accounted for as asset purchases and adding 375 customers to Washington Water Service Company, a wholly-owned subsidiary, were completed in the first quarter. The purchase price for the two systems was \$428,000.

The acquisition of the 1,100 customer NISH water systems in Visalia, California was completed as a pooling of interests. The effect of pooling was deemed not to be material, therefore, prior year financial statements have not been restated and pro-forma disclosures were not considered significant. The net equity of NISH was recorded as an adjustment to retained earnings as of January 1, 2001. 36,180 common shares were issued for NISH which were valued at \$899,000.

FORWARD LOOKING STATEMENTS

This Form 10Q, contains forward-looking statements intended to qualify for "safe harbor" within the meaning of the Federal securities laws as established by the Private Securities Litigation Reform Act of 1995. Such statements are based on currently available information, expectations, estimates, assumptions and projections, and management's judgment about California Water Service Group (Company), the water utility industry and general economic conditions. Words such as expects, intends, plans, believes, estimates, anticipates or variations of such words or similar expressions are intended to identify forward-looking statements. The forward-looking statements are not guarantees of future performance. Actual results may vary materially from what is contained in a forward-looking statement. Factors which may cause a result different than expected or anticipated include: governmental and regulatory commissions' decisions, new legislation, increases in suppliers' prices and the availability of supplies, changes in environmental compliance requirements, acquisitions, the ability to successfully implement business plans, changes in customer water use patterns and the impact of weather on operating results. The Company assumes no obligation to provide public updates of forward-looking statements.

RESULTS OF FIRST QUARTER OPERATIONS

First quarter net income was \$221,000, equivalent to \$0.01 per common share on a diluted basis compared to the \$1,533,000 or \$0.10 per share earned last year. Operating revenue increased \$314,000 to \$47,008,000. Heavier rain this year, especially in our Southern California service areas, caused usage from existing customers to decline 2%. However, that decline was offset by additional revenue from rate increases and usage by 6,400 new customers that were added since last year, resulting in the net revenue growth. Components of the operating revenue increase are presented in the following table:

Decreased consumption	\$(1,065,000)
Rate increases	889,000
Usage by new customers	490,000
	-----
Net revenue increase	\$ 314,000
	=====

Total operating expenses were \$43,216,000 in 2001 versus \$41,792,000 in 2000, a 3% increase.

Water production costs, representing the largest components of total operating expenses include purchased water, purchased power for pump operations and pump taxes. Together, these costs accounted for 38% of total operating expenses and increased

3% compared to last year. Well production provided 47% of the water supply, 53% was purchased from wholesale suppliers and a small portion was developed through the Company's surface water treatment plants. The components of water production costs and the changes from last year are shown in the table below:

	First Quarter 2001 Cost	Change
	-----	-----
Purchased water	\$13,014,000	\$ 330,000
Purchased power	2,432,000	375,000
Pump taxes	848,000	(257,000)
	-----	-----
Total	\$16,294,000	\$ 448,000
	=====	=====

The purchased water increase was primarily attributable to wholesale water suppliers' rate increases in six California districts. Purchased power increased due to higher energy costs. Pump taxes decreased because of less pumping in districts where pump taxes are incurred.

Other operations expense increases resulted from:

- o The impact of a general wage increase that was effective at the start of the year, additional hours worked and increases in related employee benefits.
- o Increased consultants' costs in regards to the continuing enhancement of the new computer system.

Maintenance expense decreased \$255,000 due to decreased water treatment and pump equipment maintenance, and fewer water main repairs.

Federal and state income taxes decreased \$810,000 because of lower taxable income.

Other income was \$393,000 this year and \$329,000 in 2000. Two real estate transactions involving \$140,000 in pretax income were recorded in the first quarter. Other real estate transactions are expected to be completed during 2001 that will provide pretax income of over \$4 million.

Interest expense on long-term debt rose \$268,000 because of the issuance in October 2000 of the \$20 million, Series C 8.15% senior notes that were outstanding during the entire quarter this year.

#### REGULATORY MATTERS

The Company will review 17 California Water Service Company districts for consideration in filing 2001 general rate applications. Based on the results of the review the company will file applications as appropriate. General rate applications will be filed in July 2001 with CPUC decisions expected in the second quarter of 2002. A rate increase application is anticipated for the Washington operations for early 2002.

As noted elsewhere in this report, the Company plans to file for rate recovery of the higher California power costs as soon as the final electric rate tariffs have been established.

During 2001, rate increases are projected to provide about \$6.4 million in new revenue from the following sources:

- > A rate increase filed by Dominguez Water Company prior to the merger with the Company was approved by the California Public Utilities Commission (CPUC) in October 2000. Total new revenue as a result of increases from these proceeding is estimated at \$1,300,000 for 2001.
- > Increased rates in the Hawthorne district will provide \$240,000 during 2001.
- > Starting late in the second quarter, 2001 after CPUC approval, new revenue from the general rate applications filed in 2000 for three California districts is expected to be \$1,600,000.
- > The Company filed with the CPUC in May 2001 for recovery of certain general office expenses. If approved, the 2001 revenue is estimated at \$2,500,000 starting in August 2001.
- > A total of \$775,000 in additional revenue from 2001 step rate increases that became effective January 1, 2001 is anticipated.

#### LIQUIDITY

Short-term bank borrowings were \$18,500,000 at March 31, 2001 and \$14,598,000 at December 31, 2000. Additional short-term bank borrowings will be necessary during the second quarter to fund semiannual long-term debt interest payments due on May 1, 2001 and the second quarter dividend payable on May 15, 2001. Following those payments, the Company expects to generate cash flow from operations to repay a portion of the short-term bank borrowings.

The first quarter common dividend was paid on February 15, 2001 at \$0.27875 per share. This represents a \$0.00375 or 1.4% increase in the quarterly dividend rate from 2000 as approved by the Board of Directors at their January 2001 meeting. Annualized, the 2001 dividend rate is \$1.115 per common share compared to \$1.10 in 2000. Based on the 12-month earnings per share at March 31, 2001, the dividend payout ratio is 92%. At their April 18, 2001 meeting, Directors declared the second quarter dividend payable May 15, 2001 to shareholders of record on May 1, 2001. This is the 226th consecutive quarterly dividend paid by the Company.

About 10% of the outstanding shares participate in the reinvestment program under the Company's Dividend Reinvestment and Stock Purchase Plan ("Plan"). No new common shares were issued under the Plan during the quarter. Shares required for the dividend reinvestment and stock purchase option of the Plan were purchased on the open market. Shares are also purchased on the open market to fulfill the requirements of the Company sponsored Employee Savings Plan (401(k)). Purchases for this plan are made on a biweekly basis.

Book value per common share was \$12.88 at March 31, 2001 compared to \$12.69 a year earlier.

During the quarter, utility plant expenditures totaled \$13,405,000 for additions to and replacements of utility plant. Of that amount, \$3,457,000 was funded through the Company's construction budget with the remainder funded by developers' contributions

in aid of construction and refundable advances for construction. The 2001 Company construction budget is \$53,900,000.

#### WATER SUPPLY

The Company believes that its various sources of water supply are sufficient to meet customer demand for the remainder of the year. Historically, roughly half of the water source is purchased from wholesale suppliers with the other half pumped from wells. A small portion is developed through three local surface treatment plants.

Storage in state reservoirs was 106% of historic average as of March 23, 2001, and groundwater levels remain adequate. While somewhat below historic average, the mountain snowpack will provide runoff to streams and reservoirs as it melts during the summer months.

#### ACQUISITIONS

Acquisitions of two water systems, accounted for as asset purchases and adding 375 customers to Washington Water, a wholly-owned subsidiary of the Company, were completed in the first quarter. The purchase price for the two systems was \$428,000.

The acquisition of the 1,100 customer NISH water systems in Visalia, California was completed as a pooling of interests. The effect of pooling was deemed not to be material, therefore, prior year financial statements have not been restated and pro-forma disclosures were not considered significant. The net equity of NISH was recorded as an adjustment to retained earnings as of January 1, 2001. 36,180 common shares were issued for NISH which were valued at \$899,000.

Combined, the three acquisitions are expected to provide approximately \$350,000 in annual revenue.

#### CALIFORNIA ENERGY SITUATION

In recent months, the California energy crisis has been well publicized. In January 2001, electric rates increased about 10 percent. Another increase of about 35 percent was approved by the CPUC and is expected to be effective during the second quarter. The Company intends to file an application with the CPUC to recover the higher electric rates from customers as soon as the final electric rate structure is known.

During the quarter, California experienced several power outages when power suppliers implemented rolling electric blackouts due to supply shortages. This summer, additional periods of electric blackouts are expected. The Company has taken action for such situations in order to continue water service to customers. Many wellsites are equipped with emergency electric generators. The generators are designed to produce electricity to keep wells operating during power outages. Storage tanks also provide customers with water during blackout periods.

#### ACCOUNTING PRONOUNCEMENTS

No accounting pronouncements were issued or effective during the period that would have a significant impact on the Company, however, Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" was adopted on January 1, 2001.

#### MARKET RISK

The Company does not hold, trade in or issue derivative financial instruments and therefore is not exposed to risks these instruments present.

The Company's market risk to interest rate exposure is limited because the cost of long-term financing, including interest costs, are covered in consumer water rates as approved by the Commission. The Company does not have foreign operations, therefore, it does not have a foreign currency exchange risk.

The Company's sensitivity to commodity prices is most affected by changes in purchased water and purchased power costs. Through the Commission's balancing account procedures, increases in purchased water and purchased power costs can be passed on to consumers. The Company manages other commodity price exposure through the duration and terms of its vendor contracts.

#### PART II OTHER INFORMATION

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

(a) The annual meeting of stockholders of California Water Service Group was held on April 18, 2001 at the Company's executive office in San Jose,

California. As proposed in the 2001 Proxy, the election of directors and confirmation of KPMG LLP to serve as independent auditors for 2001 were approved by stockholders at the meeting.

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

Douglas M. Brown	Robert W. Foy
Edward D. Harris, Jr. M.D.	Robert K. Jaedicke
Richard P. Magnuson	Linda R. Meier

Peter C. Nelson	Langdon W. Owen
George A. Vera	

(c) Two proposals were voted on at the meeting: (1) election of directors for the ensuing year, and (2) ratification of the selection of KPMG LLP as independent auditors for 2001.

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

	For	Against
	-----	-----
Douglas M. Brown	13,892,197	171,402
Robert W. Foy	12,955,436	171,402
Edward D. Harris, Jr. M.D	13,893,894	171,402
Robert K. Jaedicke	13,875,169	171,402
Richard P. Magnuson	13,903,012	172,202
Linda R. Meier	13,868,808	171,402
Peter C. Nelson	12,949,509	173,706
Langdon W. Owen	13,885,153	172,202
George A. Vera	13,894,987	171,402

(2) The Directors' selection of KPMG LLP to serve as independent auditors for 2001 was ratified by the stockholders. There were 13,642,844 votes in favor, 100,979 against and 120,585 abstentions.

## PART II OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

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

None

## SIGNATURES

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

CALIFORNIA WATER SERVICE GROUP  
Registrant

April 30, 2001

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