

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

FORM 10-K

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

For the fiscal year ended December 31, 2002

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

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
Preferred Share Purchase Rights	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  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.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes  No

The aggregate market value of the common stock held by non-affiliates of the Registrant was \$379,279,000 on June 28, 2002, the last business day of the registrant's most recently completed first fiscal quarter. The valuation is based on the closing price of the registrant's common stock as traded on the New York Stock Exchange.

Common stock outstanding at March 4, 2003 - 15,182,046 shares.

EXHIBIT INDEX

THE EXHIBIT INDEX TO THIS FORM 10-K IS ON PAGE 32

DOCUMENTS INCORPORATED BY REFERENCE

Designated portions of Registrant's Annual Report to Stockholders for the calendar year ended December 31, 2002 (2002 Annual Report) are incorporated by reference in Part I (Item 1), Part II (Items 5, 6, 7, 7A and 8) and in Part IV (Item 15(a)(1)).

Designated portions of the Registrant's Proxy Statement (Proxy Statement) relating to the 2003 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 18, 2003.

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## Item 1 Business.

## Forward Looking Statements

This annual report, including all documents incorporated by reference, contain forward-looking statements within the meaning established by the Private Securities Litigation Reform Act of 1995 ("Act"). The forward-looking statements are intended to qualify under provisions of the federal securities laws for "safe harbor" treatment established by the Act. Forward-looking 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, assumes, anticipates, projects, predicts, forecasts 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. They are subject to uncertainty and changes in circumstances. Actual results may vary materially from what is contained in a forward-looking statement. Factors that may cause a result different than expected or anticipated include: governmental and regulatory commissions' decisions; changes in regulatory commissions' policies and procedures; the timeliness of regulatory commissions' actions concerning rate relief; new legislation; electric power interruptions; increases in suppliers' prices and the availability of supplies including water and power; fluctuations in interest rates; changes in environmental compliance and water quality requirements; acquisitions and our ability to successfully integrate acquired companies; the ability to successfully implement business plans; changes in customer water use patterns; the impact of weather on water sales and operating results; access to sufficient capital on satisfactory terms; civil disturbances or terrorist threats or acts, or apprehension about the possible future occurrences of acts of this type; the involvement of the United States in war or other hostilities; restrictive covenants in or changes to the credit ratings on our current or future debt that could increase our financing costs or affect our ability to borrow, make payments on debt or pay dividends; and, other risks and unforeseen events. When considering forward-looking statements, you should keep in mind the cautionary statements included in this paragraph. The Company assumes no obligation to provide public updates of forward-looking statements.

## a. General Development of Business

California Water Service Company (Cal Water) began business in 1926. On December 31, 1997, California Water Service Group (Company) 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 Company in the state of Washington. These two companies were merged to form Washington Water Service Company (Washington Water). New Mexico Water Service Company (New Mexico Water) was created in 2000. It acquired the assets of Rio Grande Utilities Corporation in July 2002. During 2000, we completed the largest acquisition in our history with the issuance of 2,210,000 shares of common stock in exchange for all of the outstanding shares of Dominguez Services Corporation. The acquisition, which was accounted for as a pooling of interests, was completed on May 25, 2000. The Company is the largest investor-owned water utility west of the Mississippi River and the second largest in the United States.

Cal Water's regulated operations are subject to the jurisdiction of the California Public Utilities Commission (CPUC), Washington Water's regulated operations are subject to the jurisdiction of the Washington Utilities and Transportation Commission (WUTC) and New Mexico Water's regulated operations are subject to the jurisdiction of the New Mexico Public Regulation Commission (PRC). Each company also provides non-regulated water related services under operation and maintenance agreements. Jointly the CPUC, WUTC and PRC are referred to as the commissions.

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Upon 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 16.

Cal Water, a California corporation provides water service to residential, commercial, public authority and industrial customers in 75 California cities and communities through 25 separate water systems

or districts. In its 24 regulated systems, which serve 434,400 customers, rates and operations are subject to the jurisdiction of 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

Washington Water, a Washington corporation, provides water service to 14,400 customers subject to the regulation of the WUTC. Washington Water serves an additional 3,900 customers under operating agreements with privately owned systems that are not subject to WUTC regulation.

New Mexico Water provides service to 2,400 water and 1,700 wastewater customers south of Albuquerque subject to PRC regulation. Through this subsidiary, we also provide non-regulated meter reading service under contract with Los Alamos County in New Mexico.

Our mailing address and principal executive offices are located at 1720 North First Street, San Jose, California 95112-4598; telephone number: 408-367-8200. We maintain a web site that can be accessed via the Internet at <http://www.calwater.com>. In 2002, we began making available free of charge through our website, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports. We make these reports available on our website on the same day they appear on the SEC's website.

During the year ended December 31, 2002, there were no significant changes in the kind of products produced or services we rendered or those provided by our operating subsidiaries, or in our markets or methods of distribution.

#### Rates and Regulation

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

Since our 24 California regulated operating districts are not physically integrated, rates are set independently for each district as required by the CPUC. General office (headquarters) expenses and plant investments are considered separately and allocated ratably to the operating districts.

#### General and Step Rate Increases

General rate case (GRC) applications in California address district and general office operating costs and capital requirements for a forward-looking three-year period. GRC decisions typically authorize an immediate rate increase and annual step rate increases for the three-year cycle. Step rate increases are generally effective at the start of each calendar year, and are designed to maintain the return on equity (ROE) authorized in the initial decision in succeeding years. Effective January 1, 2003, we are required to file a GRC for each operating district every three years. Cal Water's GRC applications are submitted in July. According to the CPUC's processing schedule, a final decision should be expected about 10 months after the filings are accepted by the CPUC. During 2001, the CPUC did not issue decisions for our 2000 GRC applications until late summer or about 14 months after they were submitted. Decisions on our applications submitted in July 2001 are still pending after 19 months. In January 2003 a draft proposed decision on our 2001 GRC rate case was circulated by the CPUC staff,

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but we do not expect a final decision until the second quarter of 2003. In July 2002, we submitted GRC filings for seven districts plus General Office, which are still pending.

Because districts are on different three-year GRC rate case cycles, the number of customers affected by GRC filings varies from year to year. For example, our GRC applications filed in 2001 included 65 percent of Cal Water's customers, while our 2002 applications affect 17 percent of Cal Water's customers.

Water rates for our Washington Water and New Mexico Water regulated operations are set based on historic 12-month data. We can submit GRC applications annually. Regulatory procedures do not provide for step rate increases or offset increases in these states.

#### Offset Rate Increases

In California, we charge to expense increases in purchased water, purchased power and pump taxes as they are incurred. Expenses for these categories above levels included in prior GRC decisions are tracked in

off-line expense balancing or memorandum accounts. The cost increases are referred to as "offsetable expenses". We do not record revenue related to the balancing accounts until authorized by the CPUC, and then only as the increased costs are included in customers' monthly billings. When the CPUC authorizes a rate increase to recover the costs tracked in expense balancing or memorandum accounts, the rate increase is referred to as an offset increase.

b. Financial Information about Industry Segments

We operate primarily in one business segment, the supply and distribution of water and providing water-related utility services.

c. Narrative Description of Business

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

We conduct the Company's business through our operating subsidiaries. Our business consists of the production, purchase, storage, purification, distribution and sale of water for domestic, industrial, public and irrigation uses, and for fire protection. We also provide water-related services under agreements with municipalities and other private companies. The nonregulated services include full water system operation and billing and meter reading services. Nonregulated operations also include the lease of communication antenna sites. Our earnings may be significantly enhanced by the sale of surplus real property. We have a program to dispose of surplus real properties and to reinvest the proceeds in its business. See "Sales of Surplus Real Properties" below.

The operating results from the water business fluctuate according to the demand for water which is often influenced by seasonal conditions, such as summer temperatures or the amount and timing of precipitation in the Company's service territories. Our revenue, expenses and income are affected by changes in water sales. Costs, such as payroll and benefits, depreciation, interest rates on long-term debt and property taxes are more predictable and remain fairly constant, and are not significantly impacted by variations in the amount of water sold. As a result, earnings are highest in the high use, warm weather summer months and lowest in the cool winter months when most rainfall takes place in our service territories.

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

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We operate the City of Hawthorne water system under a 15-year lease that commenced in February 1996. In accordance with the lease agreement, we receive all revenue from operating the system and we are responsible for paying the operating costs. At the end of the lease, the undepreciated capital improvements that we have made in the system during our period of operation will be purchased by the City. Under other contract arrangements, we operate three municipally owned water systems, numerous privately owned water systems and two recycled water distribution systems. We also provide billing and customer services to a number of municipalities.

We intend to continue exploring opportunities to expand our 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, meter reading and billing contracts, and other utility related services. We believe that a holding company structure makes us more competitive in providing nonregulated utility services, which are not subject to jurisdiction of the commissions. We continually investigate new business opportunities in the western United States as evidenced by our expansion into the states of New Mexico and Washington, and our plans to expand to the state of Hawaii as described in Management's Discussion and Analysis of Financial Condition and Results of Operations in the 2002 Annual Report to stockholders which is incorporated into this Form 10-K report by reference.

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Geographical Service Areas and Number of Customers at Year-end

The Company's principal markets for its 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, 2002 are listed below.

<TABLE>  
<CAPTION>

Non-regulated	Regulated
-----	-----
<S>	<C>
<C>	
SAN FRANCISCO BAY AREA	
Mid-Peninsula (serving San Mateo and San Carlos)	35,900
South San Francisco (including Colma and Broadmoor)	16,500
Bear Gulch (serving Menlo Park, Atherton, Woodside and Portola Valley)	17,600
4,200	
Los Altos (including portions of Cupertino, Los Altos Hills, Mountain View and Sunnyvale)	18,400
Livermore	17,400
200	
-----	-----
	105,800
4,400	
-----	-----
SACRAMENTO VALLEY	
Chico (including Hamilton City)	24,400
Oroville	3,500
Marysville	3,800
Dixon	2,800
300	
Willows	2,300
Redwood Valley (Lucerne, Duncans Mills, Guerneville, Dillon Beach, portion of Santa Rosa)	1,900
-----	-----
	38,700
300	
-----	-----
SALINAS VALLEY	
Salinas	27,300
300	
King City	2,200
--	
-----	-----
	29,500
300	
-----	-----
SAN JOAQUIN VALLEY	
Bakersfield	59,300
29,000	
Stockton	41,900
Visalia	32,200
Selma	5,400
Kern River Valley (Bodfish, Kernville, Lakeland, Mountain Shadows, Onyx, Squirrel Valley, South Lake and Wofford Heights)	4,100
500	
Antelope Valley (Fremont Valley, Lake Hughes, Lancaster and Leona Valley)	1,300
500	
-----	-----
	144,200
30,000	
-----	-----
LOS ANGELES AREA	
East Los Angeles (including portions of the cities of Commerce and Montebello)	26,500
2,700	
Hermosa Redondo (serving Hermosa Beach, Redondo Beach and a portion of Torrance)	25,800
13,400	
Dominguez (Carson and portions of Compton, Harbor City, Long Beach, Los Angeles and Torrance)	33,100
Palos Verdes (including Palos Verdes Estates, Rancho Palos Verdes, Rolling Hills Estates and Rolling Hills)	23,800
Westlake (a portion of Thousand Oaks)	7,000
Hawthorne (leased municipal system)	
6,100	
	-----

-----		116,200
22,200		
-----		-----
CALIFORNIA TOTAL		434,400
57,200		
NEW MEXICO (Albuquerque and Los Alamos)		4,100
23,000		
WASHINGTON (Gig Harbor and near Olympia)		14,400
3,900		
-----		-----
COMPANY TOTAL		452,900
84,100		
=====		=====
</TABLE>		

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#### Water Supply

Cal Water obtains its water supply from wells, surface runoff or diversion, and by purchase from public agencies and other wholesale suppliers. Our supply has been adequate to meet consumption demands, however, during periods of drought some of our 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. Washington Water draws all its water supply by pumping from wells.

New Mexico Water pumps all of its water supply from wells based on water rights owned by the Company. Rainfall occurs in all seasons, but is heaviest in the summer monsoon season.

Our water business is seasonal in nature and weather conditions can have a pronounced effect on customer usage and thus our operating revenues and net income. Customer demand for water generally is lower during the normally cooler and rainy winter months. Demand increases in the spring when warmer weather returns and the rains end, and customers use more water for outdoor purposes, such as landscape irrigation. Warm temperatures during the generally dry summer months result in increased demand. Water usage declines during the fall as temperatures decrease and the rainy season begins.

During years in which precipitation is especially heavy or extends beyond the spring into the early summer, customer demand can decrease from historic normal levels, generally due to reduced outdoor water usage. Likewise, an early start to the rainy season during the fall can cause a decline in customer usage and have a negative impact on revenue. When summer temperatures are cooler than normal, water usage is generally lower and can result in lower revenue and a reduction in our earnings. A warmer than normal summer can result in higher customer usage and an increase in our revenue.

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 develop and certain customers may be required to reduce consumption to preserve 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 period some of our districts had water-rationing requirements imposed on their customers. In certain districts, penalties were collected from the customers who exceeded monthly allotments. During past drought periods, the CPUC has allowed modifications to our customer billings that provided us a means to recover a portion of revenue that was deemed lost due to conservation measures.

As noted above, our Washington Water and New Mexico Water subsidiaries obtain their entire water supply from wells. Historically, about half of Cal Water's water supply is purchased from wholesale suppliers with the balance pumped from wells. During 2002, approximately 52 percent of the Cal Water supply was obtained from wells, 48 percent was purchased

from wholesale suppliers and less than one percent was from surface supplies. Well water is generally less expensive and Cal Water strives to maximize the use of its well sources in districts where there is an option between well or purchased supply sources.

Our four California water treatment plants (Bakersfield, Bear Gulch, Oroville and Redwood Valley) are designed to process 17 million gallons per day. Completion of the 20 million gallon per day Northeast Bakersfield surface water treatment plant during 2003 will increase the quantity of water we can produce from surface supplies. Water for operation of the plant will be drawn from the Kern River under a long-

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term contract with the City of Bakersfield. We will remove from service the small existing Bakersfield treatment plant when the new plant is placed in service.

During 2002, we delivered 132 billion gallons of water to the Company's customers compared to 127 billion gallons in 2001. Our 2002 average daily water production was 352 million gallons, while the maximum single day production was 647 million gallons. By comparison, in 2001 our average daily water production was 348 million gallons and the maximum single day production was 663 million gallons.

The following table shows the quantity of water we purchased in each California operating district during 2002.

<TABLE>  
<CAPTION>

District -----	Supply Purchased -----	Source of Purchased Supply -----
<S>	<C>	<C>
SAN FRANCISCO BAY AREA		
Mid-Peninsula	100%	San Francisco Water Department
South San Francisco	88%	San Francisco Water Department
Bear Gulch	91%	San Francisco Water Department
Los Altos	75%	Santa Clara Valley Water District
Livermore	70%	Alameda County Flood Control and Water Conservation District
SACRAMENTO VALLEY		
Oroville	84%	Pacific Gas and Electric Co.
Redwood Valley	76%	County of Lake
SAN JOAQUIN VALLEY		
Antelope/Kern	8%	Antelope Valley East Kern WD
Bakersfield	14%	Kern County Water Agency
Stockton	58%	Stockton-East Water District
LOS ANGELES AREA		
East Los Angeles	74%	Central Basin Municipal Water District
Dominguez	79%	West Basin and Central Basin Municipal Water Districts
Hawthorne	87%	West Basin Municipal Water District
Hermosa Redondo	91%	West Basin Municipal Water District
Palos Verdes	100%	West Basin Municipal Water District
Westlake	100%	Calleguas Municipal Water District

</TABLE>

The balance of our required supply for the above districts is obtained from wells, except in our Bear Gulch district where the balance is obtained from surface runoff from the local watershed. In our Bakersfield and Oroville districts, the water we purchase is from a surface supply. The surface sources are processed through our water treatment plants before being delivered to the distribution system.

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

Our purchases for the Los Altos, Livermore, Oroville, Stockton and Bakersfield districts are pursuant to long-term contracts expiring on various dates after 2011.

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The water supplies we purchase for the Dominguez, East Los Angeles, Hermosa-Redondo, Palos Verdes and Westlake districts, and the City of Hawthorne system are provided by public agencies pursuant to an



obligation of continued non-preferential service to purveyors within the agencies' boundaries.

Purchases for the South San Francisco, Mid-Peninsula and Bear Gulch districts are in accordance with long-term contracts we have with the San Francisco Water Department (SFWD) expiring on June 30, 2009.

We anticipate that we will be able to renew each of the water supply contracts as they expire. The price of wholesale water purchases is subject to pricing changes imposed by the various wholesale suppliers. Price changes are generally beyond our control. We expect that we will be allowed to recover the wholesale water suppliers' rate increases in customer future rates, although recovery is subject to a decision by the CPUC.

Shown below are wholesaler price rates and increases that became effective for our operating districts in 2002, and estimated wholesaler price rates changes for 2003.

<TABLE>  
<CAPTION>

District	2002			2003		
	Effective Month	Percent Change	Unit Cost	Effective Month	Percent Change	Unit Cost
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Antelope/Kern		0.0%	\$170/af	July	29.4%	\$220/af
Bakersfield		0.0%	137/af	July	13.1%	155/af
Bear Gulch		0.0%	0.88/ccf	July	22.0%	1.03/ccf
Dominguez		0.0%	528/af	Jan.	0.8%	532/af
East Los Angeles		0.0%	478/af	Jan.	0.8%	482/af
Hawthorne		0.0%	528/af	Jan.	0.8%	532/af
Hermosa Redondo		0.0%	528/af	Jan.	0.8%	532/af
Livermore	Jan.	1.7%	1.258/ccf	Jan.	2.5%	1.290/ccf
Los Altos	July	2.4%	420/af	July	8.3%	455/af
Oroville		0.0%	69,200/yr	Jan.	8.4%	75,000/yr
Palos Verdes		0.0%	528/af	Jan.	0.8%	532/af
Mid Peninsula		0.0%	0.88/ccf	July	22.0%	1.03/ccf
Redwood Valley	May	13.2%	41.88/af	May	5.1%	44.00/af
So. San Francisco		0.0%	0.88/ccf	July	22.0%	1.03/ccf
Stockton	April	-18.4%	233,346/mo	April	46.6%	342,146/mo
Westlake	Jan.	1.2%	560/af	Jan.	0.7%	564/af

af = acre foot; ccf = hundred cubic feet;  
yr = fixed annual cost; mo = fixed monthly cost

While the water supply outlook for 2003 is good, California faces long-term water supply challenges. We actively work to meet the water supply challenges by continuing to educate our customers on responsible water use practices, particularly in the districts with conservation programs approved by the CPUC.

Rainfall throughout our service areas for the 2002-2003 season is near normal as of March 14, 2003, as is the mountain snowpack. Water levels in underground aquifers that provide supply to our districts served by well water improved in recent years due to above average rainfall and most regions have recorded positive changes in groundwater levels during that period. Regional groundwater management planning continues as required. Existing laws provide a mechanism for local agencies to maintain control of their groundwater supply. We continually update water supply long range projections and work with local wholesale suppliers to ensure an adequate future supply to meet our customers' needs.

For a number of years, we have 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. To date, the project has produced marginal results.

We continue working with the City and County of San Francisco and the cities of San Bruno and Daly City, to prepare a groundwater management plan for the Westside Basin from which our South San Francisco district pumps a portion of its supply. The plan will address a protest that has been filed concerning the extraction of water by pumping from this local basin. Our pumping levels have remained within a consistent

range.

Additionally, we worked with the City of San Francisco in its development of a long-range water supply master plan for the entire area to which the SFWD is the wholesale water supplier. Our South San Francisco, Mid-Peninsula and Bear Gulch districts are included in SFWD service area. The plan has been completed, but no further action has taken place. Cal Water also signed a two year conjunctive use agreement with the City and County of San Francisco regarding the South San Francisco district well supply. When available, the City and County of San Francisco will provide surplus water to us at a reduced price. In exchange, we will not operate our South San Francisco wells. The agreement is intended to assist in protecting the local underground water basin.

#### Nonregulated Operations

Our 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, water rights brokering, sales of surplus properties and leases of antenna sites.

Nonregulated revenue that we receive from water system operations is generally determined on a fee per customer basis. With the exception of our agreement for operation of the City of Hawthorne water system, revenue and expenses from nonregulated operations are accounted for in other income on a pretax basis. We include revenue and expenses for the City of Hawthorne lease in operating revenue and operating expenses because the Company is entitled to retain all customer billings and is generally responsible for all operating expenses.

We operate municipally owned water systems under contract for the cities of Bakersfield, Commerce and Montebello, and for numerous private water company systems in the Antelope Valley, Bakersfield, Livermore, Kern, Redwood Valley, Salinas and Visalia districts. In Washington, we operate numerous private water systems under contract arrangements. We also operate wastewater collection systems in Bakersfield and Livermore. 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. We signed the first operating agreement in 1977 with the City of Bakersfield .

In the Los Angeles Basin, we operate recycled water distribution systems for the West Basin and Central Basin municipal water districts. Our engineering department also provides services for these two recycled water systems.

Under an agreement with the City of Menlo Park, we provide contract meter reading, billing and customer service for the city's water customers. Meter reading is performed under contract between us and the City of Manhattan Beach in California and in New Mexico for the County of Los Alamos. We also provide sewer and/or refuse billing services to seven municipalities.

Since February 1996, we have operated the City of Hawthorne's 6,100 account water system under terms of a 15-year agreement between the city and us. The system which is located near our Hermosa-Redondo district serves about half of Hawthorne's population. The lease required us to make an up-front \$6.5 million lease payment to the City which we are amortizing over the lease term. Additionally, we make annual lease payments to the City of \$100,000 indexed to changes in water rates. Under the lease agreement, we are responsible for all aspects of system operation and capital improvements, although title to the system and system improvements reside with the City. At the end of the lease, the city is required to

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reimburse us for the unamortized value of capital improvements we made during the term of the lease. In exchange, we receive all revenue from the water system which amounted to \$5.1 million in 2002.

During 1997, we signed an agreement with the Rural North Vacaville Water District near our Dixon district to design and build a water distribution system. Construction of the system has been completed and we began operating the system in February 2003 under a contract with the water district. The new system will initially provide water to about 300 customers.

We lease 55 antenna sites to telecommunication companies which place equipment at various operating properties. Individual lease payments range from \$700 to \$2,600 per month. The antennas are used in cellular phone and personal communication applications. We continue to negotiate new leases for similar uses.

We provide laboratory services to San Jose Water Company and Great Oaks Water Company, and for the systems that we serve under operation and maintenance agreements, and for numerous small water systems.

#### Utility Plant Construction Program

We continually extend, enlarge and replace our facilities as required to meet increasing demands and to maintain the water systems. We obtain construction financing from operations, short-term bank borrowings, advances for construction and contributions in aid of construction that are funded by developers. The amounts received from these sources are shown in our "Statement of Cash Flows" on page 40 of the Company's 2002 Annual Report which is incorporated into this document by reference. Advances for construction are cash deposits from developers for construction of water facilities or water facilities deeded from 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. We cannot control the amount received from developers which fluctuates from year to year as the level of construction activity carried on by developers varies. It is impacted by the demand for housing, commercial development and general business conditions, including interest rates.

The 2003 Company-funded construction budget is \$51.7 million, exclusive of additions and improvements financed through advances for construction and contributions in aid of construction. It includes \$4.5 million for the fifth year of our five-year program to construct a water treatment plant to accommodate growth and meet water quality standards in our Bakersfield district. Construction of the plant is proceeding on-time and on-budget. Over the five-year period, we estimate the plant and related pumping and pipeline facilities will cost \$49.0 million. The 2003 budget categories are: \$6.1 million for land and structures, \$9.6 million for water treatment, \$11.2 million for new and replacement water mains, \$12.1 million for new wells, pumping equipment and storage facilities, \$5.9 million for services and meters, and \$6.8 million for vehicles and equipment. We plan to fund the budget with funds from operations, short-term bank borrowings, and long-term debt and equity financing. New subdivision construction will be financed by developers' non-refundable contributions in aid of construction and refundable advances for construction.

The 2002 construction budget was \$77.7 million, exclusive of additions and improvements financed through advances for construction and contributions in aid of construction. The budget was for the following areas: land and structures, \$4.1 million; wells, pumping and storage facilities, \$10.7 million; water treatment and purification equipment, \$29.6 million; distribution systems \$17.3 million; services and meters, \$6.2 million; other equipment, \$9.8 million. The budget included significant expenditures for water treatment and distribution facilities, especially in connection with the water treatment plant being constructed in our Bakersfield district.

In 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 the deposits we receive from developers. The

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legislation also provided that water utility plant additions be depreciated for federal tax purposes on a straight-line 25-year life basis. In 2000, developer deposits for fire protection services were also exempted from tax. The federal tax exemption of developer payments reduces our cash flow requirements for income tax payments.

#### Sale of Surplus Real Properties

When properties are no longer used and useful for public utility purposes, we are no longer allowed to earn a return on our investment in the property in the regulated business. The surplus property may be transferred out of the regulated subsidiary and can be offered for sale. Income from the sale of surplus properties depends not only on changes in operations, but also on local real estate market conditions. In 2002, we sold four surplus properties for a pretax gain of \$2,980,000. In 2001, we sold two surplus properties for a pretax gain of \$3,864,000.

As discussed in Management's Discussion and Analysis of Results of Operations and Financial Condition, the administrative law judge assigned to Cal Water's 2001 GRC proceedings has drafted a proposed decision suggesting a change in the rate-setting practice regarding the

treatment of gains on the sale for surplus property. If the proposals were adopted by the CPUC, they would have a detrimental impact on the Company's surplus real estate sales program. The draft proposed decision on treatment of gains on sale of properties could result in a reduction of earnings and the rate base on which the CPUC determines the Cal Water's future earnings. However, because this is only a draft that does not recommend specific actions, we cannot predict the final outcome of this matter. Since 1997, we have recorded \$10.4 million in pretax gains under the surplus property sale program.

#### California Energy Situation

The California energy crisis has been well publicized. In response to supply shortages, electric power rates have increased significantly. Our purchased power costs increased \$1.8 million in 2002, \$6.0 million in 2001 and \$0.7 million in 2000. The 2002 cost increase was caused by a 5% increase in well production and higher electric rates paid through May 2002 compared to 2001's electric rates. The 2001 increase was primarily the result of an average 48% increase in the electric rates we paid in California. The purchased power cost increase in 2000 was due mainly to a 3% increase in water production.

There is still uncertainty about the state's ability to avoid future rolling electric blackouts, however, we did not experience any electric blackout during 2002. We will continue our efforts to use power as efficiently as possible and at the lowest cost to our customers. We maintain backup power systems to continue water service to our customers if the power companies' supplies are interrupted. Many of our wellsites are equipped with emergency electric generators. The generators are designed to produce electricity to keep the wells operating during power outages. Storage tanks also provide customers with water during blackout periods.

#### Security at Company Facilities

As a result of the September 11, 2001 terrorist attacks in New York, Washington, D.C. and Pennsylvania, we have heightened security at our facilities and taken added precautions to safeguard our employees and the water we deliver to our customers. While we do not make public comments about the details of our security programs, we have been in contact with federal, state and local law enforcement agencies to coordinate and improve water delivery systems security. We have also assigned a high priority to completing work necessary to comply with new Environmental Protection Agency requirements concerning security of water facilities. This effort encompasses all of our operations.

#### Quality of Water Supplies

We maintain operating practices to produce potable water in accordance with acceptable water utility practices. Water entering the distribution systems from surface sources is treated in compliance with federal and state Safe Drinking Water Act (SDWA) standards. Most well supplies are chlorinated for disinfection. Water samples from each water system are analyzed on a regular, scheduled basis in

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compliance with regulatory requirements. The Company operates a state certified water quality laboratory at its San Jose General Office facility that provides testing for most California operations. Certain tests in California are contracted with independent certified labs qualified under the Environmental Laboratory Accreditation Program. Local independent state certified labs provide water sample testing for the Washington and New Mexico districts.

In recent years, federal and state water quality regulations have continued to increase water testing requirements. Changes in the SDWA, which are expected to bring treatment costs more in line with the actual public health threats posed by contaminants, were enacted by Congress during 1996. The SDWA continues to be amended to reflect new public health concerns. We monitor water quality and upgrade our treatment capabilities to maintain compliance with the various regulations continues. These activities include:

- o monitoring of all vulnerable sources for MTBE, a gasoline additive intended to reduce air pollution that has been widely used in California
- o monitoring all sources for Chromium 6 coming from natural or industrial sources for potential future treatment requirements
- 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 federal and state approved compliance monitoring program required by the Safe Drinking Water Act
- o completion of a source water assessment program for all water supplies
- 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 several well treatment systems that treat for elevated levels of iron and manganese
- 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
- o assessing arsenic removal technologies that will be required at 75 wells in developing a coordinated plan to meet new arsenic water quality standards mandated by EPA at 10 parts per billion

#### Competition and Condemnation

Our operating companies, Cal Water, New Mexico Water and Washington Water are regulated public utilities, providing water service within filed service areas approved by the commissions. New Mexico Water also provides regulated wastewater services. Under California laws, no privately owned public utility may compete within any service territory that we already serve without first obtaining a certificate of public convenience and necessity from the CPUC. Issuance of such a certificate would only be made upon finding that our service is deficient. To our knowledge, no application to provide service to an area we serve has been made.

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 our knowledge, no municipality, water district or other public agency is contemplating or has any action pending to acquire or condemn any of our 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

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traded companies have also been completed by much larger foreign companies. We have participated in the industry consolidation by acquiring Dominguez Services Corporation and by expanding our operations into Washington and New Mexico, by making other small acquisitions and pursuing expansion of our nonregulated operations. In 2002, we also agreed to acquire a water system on the island of Maui in Hawaii. The Hawaii acquisition is expected to close in 2003. We intend to continue pursuit of opportunities to expand our business in the western United States.

#### Environmental Matters

Our operations are subject to environmental regulation by various governmental authorities. Issues related to water quality are discussed under the Management's Discussion and Review section of the 2002 Annual Report to stockholders.

Our environmental affairs program is designed to provide compliance with underground and above ground fuel storage tank regulations, hazardous materials management plans, hazardous waste regulations, air

quality permitting requirements, wastewater discharge limitations, and employee safety issues related to hazardous materials. We are actively involved in the formulation of air quality standards related to water utilities. Also, we are proactive in looking to alternative technologies in meeting environmental regulations and continuing the traditional practices of water quality.

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#### Human Resources

At year-end 2002, we had 802 employees, including 12 employees who were added in New Mexico with the acquisition of Rio Grande Utility Corporation. At the end of 2001, there were 783 employees and at the end of 2000, 797 employees. In California, most non-supervisory employees are represented by the Utility Workers Union of America, AFL-CIO, except certain engineering and laboratory employees are represented by the International Federation of Professional and Technical Engineers, AFL-CIO. In December 2002, the Company successfully negotiated new three-year agreements with both unions covering 2003 through 2005. Wage increases under the new agreements will be 1% in 2003, 1.5% in 2004 and 2% in 2005. Improvements in employee benefit plans were also negotiated. Employees at Washington Water and New Mexico Water do not belong to unions.

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

We make no export sales.

#### Item 2. Properties.

Our 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 our Geographic Service Areas listed above under section Item 1.c. entitled "Narrative Description of the Business." Our 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.

The real properties that we own are held in fee simple title. Properties owned by Cal Water are subject to the indenture securing first mortgage bonds of which \$84.7 million remained outstanding at December 31, 2002. Washington Water has long-term bank loans totaling \$3.5 million that are secured primarily by utility plant. New Mexico Water has outstanding bank loans totaling \$2.4 million which are secured by utility plant.

We own 623 wells and operate ten leased wells. There were 376 storage tanks with a capacity of 246 million gallons and two reservoirs located in the Bear Gulch and Oroville districts with a capacity of 220 million gallons. There are 5,200 miles of supply and distribution mains in the various systems.

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

#### Item 3. Legal Proceedings.

In 1995, the State of California's Department of Toxic Substances Control (DTSC) named the Company as a potential responsible party for cleanup of a toxic contamination plume in the Chico groundwater. 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 city's sewer pipes. The DTSC contends that the Company's responsibility stems from our operation of wells in the surrounding vicinity that caused the contamination plume to spread. While the Company intends to cooperate with the cleanup effort, it 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 has negotiated with DTSC regarding dismissal of the Company from the claim in exchange

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for the Company's cooperation in the cleanup effort. However, no agreement was reached with DTSC regarding dismissal of the Company from the DTSC action. In December 2002, the Company was named along with other defendants in a two lawsuits filed by DTSC for the cleanup of the plume. The suits assert that the defendants are jointly and severally liable for the estimated cleanup costs of \$8.69 million. The Company believes that it has insurance coverage for these claims 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 2001, the Company and several other defendants were served with a lawsuit by the estate and immediate family members of a deceased employee of a pipeline construction contractor. The contractor's employee had worked on various Company projects over a number of years. The plaintiffs allege that the Company and other defendants are responsible for an asbestos-related disease that is claimed to have caused the death of the contractor's employee. The complaint seeks damages in excess of \$50,000, in addition to unspecified punitive damages. The Company denies responsibility in the case and intends to vigorously defend itself. Pursuant to an indemnity provision in our contracts between the contractor and the Company, the contractor has accepted liability for the claim against the Company and is reimbursing the Company for its defense costs.

In July 2002, the Company was served with a lawsuit in state court naming it as one of several defendants for damages alleged to have resulted from waste oil contamination in the Company's drinking water. The suit did not specify a dollar amount. The Company does not believe that the complaint alleges any facts under which it may be held liable. The Company has filed a motion to dismiss the suit on various grounds. The Court has not ruled on the Company's motion. The Company intends to vigorously defend the suit. In 2000, the same plaintiff in this action brought a suit against the Company in federal court with similar allegations concerning drinking water contamination. That suit was dismissed, however, the Court did not bar the plaintiff from filing an amended complaint. The Company's insurance carrier is paying for legal defense costs and the Company believes that its insurance policy will cover all costs related to this matter.

The Company is required to report each water system acquisition to the CPUC. In February 2003, the CPUC's Office of Ratepayer Advocates recommended that the Company be fined up to \$9,600,000 and refund \$470,000 in revenue for failing to report two acquisitions as required by the CPUC's rules. One acquisition was completed on June 25, 1997 prior to adoption of the reporting requirement by the CPUC; the other was inadvertently not reported. The Company purchased the two water systems, which serve 283 customers, for approximately \$140,000. The staff's recommendation does not challenge the level of service provided or amounts charged for water service to the customers; it is based solely on the fact that the Company failed to report the acquisitions to the CPUC. The Company is preparing our response. The Company believes that the Office of Ratepayer Advocates' recommended penalties will be substantially reduced when this matter is considered by the full CPUC.

Periodically we are involved in other proceedings or litigation arising in the ordinary course of business. We do not believe that the ultimate resolution of these matters will materially affect our financial position, results of operations or cash flows.

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

No matters were submitted to a vote of security holders in the fourth quarter of 2002.

Executive Officers of the Registrant

<TABLE>  
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Name	Positions and Offices with California Water Service Group	Age
Robert W. Foy (1)	Chairman of the Board since January 1, 1996. A director since 1977. Formerly President and Chief Executive Officer of Pacific Storage Company, a diversified transportation and warehousing company serving Stockton, Modesto, Sacramento, San Jose, Vallejo, and Merced California, where he had been employed for 32 years.	66
Peter C. Nelson (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.	55
Richard D. Nye (1)	Vice President, Chief Financial Officer and Treasurer since March 2003. Formerly Acting Chief Financial Officer (2001 - 2002) and Vice President of Finance and Administration (1998 - 2002) of Cornerstone Propane Partners, L.P., a propane distribution company, Previously served in various finance management positions with	48

Frito-Lay, Inc., a snack food company (1989 to 1998).

Paul G. Ekstrom (3) 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. 50

Calvin L. Breed (4) 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. 47

</TABLE>

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

(2) holds the same position with California Water Service Company and CWS Utility Services; Chief Executive Officer of New Mexico Water Service Company and Washington Water Service Company

(3) Vice President, Customer Service with California Water Service Company, and Corporate Secretary of California Water Service Company, New Mexico Water Service Company, Washington Water Service Company and CWS Utility Services

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

<TABLE>
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Table with 3 columns: Name, Positions and Offices with California Water Service Company, Age. Row 1: Francis S. Ferraro (1), Vice President, Regulatory Matters and Corporate Development since May 2001; Vice President, Regulatory Matters, August 1989 to May 2001. Employed by the California Public Utilities Commission for 16 years, including 1985 through 1989 as an administrative law judge. 53

</TABLE>

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<TABLE>

Table with 3 columns: Name, Positions and Offices with Washington Water Service Company, Age. Row 1: Robert R. Guzzetta (2), 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. 49. Row 2: 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. 56. Row 3: Dan L. Stockton, Vice President, Information Systems since April 2001; from 1991 to 2001 he served as Chief Operating Officer of Great Oaks Water Company, ( years). 58. Row 4: 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; an employee since 1982; prior to 1982 an employee of the United States Environmental Protection Agency. 57

</TABLE>

(1) Also, Vice President, Corporate Development with CWS Utility Services, and Vice President, Regulatory Matters with New Mexico Water Service Company.

(2) Also, Vice President, Engineering with CWS Utility Services.

<TABLE>
<CAPTION>

Table with 3 columns: Name, Positions and Offices with Washington Water Service Company, Age. Row 1: Michael P. Ireland, President since December 1999; previously President of Harbor Water Company, Gig Harbor, Washington from 1985 to 1999. 49

<CAPTION>

Table with 3 columns: Name, Positions and Offices with New Mexico Water Service Company, Age. Row 1: Robert, J. Davey President since July 2002; also President and Chief Executive Officer of Valley Improvement Association, a nonprofit landowners association, 1985 to Present. He was President and Treasurer of 59



</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.

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PART II

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

The information required by this item is contained in the section captioned "Quarterly Financial Data" on page 55 of the Company's 2002 Annual Report and is incorporated herein by reference.

Item 6. Selected Financial Data.

The information required by this item is contained in the section captioned "Ten-Year Financial Review" on pages 18 and 19 of the Company's 2002 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 20 through 35 of the Company's 2002 Annual Report and is incorporated herein by reference.

Item 7A Quantitative and Qualitative Disclosures About Market Risk

The information required by this item is contained in the section captioned "Financial Risk Management" on pages 33 and 34 of the Company's 2002 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 and Comprehensive Income", "Consolidated Statement of Cash Flows", "Notes to Consolidated Financial Statements" and "Independent Auditors' Report" on pages 36 through 55 of the Company's 2002 Annual Report and is incorporated herein by reference. The 2002 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.

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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 Structure" and is included on page 8 of the 2003 Proxy Statement, and in the section captioned "Proposal No. 1 - Election of Directors" on pages 10 through 12 of the 2003 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 "Director Compensation Arrangements" on page 9 of the 2003 Proxy Statement and is incorporated herein by reference. The information required by this item as to compensation of executive officers, including officers who are directors, is included under the captions "Executive Compensation" and "Report of the Compensation Committee of the Board of Directors on Executive Compensation" on page 15 through 21 of the 2003 Proxy Statement and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this item is contained in the section captioned "Stock Ownership of Management and Certain Beneficial Owners" on pages 13 and 14 of the 2003 Proxy Statement and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions.

None.

Item 14. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Under the supervision of the Company's chief executive officer and chief financial officer, and with the participation of other senior management, the Company conducted an evaluation of the effectiveness of the design and operation of the disclosure controls and procedures as defined by Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934. The evaluation was completed within 90 days of the filing of this report (Evaluation Date). Based on the evaluation, the chief executive officer and chief financial officer concluded that as of the Evaluation Date the disclosure controls and procedures were adequate and effective, and that the material information required to be included in this report, including information from the Company's consolidated subsidiaries, was properly recorded, processed, summarized and reported, and was made known to the chief executive officer and chief financial officer by others within the Company in a timely manner, particularly during the period when this annual report on Form 10-K was being prepared.

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(b) Change in Internal Controls

In addition, there were no significant changes in internal controls or in other factors that could significantly affect these controls subsequent to the Evaluation Date. We have not identified any significant or material weaknesses in our internal controls, and therefore there were no corrective actions taken.

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PART IV

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

(a) As part of this Form 10-K, the following documents are being filed:

1. Financial Statements:

Consolidated Balance Sheet as of December 31, 2002 and 2001.

Consolidated Statement of Income for the years ended December 31, 2002, 2001 and 2000.

Consolidated Statement of Common Stockholders' Equity and Comprehensive Income for the years ended December 31, 2002, 2001 and 2000.

Consolidated Statement of Cash Flows for the years ended December 31, 2002, 2001 and 2000.

Notes to Consolidated Financial Statements, December 31, 2002, 2001 and 2000.

Independent Auditors' Report.

The above financial statements are contained in sections bearing the same captions on pages 36 through 55 of the Company's 2002 Annual Report to stockholders which is filed with this Form 10-K and incorporated by reference. Refer to Exhibit 13.1 of this Form 10-K.

2. Financial Statement Schedules: Independent Auditors' Report.

Schedule II - Valuation and Qualifying Accounts for the years ending December 31, 2002, 2001 and 2000.

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 32 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 and are hereby incorporated by reference.

(b) Reports on Form 8-K.

No reports were filed on Form 8-K during the quarter ended December 31, 2002.

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

Refer to item (a) 3 above and the Exhibit Index on page 32 of this Form 10-K.

(d) Additional Financial Statement Schedules.

No filings are required under this item.

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Independent Auditors' Report

The Board of Directors  
California Water Service Group:

Under date of January 29, 2003, except as to Note 16, which is as of February 28, 2003, we reported on the consolidated balance sheet of California Water Service Group and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of income, common stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2002, as contained in the 2002 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 2002. 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 15(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 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.

/s/ KPMG LLP

Mountain View, California  
January 29, 2003, except as to Note 16, which is as of February 28, 2003

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Schedule II

CALIFORNIA WATER SERVICE GROUP AND SUBSIDIARIES  
Valuation and Qualifying Accounts

<TABLE>  
<CAPTION>

Balance at end	Description of period	Balance at Beginning Of period	Additions	
			Charged to costs and expenses	Charged to other accounts
<S>		<C>	<C>	<C>
<C>				
For the year Ended December 31, 2002				
Reserves deducted from applicable balance sheet assets:				
	Allowance for doubtful accounts	\$224,000	\$480,000	\$ 82,822 (3)
\$440,521 (1)	\$180,657			
	Allowance for obsolete materials and supplies	75,008	48,000	--
32,724 (2)	90,282			
=====	=====	=====	=====	=====

For the year Ended December 31, 2001  
Reserves deducted from applicable balance

	sheet assets:			
\$774,128 (1)	Allowance for doubtful accounts	\$180,658	\$648,000	\$169,471 (3)
	\$224,000			
175,302 (2)	Allowance for obsolete materials and supplies	126,608	48,000	75,701
	75,008			
=====	=====	=====	=====	=====

For the year Ended December 31, 2000

Reserves deducted from applicable balance

	sheet assets:			
\$929,376 (1)	Allowance for doubtful accounts	\$419,847	\$598,608	\$ 91,579 (3)
	\$180,658			
42,628 (2)	Allowance for obsolete materials and supplies	100,297	68,939	--
	126,608			
=====	=====	=====	=====	=====

</TABLE>

Notes:

- (1) Accounts written off during the year.
- (2) Expenditures and other charges made during the year
- (3) Recovery of amounts previously charged to reserve

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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 24, 2003

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: February 26, 2003

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

Date: February 26, 2003

/s/ Douglas M. Brown  
DOUGLAS M. BROWN  
Member, Board of Directors

Date: February 26, 2003

/s/ Edward D. Harris, Jr.  
EDWARD D. HARRIS, JR., M.D.  
Member, Board of Directors

Date: February 26, 2003

/s/ Richard P. Magnuson  
RICHARD P. MAGNUSON  
Member, Board of Directors

Date: February 26, 2003

/s/ Linda R. Meier  
LINDA R. MEIER  
Member, Board of Directors

Date: February 26, 2003

/s/ Peter C. Nelson  
PETER C. NELSON  
President and Chief Executive  
Officer, Principal Executive Officer  
Member, Board of Directors

Date: February 26, 2003

/s/ Langdon W. Owen  
LANGDON W. OWEN  
Member, Board of Directors

Date: February 26, 2003

/s/ George A. Vera  
GEORGE A. VERA  
Member, Board of Directors

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Date: March 24, 2003

/s/ Richard D. Nye  
RICHARD D. NYE  
Vice President, Chief Financial

Officer and Treasurer;  
Principal Financial Officer

Date: March 24, 2003

/s/ Calvin L. Breed  
CALVIN L. BREED  
Controller, Assistant Secretary and  
Assistant Treasurer;  
Principal Accounting Officer

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CERTIFICATIONS

I, Peter Nelson, President and Chief Executive Officer of California Water Service Group, certify that:

1. I have reviewed this annual report on Form 10-K of California Water Service Group;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statement were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a. Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - c. Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 24, 2003

By: /s/ Peter C. Nelson  
PETER C. NELSON  
President and Chief Executive Officer  
California Water Service Group

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CERTIFICATIONS

I, Richard D. Nye, Chief Financial Officer of California Water Service Group, certify that:

1. I have reviewed this annual report on Form 10-K of California Water Service Group;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statement were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 24, 2003

By: /s/ Richard D. Nye  
 RICHARD D. NYE  
 Chief Financial Officer  
 California Water Service Group

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(all page references will be updated at filing)

EXHIBIT INDEX

Exhibit Number - -----	Sequential Page Numbers in this Report -----
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Unless filed with this Form 10-K, the documents listed are incorporated by reference.

2.	Plan of Acquisition, Reorganization, Liquidation or Succession:	
2.1	Agreement of Merger by and between California Water Service Group and California Water Service Company creating a holding company corporate structure	32

2.2	Agreement and Plan of Reorganization among California Water Service Group, California Water Service Company and Dominguez Services Corporation dated November 13, 1998, and Amendment No. 1 to the Agreement and Plan of Reorganization (Appendix A and Appendix B, respectively, to Amendment No. 1 to Form S-4 filed April 2, 1999)	32
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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)	32
4.	Instruments Defining the Rights of Security Holders of California Water Service Company, including Indentures:	
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4.2	Shareholder Rights Plan; an agreement between California Water 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)	32
4.3	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)	32
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4.5	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)	33
4.6	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)	33
4.7	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)	33
4.8	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)	33
4.9	Note Agreement dated August 15, 1995, pertaining to issuance of \$20,000,000, 7.28% Series A Unsecured Senior Notes, due	33

November 1, 2025 (Exhibit 4 to Form 10-Q dated September 30, 1995)

4.10	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)	33
4.11	First Supplement dated October 1, 2000 to Note Agreement of March 1, 1999 pertaining to issuance of \$20,000,000, 8.15% Series C Unsecured Senior Notes, due November 1, 2030 (Exhibit 4.10 to Form 10-K dated December 31, 2000)	33
4.12	Second Supplement dated September 1, 2001 to Note Agreement of March 1, 1999 pertaining to issuance of \$20,000,000, 7.13% Series D Unsecured Senior Notes, due November 1, 2031 (Exhibit 4.1 to Form 10-Q dated September 30, 2001)	33
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4.14	Fourth Supplement dated August 15, 2002 to Note Agreement of March 1, 1999, Note Agreement dated August 15, 2002, pertaining to issuance of \$20,000,000, 5.90% Series F Unsecured Senior Notes, due November 1, 2017 (Exhibit 4.14 to Form 10-K dated December 31, 2002)	38
4.15	Fifth Supplement dated November 1, 2002 to Note Agreement of March 1, 1999, pertaining to issuance of \$20,000,000, 5.29% Series G Unsecured Senior Notes, due November 1, 2022 (Exhibit 4.15 to Form 10-K dated December 31, 2002)	68
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4.20	Eleventh Supplemental Trust Indenture dated as of December 8, 1992 covering First Mortgage 8.86% Bonds, Series J (Exhibit 10.2 to Form 10-K as of December 31, 1997 and filed by Dominguez Services Corporation on March 31, 1998)	34
4.21	Twelfth Supplemental Indenture dated as of December 1, 1997, covering First Mortgage	34



10. Material Contracts.

10.1	Water Supply Contract between Cal Water and County of Butte relating to Cal Water's Oroville District; Water Supply Contract between Cal Water and the Kern County Water Agency relating to Cal Water's Bakersfield District; Water Supply Contract between Cal Water and Stockton East Water District relating to Cal Water's Stockton District. (Exhibits 5(g), 5(h), 5(i), 5(j), Registration Statement No. 2-53678, which exhibits are incorporated by reference to Form 10-K for fiscal year 1974).	34
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10.2	Settlement Agreement and Master Water Sales Contract between the City and County of San Francisco and Certain Suburban Purchasers dated August 8, 1984; Supplement to Settlement Agreement and Master Water Sales Contract, dated August 8, 1984; Water Supply Contract between 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 Cal Water and the City and County of San Francisco relating to Cal Water's San Mateo District dated August 8, 1984; Water Supply Contract between Cal Water and the City and County of San Francisco relating to Cal Water's South San Francisco District dated August 8, 1984. (Exhibit 10.2 to Form 10-K for fiscal year 1984).	35
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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 Cal Water's Oroville District. (Exhibit 10.5 to Form 10-K for fiscal year 1992)	35
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)	35
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).	35
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)	35
10.8	California Water Service Company Pension Plan (Exhibit 10.10 to Form 10-K for	35

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10.9	California Water Service Company Employees Savings Plan. (Exhibit 10.12 to Form 10-K for fiscal year 1992)	35
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10.11	Water Supply Agreement dated September 25, 1996 between the City of Bakersfield and California Water Service Company. (Exhibit 10.18 to Form 10-Q dated September 30, 1996)	36
10.12	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 1994)	36
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)	36
10.14	Dividend Reinvestment and Stock Purchase Plan dated February 17, 1998 (Filed on Form S-3 dated February 17, 1998)	36
10.15	California Water Service Group Directors Retirement Plan (Exhibit 10.18 to Form 10-K for fiscal year 1997) *	36
10.16	\$60,000,000 Business Loan Agreements between Bank of America as lead arranger/bank and California Water Service Group, and CWS Utility Services and California Water Service Company, and JCC Homes dated August 1, 2001; terminated February 28, 2003 (Exhibit 10.1 to Form 10-Q dated September 30, 2001)	36
10.17	\$10,000,000 Business Loan Agreement between Bank of America and California Water Service Group and CWS Utility Services dated February 28, 2003 (Exhibit 10.17 to Form 10-K dated December 31, 2002)	189
10.18	\$55,000,000 Business Loan Agreement between Bank of America and California Water Service Company dated February 28, 2003 (Exhibit 10.18 to Form 10-K dated December 31, 2002)	206
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10.20	California Water Service Group Long-Term Incentive Plan (filed as Appendix A of the 2000 California Water Service Group Proxy)*	36
10.21	California Water Service Group Deferred Compensation Plan effective January 1, 2001; this plan replaces the former Directors Deferred Compensation Plan (Exhibit 10.22 to Form 10-K for 2000) *	36
10.22	California Water Service Company Supplemental Executive Retirement Plan (SERP) effective January 1, 2001; this plan replaces a prior plan, see Exhibit 10.9 (Exhibit 10.23 to Form 10-K for 2000)*	36

10.23	Amendment to the California Water Service Company Supplemental Executive Retirement Plan (SERP) effective January 1, 2003 granting 60% retirement benefit after 15 years of service (Exhibit 10.23 to Form 10-K for dated December 31, 2002)*	222
13.	Annual Report to Security Holders, Form 10-Q or Quarterly Report to Security Holders:	
13.1	2002 Annual Report. Certain sections of the 2002 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; Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk; and Part II, Item 8, Financial Statement and Supplementary Data.	223
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California Water Service Company  
Fourth Supplement to Note Agreement

Dated as of August 15, 2002

Re: \$20,000,000 5.90% Series F Senior Notes  
Due November 1, 2017

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Fourth Supplement to Note Agreement

Dated as of  
August 15, 2002

To the Purchasers named in  
Schedule A hereto

Ladies and Gentlemen:

This Fourth Supplement to Note Purchase Agreement (the "Fourth Supplement") is between California Water Service Company (the "Company") whose address is 1720 North First Street, San Jose, California 95112 and the institutional investors named on Schedule A attached hereto (the "Purchasers").

Reference is hereby made to that certain Note Agreement dated as of March 1, 1999 (the "Note Agreement") between the Company and the purchasers listed on Schedule I thereto. All capitalized terms not otherwise defined herein shall have the same meaning as specified in the Note Agreement. Reference is further made to Section 4.3 thereof which requires that, prior to the delivery of any Additional Notes, the Company and each Additional Purchaser shall execute and deliver a Supplement.

The Company hereby agrees with the Purchasers named on Schedule A hereto as follows:

1. The Company has authorized the issue and sale of \$20,000,000 aggregate principal amount of its 5.90% Series F Senior Notes due November 1, 2017 (the "Series F Notes"). The Series F Notes, together with the Series B Notes initially issued pursuant to the Note Agreement, the Series C Notes issued pursuant to the First Supplement to Note Agreement dated as of October 1, 2000, the Series D Notes issued pursuant to the Second Supplement to Note Agreement dated as of September 1, 2001, the Series E Notes issued pursuant to the Third Supplement to Note Agreement dated as of May 1, 2002 and each Series of Additional Notes which may from time to time be issued pursuant to the provisions of Section 1.4 of the Note Agreement, are collectively referred to as the "Notes" (such term shall also include any such notes issued in substitution therefor pursuant to Section 9.2 of the Note Agreement). The Series F Notes shall be substantially in the form set out in Exhibit 1 hereto with such changes therefrom, if any, as may be approved by the Purchasers and the Company.

2. Subject to the terms and conditions hereof and as set forth in the Note Agreement and on the basis of the representations and warranties hereinafter set forth, the Company agrees to issue and sell to each Purchaser, and each Purchaser agrees to purchase from the Company, Series F Notes in the principal amount set forth opposite such Purchaser's name on Schedule A hereto at a price of 100% of the principal amount thereof on the closing date hereafter mentioned.

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3. Delivery of the \$20,000,000 in aggregate principal amount of the Series F 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, ABA No. 121000358, Account No. 14879-00161, Account Name: California Water Service Company Security Sales, in the amount of the purchase price at 11:00 A.M., San Francisco, California time, on August 27, 2002 or such later date (not later than August 31, 2002) as shall mutually be agreed upon by the Company and the Purchasers of the Series F Notes (the "Closing Date").

4. Prepayment of Notes.

(a) Required Prepayments. No prepayments are required to be made with respect to the Series F Notes prior to the expressed maturity date thereof other than prepayments made in connection with an acceleration of the Series F Notes pursuant to the provisions of Section 6.3 of the Note Agreement.

(b) Optional Prepayment with Premium. Upon compliance with Section 4(d) below 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 Section 4(b).

(c) 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 Section 4(d) below 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 Section 4(c) shall be without premium.

(d) Notice of Optional Prepayments. The Company will give notice of any prepayment of the Notes pursuant to Section 4(b) or 4(c) 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 Fourth Supplement 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 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

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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.

(e) Application of Prepayments. In the case of each partial prepayment of the Notes pursuant to the provisions of Section 4(b) or 4(c), 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.

(f) Direct Payment. Notwithstanding anything to the contrary contained in the Note Agreement, this Fourth 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 Section 4(f) 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.

(g) Make Whole Amount. The term "Make-Whole Amount" shall mean with respect to the Series F 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 F Notes being prepaid. If the Reinvestment Rate is equal to or higher than 5.90%, the Make-Whole Amount shall be zero. For purposes of any determination of the Make-Whole Amount for the Series F Notes, the following terms have the following meanings:

"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

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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 F 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 F 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 F Notes being prepaid.

#### 5. Closing Conditions.

(a) Conditions. The obligation of each Purchaser to purchase the Series F 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 F 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 F 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 2 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.

(ii) Compliance Certificate. Such Purchaser shall have received a certificate dated the Closing Date, signed by the Senior Financial Officer of the Company stating that such officer has reviewed the provisions of the Note Agreement and this Fourth Supplement and setting forth the information and computation (in sufficient detail) required in order to establish whether the Company is in compliance with Section 5.6 of the Note Agreement on the Closing Date.

(iii) Legal Opinions. Such Purchaser shall have received from Bingham McCutchen LLP, counsel for the Company, and Chapman and Cutler, special counsel for the Purchasers, their opinions dated the Closing Date, in form and substance satisfactory to such Purchasers, and covering the matters set forth respectively in Exhibits 3 and 4 hereto.

(iv) Regulatory Approval. Prior to the Closing Date, the issue and sale of the Series F 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

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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 F 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.

(v) Related Transactions. The Company shall have consummated the sale of the entire principal amount of the Series F Notes scheduled to be sold on the Closing Date pursuant to this Fourth Supplement.

(vi) Satisfactory Proceedings. All proceedings taken in

connection with the transactions contemplated by this Fourth Supplement, 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.

(vii) Purchase Permitted By Applicable Law. On the Closing Date, the purchase of Series F 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.

(viii) 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 (iii) above, to the extent reflected in a statement of such counsel rendered to the Company at least one Business Day prior to the Closing Date.

(ix) Private Placement Number. A Private Placement Number issued by Standard & Poor's CUSIP Service Bureau (in cooperation with the Securities Valuation Office of the National Association of Insurance Commissioners) shall have been obtained for the Series F Notes.

(b) The obligation of the Company to deliver the Series F Notes hereunder is subject to the conditions that (i) the Commission shall have authorized the issuance and sale by the Company of the Series F 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 F Notes scheduled to be sold on the Closing Date pursuant to this Fourth Supplement shall have been tendered by the Purchasers. If the condition specified in this Section 5(b) shall not have been fulfilled prior to or on the

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Closing Date, this Fourth Supplement and all the obligations of the Company hereunder, except as provided in Section 9.4 of the Note Agreement, may be cancelled by the Company.

(c) If on the Closing Date the Company fails to tender to any Purchaser the Series F Notes to be issued to any Purchaser on such date or if the conditions specified in Section 5(a) have not been fulfilled, such Purchaser may thereupon elect to be relieved of all further obligations under this Fourth Supplement. Without limiting the foregoing, if the conditions specified in Section 5(a) 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 Section 5(c) shall operate to relieve the Company of any of its obligations hereunder or to waive any Purchaser's rights against the Company.

6. Each Purchaser represents and warrants that the representations and warranties set forth in Section 3.2 of the Note Agreement are true and correct on the date hereof with respect to the Series F Notes purchased by such Purchasers.

7. The Company and each Purchaser agree to be bound by and comply with the terms and provisions of the Note Agreement as if such Purchaser were an original signatory to the Note Agreement.

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The execution hereof shall constitute a contract between the Company and the Purchaser(s) for the uses and purposes hereinabove set forth, and 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 /s/ Gerald F. Feeney  
Title: Vice President, Chief Financial Officer and Treasurer

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Sun Life Assurance Company of Canada

By:

Name:

Title:

By:

Name:

Title:

Sun Life Assurance Company of Canada (U.S.)

By:

Name:

Title:

By:

Name:

Title:

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Sun Life Financial (Hong Kong) Limited

By:

Name:

Title:

By:

Name:

Title:

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Information Relating to Purchasers

Name and Address of Purchaser	Principal Amount of Series F Notes to Be Purchased
Sun Life Assurance Company of Canada	\$10,000,000
One Sun Life Park	\$1,000,000
Wellesley Hills, Massachusetts 02481	
Attention: Investment Division/Private Placements, SC #1303	
Telecopier Number: (781) 446-2392	

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, 5.90% Senior Series F Notes due 2017, PPN 130789 M@ 6, principal, premium or interest") to:

Notices

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

Sun Life Assurance Company of Canada  
One Sun Life Park  
Wellesley Hills, Massachusetts 02481  
Attention: Manager, Securities Operations, SC #1395



All other notices and communications, including notices of non-routine payments, to be addressed as first provided above.

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

Taxpayer I.D. Number: 38-1082080

SCHEDULE A  
(to Supplement)

Name and Address of Purchaser	Principal Amount of Series F Notes to be Purchased
Sun Life Assurance Company of Canada	\$5,000,000
One Sun Life Park	\$2,000,000
Wellesley Hills, Massachusetts 02481	
Attention: Investment Division/Private Placements, SC #1303	
Telecopier Number: (781) 446-2392	

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, 5.90% Senior Series F Notes due 2017, PPN 130789 M@ 6, principal, premium or interest") to:

Bank of New York  
P&I Department  
ABA No.: 021-000-018  
Account No.: IOC 566  
Re: California Water Service Company  
For Further Credit: IOC 566  
Account No.: 275431

Notices

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

Sun Life Assurance Company of Canada  
One Sun Life Park  
Wellesley Hills, Massachusetts 02481  
Attention: Manager, Securities Operations, SC #1395

All other notices and communications, including notices of non-routine payments, to be addressed as first provided above.

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

Taxpayer I.D. Number: 38-1082080

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Name and Address of Purchaser	Principal Amount of Series F Notes to Be Purchased~~
Sun Life Assurance Company of Canada (U.S.)	\$1,000,000
One Sun Life Park	
Wellesley Hills, Massachusetts 02481	
Attention: Investment Division/Private Placements, SC #1303	
Telecopier Number: (617) 446-2392	

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, 5.90% Senior Series F Notes due 2017, PPN 130789 M@ 6, principal, premium or interest") to:

Chase Manhattan Bank  
Private Placement Processing  
ABA No.: 021-000-021  
Account No.: 900-9-000200  
Re: California Water Service Company  
Chase Account No.: G07265

Notices

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

Sun Life Assurance Company of Canada (U.S.)  
One Sun Life Park  
Wellesley Hills, Massachusetts 02481  
Attention: Manager, Securities Operations, SC #1395

All other notices and communications, including notices of non-routine payments, to be addressed as first provided above.

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

Taxpayer I.D. Number: 04-2461439

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Name and Address of Purchaser	Principal Amount of Series F Notes to Be Purchased
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Sun Life Financial (Hong Kong) Limited One Sun Life Park Wellesley Hills, Massachusetts 02481 Attention: Investment Division/Private Placements, SC #1303 Telecopier Number: (781) 446-2392	\$1,000,000
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#### 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, 5.90% Senior Series F Notes due 2017, PPN 130789 M@ 6, principal, premium or interest") to:

Citibank, N.A.  
Attention: Gay Quitch  
ABA No.: 021-000-089  
Account No.: 36112805  
Re: California Water Service Company  
For Further Credit: 849141

#### Notices

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

Sun Life Financial (Hong Kong) Limited  
c/o Sun Life Assurance Company of Canada  
One Sun Life Park  
Wellesley Hills, Massachusetts 02481  
Attention: Manager, Securities Operations, SC #1395

All other notices and communications, including notices of non-routine payments, to be addressed as first provided above.

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

Taxpayer I.D. Number: 98-0347199

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[Form of Series F Note]

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

5.90% Series F Senior Note

Due November 1, 2017

PPN: 130789 M@ 6

No. August 27, 2002

\$

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, 2017,  
the principal amount of

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 5.90% 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 7.90% 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

EXHIBIT 1

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") issued pursuant to a supplement to the Note Agreement dated as of March 1, 1999 (as from time to time amended and supplemented, the "Note Agreement"), between the Company, the Purchasers named therein and Additional Purchasers of Notes from time to 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. Each holder of this Note will be deemed, by its acceptance hereof, to have made the representation set forth 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: \_\_\_\_\_

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 F Notes. The issuance and sale of the Series F Notes and the execution and delivery of the Fourth Supplement 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 June 30, 2002.

5. Financial Statements and Reports. The Company has furnished each Purchaser with a copy of its audited financial reports for 1999, 2000 and 2001 hereinafter called the "Company Reports," and a copy of Form 10-K filed by California Water Service Group ("CWSG") hereinafter called the "CWSG 10-K" with the Securities and Exchange Commission for 2001, 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 the CWSG 10-K. The Company has also furnished each Purchaser with an unaudited quarterly financial statement for the Company for the fiscal quarter ended June 30, 2002, and Forms 10 Q for CWSG for the fiscal quarter ended June 30, 2002 (the "Quarterly Reports"). The financial statements contained in the foregoing Company Reports, the CWSG 10-K, the Quarterly Reports 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

#### EXHIBIT 2

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 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, 2001, 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 Company Reports and CWSG 10-K 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 Company Information, 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, 2001, 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 2001 Company Report and paragraph 9 hereof. 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) some of the offices, but not 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 \$1,000,000) 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

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title thereto is fee simple. Except for parcels of land having an aggregate book value of not more than \$1,000,000, the Company has good and merchantable title to all its other property and assets subject only to the lien of the Mortgage Indenture and the lien of the Dominguez 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 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. As used herein, the term "Dominguez Mortgage Indenture" means the Trust Indenture dated as of August 1, 1954, as supplemented from time to time, between the Company, as successor to Dominguez Water Company ("Dominguez") and U.S. Bank, as Trustee, which provides a lien on properties owned by Dominguez immediately prior to the merger described in paragraph 9 hereof which lien secures \$9,000,000 in aggregate principal amount of Dominguez bonds which were assumed by the Company upon the merger.

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

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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 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.

On May 25, 2000, Dominguez Service Corporation was merged into the Company and subsequently Dominguez and its subsidiaries were also merged into the Company (collectively, the "merger"). The Company acquired in the Dominguez merger operations in the following cities, counties, townships or localities that Dominguez previously served:

Bodfish	Kern County	Los Angeles County
Carson	Kernville	Lucerne
Compton	Lake Hughes	Mountain Shadows
Duncans Mills	Lakeland	Onyx
Fremont Valley	Lancaster	Squirrel Valley
Guerneville	Leona Valley	Torrance
Harbor City	Long Beach	Wofford Heights

Water distribution systems were constructed and service furnished to the inhabitants of the localities currently known as Carson, Compton, Harbor City, Long Beach and Torrance by various predecessors of the Company prior to 1911 and the Company believes that it has a prior right to operate in these locations which right was not extinguished by the incorporation of these cities subsequent to 1911. Except as noted below, Dominguez has no franchises from these cities and has made no franchise payments to them and, to the Company's knowledge, no question has ever been raised as to the right to make water distribution and to maintain all pipes and mains necessary therefor.

As to the remaining localities, Dominguez has received written franchise agreements which are in full force and effect and has paid all franchise fees to date, with the exception of Compton

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and the City of Carson Redevelopment Project #2, as to which the franchises expired without renewal in, respectively, 1994 and 1998. Dominguez continued to provide water services to Compton and the City of Carson Redevelopment Project #2 subsequent to the expiration of the respective franchises, and to pay franchise fees, 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 Fourth Supplement or the Series F 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 F 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 F Notes or the execution, delivery or performance of the Fourth Supplement, 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 F 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 Fourth Supplement, the consummation of the transactions therein provided for and compliance with the provisions of the Fourth Supplement and the Series F 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.

17. Use of Proceeds. The Company will use the gross proceeds derived from the sale of the Series F Notes under the Fourth Supplement to refinance existing Indebtedness and to finance a portion of the Company's general construction program. None of the transactions contemplated in the Fourth Supplement (including, without limitation thereof, the use of the

proceeds from the sale of the Series F 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 F 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, 2001, the last annual valuation date, the actuarial present value of all benefits vested under the Plans by more than \$10,898,000.

(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 Fourth Supplement and compliance by the Company with the provisions thereof and the Series F 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 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.

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20. Compliance with Laws. To the best of the Company's knowledge, after due inquiry, 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. Except as disclosed in the "Environmental Matters" section of Item 1 of the CWSG 10-K, the "Environmental Matters" section of CWSG's 2001 Annual Report and the "Legal Proceedings" section of Item 3 of the CWSG 10-K with respect to matters in Chico and Marysville, California, 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 Fourth Supplement do not, nor does the Fourth Supplement, the Company Information or any written statement (including without limitation the 2001 Company Report and the 2001 CWSG Report) furnished by the Company to you in connection with the negotiation of the sale of the Series F 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 Note Agreement, the Fourth Supplement or the Series F Notes.

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

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Current Debt, Funded Debt and Capitalized Leases  
as of June 30, 2002

1. Current Debt

\$24,000,000 borrowed under the Company's bank short-term line of credit with Bank of America.



2. Funded Debt

\$111,865,000 outstanding under the Company's various series of First Mortgage Bonds with due dates ranging from 2002 to 2023.

\$4,000,000 First Mortgage Bonds, Series J due 2023 (formerly Dominguez Water Company).

\$5,000,000 First Mortgage Bonds, Series K due 2012 (formerly Dominguez Water Company).

\$20,000,000 Series A Senior Notes due November 1, 2025.

\$20,000,000 Series B Senior Notes due November 1, 2028.

\$20,000,000 Series C Senior Notes due November 1, 2030.

\$20,000,000 Series D Senior Notes due November 1, 2031.

\$20,000,000 Series E Senior Notes due May 1, 2032.

\$2,818,000 California Department of Water Resources Loans maturing 2011 to 2032.

\$459,000 obligations due on water system acquisitions.

3. Capitalized Leases

None.

ANNEX A  
(to Exhibit 2)

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. 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, ARCO Products Company and West Basin Municipal Water District relating to recycled water.

ANNEX B  
(to Exhibit 2)

Description of Closing Opinion  
of Counsel to the Company

The closing opinion of Bingham McCutchen LLP, counsel for the Company, which is called for by Section 5(a)(iii) of the Fourth Supplement, 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 corporate good standing under the laws of California.

2. The execution and delivery by the Company of the Note Agreement, the Fourth Supplement and the Notes, and the performance by the Company of its obligations under the Note Agreement, the Fourth Supplement and the Notes, are within the Company's corporate powers and have been duly authorized by all requisite corporate action on the part of the Company. The Company has duly executed and delivered the Note Agreement, the Fourth Supplement and the Notes.

3. Each of the Note Agreement, the Fourth Supplement and the Notes constitutes a valid and binding agreement of the Company, enforceable against the Company in accordance with its terms.

4. The execution and delivery by the Company of the Note Documents, and compliance by the Company with the provisions thereof (i) will not, to the best of our knowledge, result in a breach or default (or give rise to any right of termination, cancellation or acceleration) under the Articles of Incorporation or By-Laws of the Company, or the Mortgage Indenture, the Credit Agreement dated as of July 31, 2001, between the Company and Bank of America as Administrative Agent, or any agreement or other instrument that is listed as a material contract in CWSG's Annual Report on Form 10-K for the year ended December 31, 2001. To the best of our knowledge, no consent or approval by, or any notification of or filing with, any court, public body or authority of the State of California is required to be obtained or effected by the Company in connection with the execution, delivery and performance by the Company of the Note Documents or the issuance or sale of the Notes, except for the authorization of the Commission, which authorization has been duly obtained and is in full force and effect.

5. Based upon the representations set forth in Section 6 of the Fourth Supplement, the accuracy of which we have not independently verified or investigated, the issuance, sale and delivery of the Notes under the circumstances contemplated by the Fourth Supplement do not, under existing law, require the registration of the Notes under the Securities Act of 1933, as amended, or the qualification of the Fourth Supplement or an indenture under the Trust Indenture Act of 1939, as amended.

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

EXHIBIT 3  
(to Supplement)

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

(b) that water distribution systems were constructed and service furnished to the inhabitants of each by various predecessors of the Company prior to 1911; and

(c) that there were no public water works owned or controlled by the municipality in any of them prior to 1911;

in our opinion,

(i) 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 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;

(ii) 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

(iii) the right probably also extends to territory annexed into each respective city after such repeal, although this latter question is not entirely free from doubt in the absence of a final decision of the courts thereon.

7. Dominguez Services Corporation (along with its subsidiaries,

"Dominguez") was merged into the Company effective May 25, 2000 and Dominguez Water Company was also merged into the Company effective October 12, 2000. In the Dominguez mergers, the Company acquired the operations of Dominguez, which to our knowledge included service to the following cities, counties, townships or localities:

Bodfish	Kernville	Mountain Shadows
Carson Lake	Hughes	Onyx
Compton	Lakeland	Torrance
Duncans Mills	Lancaster	Squirrel Valley
Fremont Valley	Leona Valley	Wofford Heights
Guerneville	Long Beach	Los Angeles County
Harbor City	Lucerne	Kern County

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8. We note that the Officers' Certificates state that: (a) to the Company's knowledge, water distribution systems were constructed and service furnished to the inhabitants of the localities currently known as Carson, Compton, Harbor City, Long Beach and Torrance by various predecessors of the Company prior to 1911; (b) the Company believes that it has a prior right to operate in these locations which right was not extinguished by the incorporation of these cities subsequent to 1911; (c) except as noted below, to the Company's knowledge Dominguez has no franchises from these cities and has made no franchise payments to them; and (d) to the Company's knowledge, no question has ever been raised as to the right to make water distribution and to maintain all pipes and mains necessary therefor.

9. We note that the Officers' Certificates state that: (a) as to the remaining localities listed in paragraph 7, to the Company's knowledge, Dominguez has received written franchise agreements which are in full force and effect and has paid all franchise fees to date, with the exception of Compton and the City of Carson Redevelopment Project #2, as to which the franchises expired without renewal in, respectively, 1994 and 1998; (b) to the Company's knowledge, Dominguez continued to provide water services to Compton and the City of Carson Redevelopment Project #2 subsequent to the expiration of the respective franchises, and to pay franchise fees; and (c) 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.

The opinion of Bingham McCutchen LLP shall cover such other matters relating to the sale of the Series F 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.

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#### Description of Special Counsel's Closing Opinion

The closing opinion of Chapman and Cutler, special counsel to the Purchasers, called for by Section 5(a)(iii) of the Fourth Supplement, 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 Fourth Supplement and to issue the Series F Notes.

2. The Note Agreement and the Fourth Supplement 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 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 F 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 F Notes under the circumstances contemplated by the Fourth Supplement do not, under existing law, require the registration of the Series F 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 Bingham McCutchen LLP as to matters of California law. The opinion of Chapman and Cutler shall also state that the opinion of Bingham McCutchen 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 representations of the Company and the Purchasers delivered in connection with the issuance and sale of the Series F Notes.

EXHIBIT 4  
(to Supplement)

California Water Service Company  
Fifth Supplement to Note Agreement

Dated as of November 1, 2002

Re: \$20,000,000 5.29% Series G Senior Notes  
Due November 1, 2022

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Fifth Supplement to Note Agreement

Dated as of  
November 1, 2002

To the Purchasers named in  
Schedule A hereto

Ladies and Gentlemen:

This Fifth Supplement to Note Purchase Agreement (the "Fifth Supplement") is between California Water Service Company (the "Company") whose address is 1720 North First Street, San Jose, California 95112 and the institutional investors named on Schedule A attached hereto (the "Purchasers").

Reference is hereby made to that certain Note Agreement dated as of March 1, 1999 (the "Note Agreement") between the Company and the purchasers listed on Schedule I thereto. All capitalized terms not otherwise defined herein shall have the same meaning as specified in the Note Agreement. Reference is further made to Section 4.3 thereof which requires that, prior to the delivery of any Additional Notes, the Company and each Additional Purchaser shall execute and deliver a Supplement.

The Company hereby agrees with the Purchasers named on Schedule A hereto as follows:

1. The Company has authorized the issue and sale of \$20,000,000 aggregate principal amount of its 5.29% Series G Senior Notes due November 1, 2022 (the "Series G Notes"). The Series G Notes, together with the Series B Notes initially issued pursuant to the Note Agreement, the Series C Notes issued pursuant to the First Supplement to Note Agreement dated as of October 1, 2000, the Series D Notes issued pursuant to the Second Supplement to Note Agreement dated as of September 1, 2001, the Series E Notes issued pursuant to the Third Supplement to Note Agreement dated as of May 1, 2002, the Series F Notes issued pursuant to the Fourth Supplement to Note Agreement dated as of August 15, 2002 and each Series of Additional Notes which may from time to time be issued pursuant to the provisions of Section 1.4 of the Note Agreement, are collectively referred to as the "Notes" (such term shall also include any such notes issued in substitution therefor pursuant to Section 9.2 of the Note Agreement). The Series G Notes shall be substantially in the form set out in Exhibit 1 hereto with such changes therefrom, if any, as may be approved by the Purchasers and the Company.

2. Subject to the terms and conditions hereof and as set forth in the Note Agreement and on the basis of the representations and warranties hereinafter set forth, the Company agrees to issue and sell to each Purchaser, and each Purchaser agrees to purchase from the Company, Series G Notes in the principal amount set forth opposite such Purchaser's name on Schedule A

hereto at a price of 100% of the principal amount thereof on the closing date hereafter mentioned.

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3. Delivery of the \$20,000,000 in aggregate principal amount of the Series G 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, ABA No. 121000358, Account No. 14879-00161, Account Name: California Water Service Company Security Sales, in the amount of the purchase price at 11:00 A.M., San Francisco, California time, on November 19, 2002 or such later date (not later than November 22, 2002) as shall mutually be agreed upon by the Company and the Purchasers of the Series G Notes (the "Closing Date").

4. Prepayment of Notes.

(a) Required Prepayments. On November 1, 2012 and on November 1 of each year thereafter to and including November 1, 2021, the Company will prepay \$1,818,181.82 principal amount (or such lesser principal amount as shall then be outstanding) of the Notes at par and without payment of the Make-Whole Amount or any premium, provided that upon any partial prepayment permitted by Section 4(b) or 4(c), the principal amount of each required prepayment of the Notes becoming due under this Section 4(a) on and after the date of such prepayment or purchase shall be reduced in the same proportion as the aggregate unpaid principal amount of the Notes is reduced as a result of such prepayment or purchase. No other prepayments are required to be made with respect to the Series G Notes prior to the expressed maturity date thereof other than prepayments made in connection with an acceleration of the Series G Notes pursuant to the provisions of Section 6.3 of the Note Agreement.

(b) Optional Prepayment with Premium. Upon compliance with Section 4(d) below 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 Section 4(b).

(c) 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 Section 4(d) below 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 Section 4(c) shall be without premium.

(d) Notice of Optional Prepayments. The Company will give notice of any prepayment of the Notes pursuant to Section 4(b) or 4(c) 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

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(a) such date, (b) the Section of this Fifth Supplement 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 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.

(e) Application of Prepayments. In the case of each partial prepayment of the Notes pursuant to the provisions of Section 4(b) or 4(c), 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.

(f) Direct Payment. Notwithstanding anything to the contrary contained in the Note Agreement, this Fifth 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 Section 4(f) 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.

(g) Make Whole Amount. The term "Make-Whole Amount" means, with respect to any Series G Note, an amount equal to the excess, if any, of the Discounted Value of the Remaining Scheduled Payments with respect to the Called Principal of such Note over the amount of such Called Principal, provided that the Make-Whole Amount may in no event be less than zero. For the purposes of determining the Make-Whole Amount, the following terms have the following meanings:

"Called Principal" means, with respect to any Series G Note, the principal of such Note that is to be prepaid pursuant to Section 4(b) or has become or is declared to be immediately due and payable pursuant to Section 6.3 of the Note Agreement, as the context requires.

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"Discounted Value" means, with respect to the Called Principal of any Series G Note, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which interest on the Series G Notes is payable) equal to the Reinvestment Yield with respect to such Called Principal.

"Reinvestment Yield" means, with respect to the Called Principal of any Series G Note, 0.50%, plus the yield to maturity implied by (i) the yields reported, as of 10:00 A.M. (New York City time) on the fifth Business Day preceding the Settlement Date with respect to such Called Principal, on the display page of the Bloomberg Financial Markets Services Screen PX1 or the equivalent screen provided by Bloomberg Financial Markets Commodities News for actively traded U.S. Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date, or (ii) if such yields are not reported as of such time or the yields reported as of such time are not ascertainable, the Treasury Constant Maturity Series Yields reported, for the latest day for which such yields have been so reported as of the second Business Day preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (519) (or any comparable successor publication) for actively traded U.S. Treasury securities having a constant maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date. Such implied yield will be determined, if necessary, by (a) converting U.S. Treasury bill quotations to bond-equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between (1) the actively traded U.S. Treasury security with the maturity closest to and greater than the Remaining Average Life and (2) the actively traded U.S. Treasury security with the maturity closest to and less than the Remaining Average Life.

"Remaining Average Life" means, with respect to any Called Principal, the number of years (calculated to the nearest one-twelfth year) obtained by dividing (i) such Called Principal into (ii) the sum of the products obtained by multiplying (a) the principal component of each Remaining Scheduled Payment with respect to such Called Principal by (b) the number of years (calculated to the nearest one-twelfth year) that will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

"Remaining Scheduled Payments" means, with respect to the Called Principal of any Series G Note, all payments of such Called Principal and interest thereon that would be due after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date, provided that if such Settlement Date is not a date on which interest payments are due to be made under the terms of the Series G Notes, then the amount of the next succeeding scheduled interest payment will be reduced by the amount of interest accrued to such Settlement Date and required to be paid on such Settlement Date pursuant to Section 4(b) hereof or Section 6.3 of the Note Agreement.

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"Settlement Date" means, with respect to the Called Principal of any Series G Note, the date on which such Called Principal is to be prepaid pursuant to Section 4(b) hereof or has become or is declared to be immediately due and payable pursuant to Section 6.3 of the Note Agreement, as the context requires.

#### 5. Closing Conditions.

(a) Conditions. The obligation of each Purchaser to purchase the Series G 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 G 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 G 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 2 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.

(ii) Compliance Certificate. Such Purchaser shall have received a certificate dated the Closing Date, signed by the Senior Financial Officer of the Company stating that such officer has reviewed the provisions of the Note Agreement and this Fifth Supplement and setting forth the information and computation (in sufficient detail) required in order to establish whether the Company is in compliance with Section 5.6 of the Note Agreement on the Closing Date.

(iii) Legal Opinions. Such Purchaser shall have received from Bingham McCutchen LLP, counsel for the Company, and Chapman and Cutler, special counsel for the Purchasers, their opinions dated the Closing Date, in form and substance satisfactory to such Purchasers, and covering the matters set forth respectively in Exhibits 3 and 4 hereto.

(iv) Regulatory Approval. Prior to the Closing Date, the issue and sale of the Series G 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 G 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.

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(v) Related Transactions. The Company shall have consummated the sale of the entire principal amount of the Series G Notes scheduled to be sold on the Closing Date pursuant to this Fifth Supplement.

(vi) Satisfactory Proceedings. All proceedings taken in connection with the transactions contemplated by this Fifth Supplement, 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.

(vii) Purchase Permitted By Applicable Law. On the Closing Date, the purchase of Series G 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.

(viii) 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 (iii) above, to the extent reflected in a statement of such counsel rendered to the Company at least one Business Day prior to the Closing Date.

(ix) Private Placement Number. A Private Placement Number issued by Standard & Poor's CUSIP Service Bureau (in cooperation with the Securities Valuation Office of the National Association of Insurance Commissioners) shall have been obtained for the Series G Notes.

(b) The obligation of the Company to deliver the Series G Notes hereunder is subject to the conditions that (i) the Commission shall have authorized the issuance and sale by the Company of the Series G 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 G Notes scheduled to be sold on the Closing Date pursuant to this Fifth Supplement shall have been tendered by the Purchasers. If the condition specified in this Section 5(b) shall not have been fulfilled prior to or on the Closing Date, this Fifth Supplement and all the obligations of the Company hereunder, except as provided in Section 9.4



of the Note Agreement, may be cancelled by the Company.

(c) If on the Closing Date the Company fails to tender to any Purchaser the Series G Notes to be issued to any Purchaser on such date or if the conditions specified in Section 5(a) have not been fulfilled, such Purchaser may thereupon elect to be relieved of all further

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obligations under this Fifth Supplement. Without limiting the foregoing, if the conditions specified in Section 5(a) 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 Section 5(c) shall operate to relieve the Company of any of its obligations hereunder or to waive any Purchaser's rights against the Company.

6. Each Purchaser represents and warrants that the representations and warranties set forth in Section 3.2 of the Note Agreement are true and correct on the date hereof with respect to the Series G Notes purchased by such Purchasers.

7. The Company and each Purchaser agree to be bound by and comply with the terms and provisions of the Note Agreement as if such Purchaser were an original signatory to the Note Agreement.

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California Water Service Company  
Fifth Supplement

The execution hereof shall constitute a contract between the Company and the Purchaser(s) for the uses and purposes hereinabove set forth, and 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/s/ Gerald F. Feeney  
Title: Vice President, Chief Financial Officer  
and Treasurer

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California Water Service Company  
Fifth Supplement

Accepted as of November 1, 2002

AMERICAN GENERAL LIFE INSURANCE  
COMPANY OF NEW YORK

By: AIG Global Investment Corp.,  
Investment Advisor

By/s/Gregory S. Hammer  
Title: Vice President

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California Water Service Company  
Fifth Supplement

ALLSTATE LIFE INSURANCE COMPANY

By: /s/ Jerry D. Zinkula

By: /s/ Daniel C. Leimbach  
Authorized Signatories

ALLSTATE LIFE INSURANCE COMPANY OF NEW YORK

By: /s/ Jerry D. Zinkula

By: /s/ Daniel C. Leimbach  
Authorized Signatories

AMERICAN HERITAGE LIFE INSURANCE  
COMPANY

By: /s/ Jerry D. Zinkula

By: /s/ Daniel C. Leimbach  
Authorized Signatories

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California Water Service Company  
Fifth Supplement

GE EDISON LIFE INSURANCE COMPANY

By: /s/ John R. Endres  
Title: Vice President - Private Investments

GE CAPITAL LIFE ASSURANCE COMPANY OF  
NEW YORK

By: /s/ John R. Endres  
Title: Vice President - Private Investments

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INFORMATION RELATING TO PURCHASERS

NAME AND ADDRESS OF PURCHASER	PRINCIPAL AMOUNT OF SERIES G NOTES TO BE PURCHASED
ALLSTATE LIFE INSURANCE COMPANY 3075 Sanders Road, STE G5D Northbrook, Illinois 60062-7127 Attention: Private Placements Department Telephone Number: (847) 402-7117 Telecopier Number: (847) 402-3092	\$5,000,000

Payments

All payments on or in respect of the Notes to be made by Fedwire transfer of immediately available funds, identifying the name of the Issuer, the Private Placement Number preceded by "DPP" and the payment as principal, interest or premium, in the exact format as follows:

Notices

All notices of scheduled payments and written confirmation of each such payment, to be addressed:

Allstate Insurance Company  
Investment Operations--Private Placements  
3075 Sanders Road, STE G4A  
Northbrook, Illinois 60062-7127  
Telephone: (847) 402-6672 Private Placements  
Telecopy: (847) 326-7032

All financial reports, compliance certificates and all other written communications, including notice of prepayments to be addressed as first provided above.

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

Taxpayer I.D. Number: 36-2554642

SCHEDULE A  
(to Supplement)

NAME AND ADDRESS OF PURCHASER	PRINCIPAL AMOUNT OF SERIES G NOTES TO BE PURCHASED
ALLSTATE LIFE INSURANCE COMPANY OF NEW YORK 3075 Sanders Road, STE G5D Northbrook, Illinois 60062-7127 Attention: Private Placements Department Telephone Number: (847) 402-7117 Telefacsimile Number: (847) 402-3092	\$3,000,000

Payments

All payments on or in respect of the Notes to be made by Fedwire transfer of

immediately available funds, identifying the name of the Issuer, the Private Placement Number preceded by "DPP" and the payment as principal, interest or premium, in the exact format as follows:

#### Notices

All notices of scheduled payments and written confirmation of each such payment, to be addressed:

Allstate Insurance Company  
Investment Operations--Private Placements  
3075 Sanders Road, STE G4A  
Northbrook, Illinois 60062-7127  
Telephone: (847) 402-6672 Private Placements  
Telecopy: (847) 326-7032

All financial reports, compliance certificates and all other written communications, including notice of prepayments to be addressed as first provided above.

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

Taxpayer I.D. Number: 36-2608394

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NAME AND ADDRESS OF PURCHASER	PRINCIPAL AMOUNT OF SERIES G NOTES TO BE PURCHASED
AMERICAN HERITAGE LIFE INSURANCE COMPANY c/o Allstate Life Insurance Company 3075 Sanders Road, STE G5D Northbrook, Illinois 60062-7127 Attention: Private Placements Department Telephone Number: (847) 402-7117 Telecopier Number: (847) 402-3092	\$2,000,000

#### Payments

All payments on or in respect of the Notes to be made by Fedwire transfer of immediately available funds, identifying the name of the Issuer, the Private Placement Number preceded by "DPP" and the payment as principal, interest or premium, in the format as follows:

#### Notices

All notices of scheduled payments and written confirmation of each such payment, to be addressed:

Allstate Insurance Company  
Investment Operations--Private Placements  
3075 Sanders Road, STE G4A  
Northbrook, Illinois 60062-7127  
Telephone: (847) 402-6672 Private Placements  
Telecopy: (847) 326-7032

All financial reports, compliance certificates and all other written communications, including notice of prepayments to be addressed as first provided above.

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

Taxpayer I.D. Number: 59-0781901

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NAME AND ADDRESS OF PURCHASER	PRINCIPAL AMOUNT OF SERIES G NOTES TO BE PURCHASED
GE EDISON LIFE INSURANCE COMPANY c/o GE Asset Management Account: GE Edison Life Insurance Company Two Union Square, 601 Union Street Seattle, Washington 98101 Attention: Investment Department, Private Placements Phone Number: (206) 516-4954 Fax Number: (206) 516-4578	\$5,500,000

#### 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, 5.29% Senior Notes, Series G, due November 15, 2022, PPN 130789 M# 4, principal, premium or interest") to:

Notices

All notices with respect to payments and written confirmation of each such payment, to be addressed:

GE Asset Management  
Account: GE Edison Life Insurance Company  
Two Union Square, 601 Union Street  
Seattle, Washington 98101  
Attention: Investment Accounting  
Phone Number: (206) 516-4649  
Fax Number: (206) 516-4740

All other notices and communications (including original note agreement, conformed copy of the note agreement, amendment requests, financial statements) to be addressed as first provided above.

Name of Nominee in which Notes are to be issued: SALKELD & CO.

Taxpayer I.D. Number: None (Foreign Company)

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NAME AND ADDRESS OF PURCHASER	PRINCIPAL AMOUNT OF SERIES G NOTES TO BE PURCHASED
GE Capital Life Assurance Company of New York c/o GE Financial Assurance Account: GE Capital Life Assurance Company of New York Two Union Square, 601 Union Street Seattle, Washington 98101 Attention: Investment Department, Private Placements Phone Number: (206) 516-4954 Fax Number: (206) 516-4578	\$1,500,000

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, 5.29% Senior Notes, Series G, due November 15, 2022, PPN 130789 M# 4, principal, premium or interest") to:

Notices

All notices with respect to payments and written confirmation of each such payment to be addressed:

GE Financial Assurance  
Account: GE Capital Life Assurance Company of New York  
Two Union Square, 601 Union Street  
Seattle, Washington 98101  
Attention: Investment Accounting  
Phone Number: (206) 516-4649  
Fax Number: (206) 516-4740

All other notices and communications (including original note agreement, conformed copy of the note agreement, amendment requests, financial statements) to be addressed as first provided above.

Name of Nominee in which Notes are to be issued: SALKELD & CO.

Taxpayer I.D. Number: 22-2882416

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NAME AND ADDRESS OF PURCHASER	PRINCIPAL AMOUNT OF SERIES G NOTES TO BE PURCHASED
AMERICAN GENERAL LIFE INSURANCE COMPANY OF NEW YORK c/o AIG Global Investment Corporation P.O. Box 3247 Houston, Texas 77253-3247 Attention: Private Placement Department, A36-04 Fax Number: (713) 831-1072 Overnight Mailing Address: 2929 Allen Parkway, A36-04	\$3,000,000

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, 5.29% Senior Notes, Series G, due November 1, 2022, PPN 130789 M# 4, principal or interest") to:

Notices

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

American General Assurance Company of New York and PA 45  
c/o State Street Bank Corporation  
Insurance Services  
801 Pennsylvania  
Kansas City, Missouri 64105  
Facsimile Number: (816) 691-3619

Duplicate payment notices and all other correspondences to be addressed to American General Life Insurance Company of New York and PA 45 as first provided above with a copy to:

AIG Global Investment Corporation  
Legal Department - Investment Management  
2929 Allen Parkway, Suite A36-01  
Houston, Texas 77019-2155  
Facsimile Number: (713) 831-2328

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

Taxpayer I.D. Number: 13-1853201

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[FORM OF SERIES G NOTE]

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

5.29% Series G Senior Note  
Due November 1, 2022

PPN 130789 M# 4

No. November 19, 2002  
\$

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, 2022,  
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 5.29% 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 7.29% 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.

EXHIBIT 1  
(to Supplement)

This Note is one of a series of Notes (the "Notes") issued pursuant to the Fifth Supplement (the "Fifth Supplement") to the Note Agreement dated as of March 1, 1999 (as from time to time amended and supplemented, the "Note Agreement"), between the Company, the Purchasers named therein and Additional Purchasers of Notes from time to 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. Each holder of this Note will be deemed, by its acceptance hereof, to have made the representation set forth 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 Company will make the required prepayments of principal on the dates and in the amounts specified in Section 4(a) of the Fifth Supplement and at maturity will pay the principal balance due. 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 G Notes. The issuance and sale of the Series G Notes and the execution and delivery of the Fifth Supplement 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 September 30, 2002.

5. Financial Statements and Reports. The Company has furnished each Purchaser with a copy of its audited financial reports for 1999, 2000 and 2001 hereinafter called the "Company Reports," and a copy of Form 10-K filed by California Water Service Group ("CWSG") hereinafter called the "CWSG 10-K" with the Securities and Exchange Commission for 2001, 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 the CWSG 10-K. The Company has also furnished each Purchaser with an unaudited quarterly financial statement for the Company for the fiscal quarter ended September 30, 2002, and Forms 10 Q for CWSG for the fiscal quarter ended September 30, 2002

(the "Quarterly Reports"). The financial statements contained in the foregoing Company Reports, the CWSG 10-K, the Quarterly Reports 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.

EXHIBIT 2  
(to Supplement)

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 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 of December 31, 2001, 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 Company Reports and CWSG 10-K 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 Company Information, 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, 2001, 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 2001 Company Report and paragraph 9 hereof. 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) some of the offices, but not 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;

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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 \$1,000,000) 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 \$1,000,000, the Company has good and merchantable title to all its other property and assets subject only to the lien of the Mortgage Indenture and the lien of the Dominguez 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 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. As used herein, the term "Dominguez Mortgage Indenture" means the Trust Indenture dated as of August 1, 1954, as supplemented from time to time, between

the Company, as successor to Dominguez Water Company ("Dominguez") and U.S. Bank, as Trustee, which provides a lien on properties owned by Dominguez immediately prior to the merger described in paragraph 9 hereof which lien secures \$9,000,000 in aggregate principal amount of Dominguez bonds which were assumed by the Company upon the merger.

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	

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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 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.

On May 25, 2000, Dominguez Service Corporation was merged into the Company and subsequently Dominguez and its subsidiaries were also merged into the Company (collectively, the "merger"). The Company acquired in the Dominguez merger operations in the following cities, counties, townships or localities that Dominguez previously served:

Bodfish	Kern County	Los Angeles County
Carson	Kernville	Lucerne
Compton	Lake Hughes	Mountain Shadows
Duncans Mills	Lakeland	Onyx
Fremont Valley	Lancaster	Squirrel Valley
Guerneville	Leona Valley	Torrance
Harbor City	Long Beach	Wofford Heights



Water distribution systems were constructed and service furnished to the inhabitants of the localities currently known as Carson, Compton, Harbor City, Long Beach and Torrance by various predecessors of the Company prior to 1911 and the Company believes that it has a prior right to operate in these locations which right was not extinguished by the incorporation of these cities subsequent to 1911. Except as noted below, Dominguez has no franchises from these cities and has made no franchise payments to them and, to the Company's knowledge, no question has ever been raised as to the right to make water distribution and to maintain all pipes and mains necessary therefor.

As to the remaining localities, Dominguez has received written franchise agreements which are in full force and effect and has paid all franchise fees to date, with the exception of Compton and the City of Carson Redevelopment Project #2, as to which the franchises expired without renewal in, respectively, 1994 and 1998. Dominguez continued to provide water services to Compton and the City of Carson Redevelopment Project #2 subsequent to the expiration of the respective franchises, and to pay franchise fees, 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 Fifth Supplement or the Series G 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 G 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 G Notes or the execution, delivery or performance of the Fifth Supplement, 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 G 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 Fifth Supplement, the consummation of the transactions therein provided for and compliance with the provisions of the Fifth Supplement and the Series G Notes by the Company will not violate or result in any breach of the terms, conditions

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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.

17. Use of Proceeds. The Company will use the gross proceeds derived from the sale of the Series G Notes under the Fifth Supplement to refinance existing Indebtedness. None of the transactions contemplated in the Fifth Supplement (including, without limitation thereof, the use of the proceeds from the sale of the Series G 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 G 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, 2001, the last annual valuation date, the actuarial present value of all benefits vested under the Plans by more than \$10,898,000.

(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.

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(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 Fifth Supplement and compliance by the Company with the provisions thereof and the Series G 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 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, after due inquiry, 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. Except as disclosed in the "Environmental Matters" section of Item 1 of the CWSG 10-K, the "Environmental Matters" section of CWSG's 2001 Annual Report and the "Legal Proceedings" section of Item 3 of the CWSG 10-K with respect to matters in Chico and Marysville, California, 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 Fifth Supplement do not, nor does the Fifth Supplement, the Company Information or any written statement (including without limitation the 2001 Company Report and the 2001 CWSG Report) furnished by the Company to you in connection with the negotiation of the sale of the Series G 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

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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 Note Agreement, the Fifth Supplement or the Series G Notes.

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

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CURRENT DEBT, FUNDED DEBT AND CAPITALIZED LEASES  
AS OF SEPTEMBER 30, 2002

1. Current Debt  
  
\$11,000,000 borrowed under the Company's bank short-term line of credit with Bank of America.
2. Funded Debt  
  
\$111,865,000 outstanding under the Company's various series of First Mortgage Bonds with due dates ranging from 2002 to 2023.  
  
\$4,000,000 First Mortgage Bonds, Series J due 2023 (formerly Dominguez Water Company)  
  
\$5,000,000 First Mortgage Bonds, Series K due 2012 (formerly

Dominguez Water Company)

\$20,000,000 Series A Senior Notes due November 1, 2025.

\$20,000,000 Series B Senior Notes due November 1, 2028.

\$20,000,000 Series C Senior Notes due November 1, 2030.

\$20,000,000 Series D Senior Notes due November 1, 2031.

\$20,000,000 Series E Senior Notes due May 1, 2032.

\$20,000,000 Series F Senior Notes due November 1, 2017.

\$2,725,000 California Department of Water Resources Loans maturing 2011 to 2032.

\$459,000 obligations due on water system acquisitions.

3. Capitalized Leases

None.

ANNEX A  
(to Exhibit 2)

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. 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, ARCO Products Company and West Basin Municipal Water District relating to recycled water.

ANNEX B  
(to Exhibit 2)

DESCRIPTION OF CLOSING OPINION  
OF COUNSEL TO THE COMPANY

The closing opinion of Bingham McCutchen LLP, counsel for the Company, which is called for by Section 5(a)(iii) of the Fifth Supplement, 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 corporate good standing under the laws of California.

2. The execution and delivery by the Company of the Note Agreement, the Fifth Supplement and the Notes, and the performance by the Company of its obligations under the Note Agreement, the Fifth Supplement and the Notes, are within the Company's corporate powers and have been duly authorized by all requisite corporate action on the part of the Company. The Company has duly executed and delivered the Note Agreement, the Fifth Supplement and the Notes.

3. Each of the Note Agreement, the Fifth Supplement and the Notes constitutes a valid and binding agreement of the Company, enforceable against the Company in accordance with its terms. Based on Section 1646.5 of the California Civil Code, a California state court and a Federal court which applies the law of the State of California to the Note Agreement, the Fifth Supplement and the Notes would recognize and give effect to the choice of law provisions set forth in the Note Agreement, the Fifth Supplement and the Notes.

4. The execution and delivery by the Company of the Note Documents, and compliance by the Company with the provisions thereof will not, to the best of our knowledge, result in a breach or default (or give rise to any right of termination, cancellation or acceleration) under the Articles of Incorporation or By-Laws of the Company, or the Mortgage Indenture, the Credit Agreement dated as of July 31, 2001, between the Company and Bank of America as Administrative Agent, or any agreement or other instrument that is listed as a material contract in CWSG's Annual Report on Form 10-K for the year ended December 31, 2001. To the best of our knowledge, no consent or approval by, or any notification of or filing with, any court, public body or authority of the State of California is required to be obtained or effected by the Company in connection with the execution, delivery and performance by the Company of the Note Documents or the issuance or sale of the Notes, except for the authorization of the Commission, which authorization has been duly obtained and is in full force and effect.

5. Based upon the representations set forth in Section 6 of the Fifth Supplement, the accuracy of which we have not independently verified or investigated, the issuance, sale and delivery of the Notes under the circumstances contemplated by the Fifth

EXHIBIT 3  
(to Supplement)

Supplement do not, under existing law, require the registration of the Notes under the Securities Act of 1933, as amended, or the qualification of the Fifth Supplement or an indenture under the Trust Indenture Act of 1939, as amended.

6. Based upon the assumption of the accuracy of information obtained by the Company from sources believed by the Company to be reliable (a) 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	

(b) that water distribution systems were constructed and service furnished to the inhabitants of each by various predecessors of the Company prior to 1911; and

(c) that there were no public water works owned or controlled by the municipality in any of them prior to 1911;

in our opinion,

(i) 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 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;

(ii) 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

(iii) the right probably also extends to territory annexed into each respective city after such repeal, although this latter question is not entirely free from doubt in the absence of a final decision of the courts thereon.

7. Dominguez Services Corporation (along with its subsidiaries, "Dominguez") was merged into the Company effective May 25, 2000 and Dominguez Water Company was also merged into the Company effective October 12, 2000. In the

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Dominguez mergers, the Company acquired the operations of Dominguez, which to our knowledge included service to the following cities, counties, townships or localities:

Bodfish	Kernville	Mountain Shadows
Carson	Lake Hughes	Onyx
Compton	Lakeland	Torrance
Duncans Mills	Lancaster	Squirrel Valley
Fremont Valley	Leona Valley	Wofford Heights
Guerneville	Long Beach	Los Angeles County
Harbor City	Lucerne	Kern County

8. We note that the Officers' Certificates state that: (a) to the Company's knowledge, water distribution systems were constructed and service furnished to the inhabitants of the localities currently known as Carson, Compton, Harbor City, Long Beach and Torrance by various predecessors of the Company prior to 1911; (b) the Company believes that it has a prior right to operate in these locations which right was not extinguished by the incorporation of these cities subsequent to 1911; (c) except as noted below, to the Company's knowledge Dominguez has no franchises from these cities and has made no franchise payments to them; and (d) to the Company's knowledge, no question has ever been raised as to the right to make water distribution and to maintain all pipes and mains necessary therefor.

9. We note that the Officers' Certificates state that: (a) as to the remaining localities listed in paragraph 7, to the Company's knowledge, Dominguez has received written franchise agreements which are in full force and effect and has paid all franchise fees to date, with the exception of Compton and the City of Carson Redevelopment Project #2, as to which the franchises expired without renewal in, respectively, 1994 and 1998; (b) to the Company's knowledge, Dominguez continued to provide water services to Compton and the City of Carson Redevelopment Project #2 subsequent to the expiration of the respective franchises, and to pay franchise fees; and (c) 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.

The opinion of Bingham McCutchen LLP shall cover such other matters relating to the sale of the Series G Notes as the Purchasers may reasonably request and shall provide that Chapman and Cutler in delivering its opinion under the Note Agreement may rely on the opinion of Bingham McCutchen LLP as to matters of California law. 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.

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#### DESCRIPTION OF SPECIAL COUNSEL'S CLOSING OPINION

The closing opinion of Chapman and Cutler, special counsel to the Purchasers, called for by Section 5(a)(iii) of the Fifth Supplement, 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 Fifth Supplement and to issue the Series G Notes.

2. The Note Agreement and the Fifth Supplement 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 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 G 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 G Notes under the circumstances contemplated by the Fifth Supplement do not, under existing law, require the registration of the Series G 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 Bingham McCutchen LLP as to matters of California law. The opinion of Chapman and Cutler shall also state that the opinion of Bingham McCutchen 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 4  
(to Supplement)

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

CALIFORNIA WATER SERVICE COMPANY

SIXTH SUPPLEMENT TO NOTE AGREEMENT

Dated as of December 1, 2002

Re: \$20,000,000 5.29% Series H Senior Notes  
Due December 1, 2022

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SIXTH SUPPLEMENT TO NOTE AGREEMENT

Dated as of  
December 1, 2002

To the Purchasers named in  
Schedule A hereto

Ladies and Gentlemen:

This Sixth Supplement to Note Purchase Agreement (the "Sixth Supplement") is between California Water Service Company (the "Company") whose address is 1720 North First Street, San Jose, California 95112 and the institutional investors named on Schedule A attached hereto (the "Purchasers").

Reference is hereby made to that certain Note Agreement dated as of March 1, 1999 (the "Note Agreement") between the Company and the purchasers listed on Schedule I thereto. All capitalized terms not otherwise defined herein shall have the same meaning as specified in the Note Agreement. Reference is further made to Section 4.3 thereof which requires that, prior to the delivery of any Additional Notes, the Company and each Additional Purchaser shall execute and deliver a Supplement.

The Company hereby agrees with the Purchasers named on Schedule A hereto as follows:

1. The Company has authorized the issue and sale of \$20,000,000 aggregate principal amount of its 5.29% Series H Senior Notes due December 1, 2022 (the "Series H Notes"). The Series H Notes, together with the Series B Notes initially issued pursuant to the Note Agreement, the Series C Notes issued pursuant to the First Supplement to Note Agreement dated as of October 1, 2000, the Series D Notes issued pursuant to the Second Supplement to Note Agreement dated as of September 1, 2001, the Series E Notes issued pursuant to the Third Supplement to Note Agreement dated as of May 1, 2002, the Series F Notes issued pursuant to the Fourth Supplement to Note Agreement dated as of August 15, 2002, the Series G Notes issued pursuant to the Fifth Supplement to Note Agreement dated as of November 15, 2002 and each Series of Additional Notes which may from time to time be issued pursuant to the provisions of Section 1.4 of the Note Agreement, are collectively referred to as the "Notes" (such term shall also include any such notes issued in substitution therefor pursuant to Section 9.2 of the Note Agreement). The Series H Notes shall be substantially in the form set out in Exhibit 1 hereto with such changes therefrom, if any, as may be approved by the Purchasers and the Company.

2. Subject to the terms and conditions hereof and as set forth in the Note Agreement and on the basis of the representations and warranties hereinafter set forth, the Company agrees to issue and sell to each Purchaser, and each Purchaser agrees to purchase from the Company,

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Series H Notes in the principal amount set forth opposite such Purchaser's name on Schedule A hereto at a price of 100% of the principal amount thereof on the closing date hereafter mentioned.

3. Delivery of the \$20,000,000 in aggregate principal amount of the Series H 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, ABA No. 121000358, Account No. 14879-00161, Account Name: California Water Service Company Security Sales, in the amount of the purchase price at 11:00 A.M., San Francisco, California time, on December 3, 2002 or such later date (not later than December 6, 2002) as shall mutually be agreed upon by the Company and the Purchasers of the Series H Notes (the "Closing Date").

4. Prepayment of Notes.



(a) Required Prepayments. On December 1, 2012 and on December 1 of each year thereafter to and including December 1, 2021, the Company will prepay \$1,818,181.82 principal amount (or such lesser principal amount as shall then be outstanding) of the Notes at par and without payment of the Make-Whole Amount or any premium, provided that upon any partial prepayment permitted by Section 4(b) or 4(c), the principal amount of each required prepayment of the Notes becoming due under this Section 4(a) on and after the date of such prepayment or purchase shall be reduced in the same proportion as the aggregate unpaid principal amount of the Notes is reduced as a result of such prepayment or purchase. No other prepayments are required to be made with respect to the Series H Notes prior to the expressed maturity date thereof other than prepayments made in connection with an acceleration of the Series H Notes pursuant to the provisions of Section 6.3 of the Note Agreement.

(b) Optional Prepayment with Premium. Upon compliance with Section 4(d) below 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 Section 4(b).

(c) 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 Section 4(d) below 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 Section 4(c) shall be without premium.

(d) Notice of Optional Prepayments. The Company will give notice of any prepayment of the Notes pursuant to Section 4(b) or 4(c) to each Holder of Notes to be prepaid not less than

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30 days nor more than 60 days before the date fixed for such optional prepayment specifying (a) such date, (b) the Section of this Sixth Supplement 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 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.

(e) Application of Prepayments. In the case of each partial prepayment of the Notes pursuant to the provisions of Section 4(b) or 4(c), 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.

(f) Direct Payment. Notwithstanding anything to the contrary contained in the Note Agreement, this Sixth 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 Section 4(f) 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.

(g) Make Whole Amount. The term "Make-Whole Amount" means, with respect to any Series H Note, an amount equal to the excess, if any, of the Discounted Value of the Remaining Scheduled Payments with respect to the Called Principal of such Note over the amount of such Called Principal, provided that the Make-Whole Amount may in no event be less than zero. For the purposes of determining the Make-Whole Amount, the following terms have the following

meanings:

"Called Principal" means, with respect to any Series H Note, the principal of such Note that is to be prepaid pursuant to Section 4(b) or has become or is declared to be immediately due and payable pursuant to Section 6.3 of the Note Agreement, as the context requires.

"Discounted Value" means, with respect to the Called Principal of any Series H Note, the amount obtained by discounting all Remaining Scheduled Payments with

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respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which interest on the Series H Notes is payable) equal to the Reinvestment Yield with respect to such Called Principal.

"Reinvestment Yield" means, with respect to the Called Principal of any Series H Note, 0.50%, plus the yield to maturity implied by (i) the yields reported, as of 10:00 A.M. (New York City time) on the fifth Business Day preceding the Settlement Date with respect to such Called Principal, on the display page of the Bloomberg Financial Markets Services Screen PX1 or the equivalent screen provided by Bloomberg Financial Markets Commodities News for actively traded U.S. Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date, or (ii) if such yields are not reported as of such time or the yields reported as of such time are not ascertainable, the Treasury Constant Maturity Series Yields reported, for the latest day for which such yields have been so reported as of the second Business Day preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (519) (or any comparable successor publication) for actively traded U.S. Treasury securities having a constant maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date. Such implied yield will be determined, if necessary, by (a) converting U.S. Treasury bill quotations to bond-equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between (1) the actively traded U.S. Treasury security with the maturity closest to and greater than the Remaining Average Life and (2) the actively traded U.S. Treasury security with the maturity closest to and less than the Remaining Average Life.

"Remaining Average Life" means, with respect to any Called Principal, the number of years (calculated to the nearest one-twelfth year) obtained by dividing (i) such Called Principal into (ii) the sum of the products obtained by multiplying (a) the principal component of each Remaining Scheduled Payment with respect to such Called Principal by (b) the number of years (calculated to the nearest one-twelfth year) that will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

"Remaining Scheduled Payments" means, with respect to the Called Principal of any Series H Note, all payments of such Called Principal and interest thereon that would be due after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date, provided that if such Settlement Date is not a date on which interest payments are due to be made under the terms of the Series H Notes, then the amount of the next succeeding scheduled interest payment will be reduced by the amount of interest accrued to such Settlement Date and required to be paid on such Settlement Date pursuant to Section 4(b) hereof or Section 6.3 of the Note Agreement.

"Settlement Date" means, with respect to the Called Principal of any Series H Note, the date on which such Called Principal is to be prepaid pursuant to Section 4(b)

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hereof or has become or is declared to be immediately due and payable pursuant to Section 6.3 of the Note Agreement, as the context requires.

##### 5. Closing Conditions.

(a) Conditions. The obligation of each Purchaser to purchase the Series H 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 H 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 H 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 2 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.

(ii) Compliance Certificate. Such Purchaser shall have received a certificate dated the Closing Date, signed by the Senior Financial Officer of the Company stating that such officer has reviewed the provisions of the Note Agreement and this Sixth Supplement and setting forth the information and computation (in sufficient detail) required in order to establish whether the Company is in compliance with Section 5.6 of the Note Agreement on the Closing Date.

(iii) Legal Opinions. Such Purchaser shall have received from Bingham McCutchen LLP, counsel for the Company, and Chapman and Cutler, special counsel for the Purchasers, their opinions dated the Closing Date, in form and substance satisfactory to such Purchasers, and covering the matters set forth respectively in Exhibits 3 and 4 hereto.

(iv) Regulatory Approval. Prior to the Closing Date, the issue and sale of the Series H 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 H 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.

(v) Related Transactions. The Company shall have consummated the sale of the entire principal amount of the Series H Notes scheduled to be sold on the Closing Date pursuant to this Sixth Supplement.

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(vi) Satisfactory Proceedings. All proceedings taken in connection with the transactions contemplated by this Sixth Supplement, 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.

(vii) Purchase Permitted By Applicable Law. On the Closing Date, the purchase of Series H 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.

(viii) 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 (iii) above, to the extent reflected in a statement of such counsel rendered to the Company at least one Business Day prior to the Closing Date.

(ix) Private Placement Number. A Private Placement Number issued by Standard & Poor's CUSIP Service Bureau (in cooperation with the Securities Valuation Office of the National Association of Insurance Commissioners) shall have been obtained for the Series H Notes.

(b) The obligation of the Company to deliver the Series H Notes hereunder is subject to the conditions that (i) the Commission shall have authorized the issuance and sale by the Company of the Series H 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 H Notes scheduled to be sold

on the Closing Date pursuant to this Sixth Supplement shall have been tendered by the Purchasers. If the condition specified in this Section 5(b) shall not have been fulfilled prior to or on the Closing Date, this Sixth Supplement and all the obligations of the Company hereunder, except as provided in Section 9.4 of the Note Agreement, may be cancelled by the Company.

(c) If on the Closing Date the Company fails to tender to any Purchaser the Series H Notes to be issued to any Purchaser on such date or if the conditions specified in Section 5(a) have not been fulfilled, such Purchaser may thereupon elect to be relieved of all further obligations under this Sixth Supplement. Without limiting the foregoing, if the conditions specified in Section 5(a) 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

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determine. Nothing in this Section 5(c) shall operate to relieve the Company of any of its obligations hereunder or to waive any Purchaser's rights against the Company.

6. Each Purchaser represents and warrants that the representations and warranties set forth in Section 3.2 of the Note Agreement are true and correct on the date hereof with respect to the Series H Notes purchased by such Purchasers.

7. The Company and each Purchaser agree to be bound by and comply with the terms and provisions of the Note Agreement as if such Purchaser were an original signatory to the Note Agreement.

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California Water Service Company  
Sixth Supplement

The execution hereof shall constitute a contract between the Company and the Purchaser(s) for the uses and purposes hereinabove set forth, and 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: Gerald F. Feeney  
Title: Vice President, Chief  
Financial Officer and  
Treasurer

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California Water Service Company  
Sixth Supplement

Accepted as of December 1, 2002

AMERICAN GENERAL ASSURANCE COMPANY  
MERIT LIFE INSURANCE CO.  
NORTH CENTRAL LIFE INSURANCE COMPANY

By: AIG Global Investment Corp.,  
Investment Advisor

By \_\_\_\_\_  
Name:  
Title:

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California Water Service Company  
Sixth Supplement

Accepted as of December 1, 2002

GENERAL ELECTRIC CAPITAL ASSURANCE COMPANY

By: \_\_\_\_\_  
Name:  
Title:

FIRST COLONY LIFE INSURANCE COMPANY

By: \_\_\_\_\_  
Name:  
Title:

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INFORMATION RELATING TO PURCHASERS

NAME AND ADDRESS OF PURCHASER	PRINCIPAL AMOUNT OF SERIES H NOTES TO BE PURCHASED
AMERICAN GENERAL ASSURANCE COMPANY c/o AIG Global Investment Corporation P.O. Box 3247 Houston, Texas 77253-3247 Attention: Private Placement Department, A36-04 Fax Number: (713) 831-1072 Overnight Mailing Address: 2929 Allen Parkway, A36-04 Houston, Texas 77019-2155	\$5,000,000

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, 5.29% Senior Notes, Series H, due December 1, 2022, PPN 130789 N\* 7, principal or interest") to:

Notices

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

American General Assurance Company and PA 86  
c/o State Street Bank and Trust Company  
Insurance Services  
801 Pennsylvania  
Kansas City, Missouri 64105  
Facsimile Number: (816) 691-3619

Duplicate payment notices and all other correspondences to be addressed to American General Assurance Company and PA 86 as first provided above with a copy to:

AIG Global Investment Corporation  
Legal Department - Investment Management  
2929 Allen Parkway, Suite A36-01  
Houston, Texas 77019-2155  
Facsimile Number: (713) 831-2328

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

Taxpayer I.D. Number: 36-1677770

NAME AND ADDRESS OF PURCHASER	PRINCIPAL AMOUNT OF SERIES H NOTES TO BE PURCHASED
MERIT LIFE INSURANCE COMPANY c/o AIG Global Investment Corporation P. O. Box 3247 Houston, Texas 77253-3247 Attention: Private Placement Department, A36-04 Fax Number: (713) 831-1072 Overnight Mailing Address: 2929 Allen Parkway, A36-04 Houston, Texas 77019-2155	\$5,000,000

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, 5.29% Senior Notes, Series H, due December 1, 2022, PPN 130789 N\* 7, principal or interest") to:

Notices

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

Merit Life Insurance Company and PA 20  
c/o State Street Bank Corporation  
Insurance Services  
801 Pennsylvania  
Kansas City, Missouri 64105  
Facsimile Number: (816) 691-3619

Duplicate payment notices and all other correspondences to be addressed to Merit Life Insurance Company and PA 20 as first provided above with a copy to:

American General Enterprise Services, Inc.  
Legal Department - Investment Management  
2929 Allen Parkway, Suite A36-01  
Houston, Texas 77019-2155  
Facsimile Number: (713) 831-2328

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

Taxpayer I.D. Number: 35-1005090

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NAME AND ADDRESS OF PURCHASER	PRINCIPAL AMOUNT OF SERIES H NOTES TO BE PURCHASED
NORTH CENTRAL LIFE INSURANCE COMPANY c/o AIG Global Investment Corporation P. O. Box 3247 Houston, Texas 77253-3247 Attention: Private Placement Department, A36-04 Fax Number: (713) 831-1072 Overnight Mailing Address: 2929 Allen Parkway, A36-04 Houston, Texas 77019-2155	\$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, 5.29% Senior Notes, Series H, due December 1, 2022, PPN 130789 N\* 7, principal or interest") to:

Notices

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

North Central Life Insurance Company and PA 8D  
c/o State Street Bank Corporation  
Insurance Services  
801 Pennsylvania  
Kansas City, Missouri 64105  
Facsimile Number: (816) 691-3619

Duplicate payment notices and all other correspondences to be addressed to North

Central Life Insurance Company and PA 8D as first provided above with a copy to:

AIG Global Investment Corporation  
Legal Department - Investment Management  
2929 Allen Parkway, Suite A36-01  
Houston, Texas 77019-2155  
Facsimile Number: (713) 831-2328

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

Taxpayer I.D. Number: 41-0421280

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NAME AND ADDRESS OF PURCHASER	PRINCIPAL AMOUNT OF SERIES H NOTES TO BE PURCHASED
GENERAL ELECTRIC CAPITAL ASSURANCE COMPANY c/o GE Financial Assurance Account: GECA LTC Two Union Square, 601 Union Street Seattle, Washington 98101 Attention: Investment Department, Private Placements Phone Number: (206) 516-4954 Fax Number: (206) 516-4578	\$6,000,000

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, 5.29% Senior Notes, Series H, due December 1, 2022, PPN 130789 N\* 7, principal, premium or interest") to:

Notices

All notices with respect to payments and written confirmation of each such payment, to be addressed:

GE Financial Assurance  
Account: General Electric Capital Assurance Company  
Two Union Square, 601 Union Street  
Seattle, Washington 98101  
Attention: Investment Accounting  
Phone Number: (206) 516-4649  
Fax Number: (206) 516-4740

All other notices and communications (including original note agreement, conformed copy of the note agreement, amendment requests, financial statements) to be addressed as first provided above.

Name of Nominee in which Notes are to be issued: SALKELD & CO.

Taxpayer I.D. Number: 91-6027719

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NAME AND ADDRESS OF PURCHASER	PRINCIPAL AMOUNT OF SERIES H NOTES TO BE PURCHASED
FIRST COLONY LIFE INSURANCE COMPANY c/o GE Financial Assurance Account: First Colony Life Insurance Company Two Union Square, 601 Union Street Seattle, Washington 98101 Attention: Investment Department, Private Placements Telephone Number: (206) 516-4954 Telefacsimile Number: (206) 516-4578	\$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, 5.29% Senior Notes, Series H, due December 1, 2022, PPN 130789 N\* 7, principal, premium or interest") to:

Notices

All notices with respect to payments and written confirmation of each such payment to be addressed:

GE Financial Assurance

Account: First Colony Life Insurance Company  
Two Union Square, 601 Union Street  
Seattle, Washington 98101  
Attention: Investment Accounting  
Telephone Number: (206) 516-4649  
Telefacsimile Number: (206) 516-4740

All other notices and communications (including original note agreement, conformed copy of the note agreement, amendment requests, financial statements) to be addressed as first provided above.

Name of Nominee in which Notes are to be issued: Salkeld & Co.

Taxpayer I.D. Number: 54-0596414

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[FORM OF SERIES H NOTE]

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

5.29% Series H Senior Note  
Due December 1, 2022

PPN: 130789 N\* 7

No. \_\_\_\_\_ December \_\_\_\_, 2002

\$

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 December, 2022,  
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 5.29% per annum from the date hereof until maturity, payable semiannually on the first day of each June and December 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 7.29% 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") issued pursuant to the Sixth Supplement (the "Sixth Supplement") to the Note Agreement dated as of March 1, 1999 (as from time to time amended and supplemented, the "Note Agreement"), between the Company, the

EXHIBIT 1  
(to Supplement)

Purchasers named therein and Additional Purchasers of Notes from time to 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. Each holder of this Note will be deemed, by its acceptance hereof, to have made the representation set forth 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 Company will make the required prepayments of principal on the dates and in the amounts specified in Section 4(a) of the Sixth Supplement and at maturity will pay the principal balance due. 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 H Notes. The issuance and sale of the Series H Notes and the execution and delivery of the Sixth Supplement 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 September 30, 2002.

5. Financial Statements and Reports. The Company has furnished each Purchaser with a copy of its audited financial reports for 1999, 2000 and 2001 hereinafter called the "Company Reports," and a copy of Form 10-K filed by California Water Service Group ("CWSG") hereinafter called the "CWSG 10-K" with the Securities and Exchange Commission for 2001, 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 the CWSG 10-K. The Company has also furnished each Purchaser with an unaudited quarterly financial statement for the Company for the fiscal quarter ended September 30, 2002, and Forms 10 Q for CWSG for the fiscal quarter ended September 30, 2002 (the "Quarterly Reports"). The financial statements contained in the foregoing Company Reports, the CWSG 10-K, the Quarterly Reports 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

EXHIBIT 2  
(to Supplement)

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 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 of December 31, 2001, 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 Company Reports and CWSG 10-K 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 Company Information, 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, 2001, 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 2001 Company Report and paragraph 9 hereof. 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) some of the offices, but not 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 \$1,000,000) 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 \$1,000,000, the Company has good and merchantable title to all its other property and assets

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subject only to the lien of the Mortgage Indenture and the lien of the Dominguez 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 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. As used herein, the term "Dominguez Mortgage Indenture" means the Trust Indenture dated as of August 1, 1954, as supplemented from time to time, between the Company, as successor to Dominguez Water Company ("Dominguez") and U.S. Bank, as Trustee, which provides a lien on properties owned by Dominguez immediately prior to the merger described in paragraph 9 hereof which lien secures \$9,000,000 in aggregate principal amount of Dominguez bonds which were assumed by the Company upon the merger.

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

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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 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.

On May 25, 2000, Dominguez Service Corporation was merged into the Company and subsequently Dominguez and its subsidiaries were also merged into the Company (collectively, the "merger"). The Company acquired in the Dominguez merger operations in the following cities, counties, townships or localities that Dominguez previously served:

Bodfish	Kern County	Los Angeles County
Carson	Kernville	Lucerne
Compton	Lake Hughes	Mountain Shadows
Duncans Mills	Lakeland	Onyx
Fremont Valley	Lancaster	Squirrel Valley
Guerneville	Leona Valley	Torrance
Harbor City	Long Beach	Wofford Heights

Water distribution systems were constructed and service furnished to the inhabitants of the localities currently known as Carson, Compton, Harbor City, Long Beach and Torrance by various predecessors of the Company prior to 1911 and the Company believes that it has a prior right to operate in these locations which right was not extinguished by the incorporation of these cities subsequent to 1911. Except as noted below, Dominguez has no franchises from these cities and has made no franchise payments to them and, to the Company's knowledge, no

question has ever been raised as to the right to make water distribution and to maintain all pipes and mains necessary therefor.

As to the remaining localities, Dominguez has received written franchise agreements which are in full force and effect and has paid all franchise fees to date, with the exception of Compton and the City of Carson Redevelopment Project #2, as to which the franchises expired without renewal in, respectively, 1994 and 1998. Dominguez continued to provide water services to Compton and the City of Carson Redevelopment Project #2 subsequent to the

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expiration of the respective franchises, and to pay franchise fees, 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 Sixth Supplement or the Series H 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 H 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

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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 H Notes or the execution, delivery or performance of the Sixth Supplement, 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 H 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 Sixth Supplement, the consummation of the transactions therein provided for and compliance with the provisions of the Sixth Supplement and the Series H 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.

17. Use of Proceeds. The Company will use the gross proceeds derived from the sale of the Series H Notes under the Sixth Supplement to refinance existing Indebtedness. None of the transactions contemplated in the Sixth Supplement (including, without limitation thereof, the use of the proceeds from the sale of the Series H 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

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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 H 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, 2001, the last annual valuation date, the actuarial present value of all benefits vested under the Plans by more than \$10,898,000.

(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 Sixth Supplement and compliance by the Company with the provisions thereof and the Series H 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 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, after due inquiry, 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

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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. Except as disclosed in the "Environmental Matters" section of Item 1 of the CWSG 10-K, the "Environmental Matters" section of CWSG's 2001 Annual Report and the "Legal Proceedings" section of Item 3 of the CWSG 10-K with respect to matters in Chico and Marysville, California, 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 Sixth Supplement do not, nor does the Sixth Supplement, the Company Information or any written statement (including without limitation the 2001 Company Report and the 2001 CWSG Report) furnished by the Company to you in connection with the negotiation of the sale of the Series H 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 Note Agreement, the Sixth Supplement or the Series H Notes.

22. Private Offering. Neither the Company, directly or indirectly, nor any agent on its behalf has offered or will offer the Series H Notes or any similar Security or has solicited or will solicit an offer to acquire the Series H Notes or any similar Security from or has otherwise approached or negotiated or will approach or negotiate in respect of the Series H Notes or any similar Security with any Person other than the Purchasers and not more than 6 other institutional investors, each of whom was offered a portion of the Series H 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 H Notes or any similar Security or has solicited or will solicit an offer to acquire the Series H Notes or any similar Security from any Person so as to cause the issuance and sale of the Series H Notes not to be exempt from the provisions of Section 5 of the Securities Act of 1933, as amended.

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CURRENT DEBT, FUNDED DEBT AND CAPITALIZED LEASES  
AS OF SEPTEMBER 30, 2002

1. Current Debt

\$11,000,000 borrowed under the Company's bank short-term line of credit with Bank of America.

2. Funded Debt

\$111,865,000 outstanding under the Company's various series of First Mortgage Bonds with due dates ranging from 2002 to 2023.

\$4,000,000 First Mortgage Bonds, Series J due 2023 (formerly Dominguez Water Company)

\$5,000,000 First Mortgage Bonds, Series K due 2012 (formerly Dominguez Water Company)

\$20,000,000 Series A Senior Notes due November 1, 2025.

\$20,000,000 Series B Senior Notes due November 1, 2028.

\$20,000,000 Series C Senior Notes due November 1, 2030.

\$20,000,000 Series D Senior Notes due November 1, 2031.

\$20,000,000 Series E Senior Notes due May 1, 2032.

\$20,000,000 Series F Senior Notes due November 1, 2017.

\$2,725,000 California Department of Water Resources Loans maturing 2011 to 2032.

\$459,000 obligations due on water system acquisitions.

3. Capitalized Leases

None.

ANNEX A  
(to Exhibit 2)

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. 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, ARCO Products Company and West Basin Municipal Water District relating to recycled water.

ANNEX B  
(to Exhibit 2)

DESCRIPTION OF CLOSING OPINION  
OF COUNSEL TO THE COMPANY

The closing opinion of Bingham McCutchen LLP, counsel for the Company, which is called for by Section 5(a) (iii) of the Sixth Supplement, 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 corporate good standing under the laws of California.

2. The execution and delivery by the Company of the Note Agreement, the Sixth Supplement and the Notes, and the performance by the Company of its obligations under the Note Agreement, the Sixth Supplement and the Notes, are within the Company's corporate powers and have been duly authorized by all requisite corporate action on the part of the Company. The Company has duly executed and delivered the Note Agreement, the Sixth Supplement and the Notes.

3. Each of the Note Agreement, the Sixth Supplement and the Notes constitutes a valid and binding agreement of the Company, enforceable against the Company in accordance with its terms. Based on Section 1646.5 of the California Civil Code, a California state court and a Federal court which applies the law of the State of California to the Note Agreement, the Sixth Supplement and the Notes would recognize and give effect to the choice of law provisions set forth in the Note Agreement, the Sixth Supplement and the Notes.

4. The execution and delivery by the Company of the Note Documents, and compliance by the Company with the provisions thereof (i) will not, to the best of our knowledge, result in a breach or default (or give rise to any right of termination, cancellation or acceleration) under the Articles of Incorporation or By-Laws of the Company, or the Mortgage Indenture, the Credit Agreement dated as of July 31, 2001, between the Company and Bank of America as Administrative Agent, or any agreement or other instrument that is listed as a material contract in CWSG's Annual Report on Form 10-K for the year ended December 31, 2001. To the best of our knowledge, no consent or approval by, or any notification of or filing with, any court, public body or authority of the State of California is required to be obtained or effected by the Company in connection with the execution, delivery and performance by the Company of the Note Documents or the issuance or sale of the Notes, except for the authorization of the Commission, which authorization has been duly obtained and is in full force and effect.

5. Based upon the representations set forth in Section 6 of the Sixth Supplement, the accuracy of which we have not independently verified or investigated, the issuance, sale and delivery of the Notes under the circumstances contemplated by the Sixth Supplement do not, under existing law, require the registration of the Notes under the Securities Act of 1933, as amended, or the qualification of the Sixth Supplement or an indenture under the Trust Indenture Act of 1939, as amended.

EXHIBIT 3  
(to Supplement)

6. Based upon the assumption of the accuracy of information obtained by the Company from sources believed by the Company to be reliable (a) 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	

(b) that water distribution systems were constructed and service furnished to the inhabitants of each by various predecessors of the Company prior to 1911; and

(c) that there were no public water works owned or controlled by the municipality in any of them prior to 1911;

in our opinion,

(i) 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 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;

(ii) 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

(iii) the right probably also extends to territory annexed into each respective city after such repeal, although this latter question is not entirely free from doubt in the absence of a final decision of the courts thereon.

7. Dominguez Services Corporation (along with its subsidiaries, "Dominguez") was merged into the Company effective May 25, 2000 and Dominguez Water Company was also merged into the Company effective October 12, 2000. In the Dominguez mergers, the Company acquired the operations of Dominguez, which to our knowledge included service to the following cities, counties, townships or localities:



Bodfish	Kernville	Mountain Shadows
Carson	Lake Hughes	Onyx
Compton	Lakeland	Torrance
Duncans Mills	Lancaster	Squirrel Valley
Fremont Valley	Leona Valley	Wofford Heights
Guerneville	Long Beach	Los Angeles County
Harbor City	Lucerne	Kern County

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8. We note that the Officers' Certificates state that: (a) to the Company's knowledge, water distribution systems were constructed and service furnished to the inhabitants of the localities currently known as Carson, Compton, Harbor City, Long Beach and Torrance by various predecessors of the Company prior to 1911; (b) the Company believes that it has a prior right to operate in these locations which right was not extinguished by the incorporation of these cities subsequent to 1911; (c) except as noted below, to the Company's knowledge Dominguez has no franchises from these cities and has made no franchise payments to them; and (d) to the Company's knowledge, no question has ever been raised as to the right to make water distribution and to maintain all pipes and mains necessary therefor.

9. We note that the Officers' Certificates state that: (a) as to the remaining localities listed in paragraph 7, to the Company's knowledge, Dominguez has received written franchise agreements which are in full force and effect and has paid all franchise fees to date, with the exception of Compton and the City of Carson Redevelopment Project #2, as to which the franchises expired without renewal in, respectively, 1994 and 1998; (b) to the Company's knowledge, Dominguez continued to provide water services to Compton and the City of Carson Redevelopment Project #2 subsequent to the expiration of the respective franchises, and to pay franchise fees; and (c) 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.

The opinion of Bingham McCutchen LLP shall cover such other matters relating to the sale of the Series H Notes as the Purchasers may reasonably request and shall provide that Chapman and Cutler in delivering its opinion under the Note Agreement may rely on the opinion of Bingham McCutchen LLP as to matters of California law. 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.

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#### DESCRIPTION OF SPECIAL COUNSEL'S CLOSING OPINION

The closing opinion of Chapman and Cutler, special counsel to the Purchasers, called for by Section 5(a)(iii) of the Sixth Supplement, 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 Sixth Supplement and to issue the Series H Notes.

2. The Note Agreement and the Sixth Supplement 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 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 H 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 H Notes under the circumstances contemplated by the Sixth Supplement do not, under existing law, require the registration of the Series H 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 Bingham McCutchen LLP as to matters of California law. The opinion of Chapman and Cutler shall also state that the opinion of Bingham McCutchen 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 representations of the Company and the Purchasers delivered in connection with the issuance and sale of the Series H Notes.

EXHIBIT 4  
(to Supplement)

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CALIFORNIA WATER SERVICE COMPANY

NINTH SUPPLEMENT TO NOTE AGREEMENT

Dated as of February 15, 2003

Re: \$10,000,000 4.58% Series K Senior Notes  
Due June 30, 2010

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Ninth Supplement to Note Agreement

Dated as of  
February 15, 2003

To the Purchaser named in  
Schedule A hereto

Ladies and Gentlemen:

This Ninth Supplement to Note Purchase Agreement (the "Ninth Supplement") is between California Water Service Company (the "Company") whose address is 1720 North First Street, San Jose, California 95112 and the institutional investor named on Schedule A attached hereto (the "Purchaser").

Reference is hereby made to that certain Note Agreement dated as of March 1, 1999 (the "Note Agreement") between the Company and the purchasers listed on Schedule I thereto. All capitalized terms not otherwise defined herein shall have the same meaning as specified in the Note Agreement. Reference is further made to Section 4.3 thereof which requires that, prior to the delivery of any Additional Notes, the Company and each Additional Purchaser shall execute and deliver a Supplement.

The Company hereby agrees with the Purchaser named on Schedule A hereto as follows:

1. The Company has authorized the issue and sale of \$10,000,000 aggregate principal amount of its 4.58% Series K Senior Notes due June 30, 2010 (the "Series K Notes"). The Series K Notes, together with the Series B Notes initially issued pursuant to the Note Agreement, the Series C Notes issued pursuant to the First Supplement to Note Agreement dated as of October 1, 2000, the Series D Notes issued pursuant to the Second Supplement to Note Agreement dated as of September 1, 2001, the Series E Notes issued pursuant to the Third Supplement to Note Agreement dated as of May 1, 2002, the Series F Notes issued pursuant to the Fourth Supplement to Note Agreement dated as of August 15, 2002, the Series G Notes issued pursuant to the Fifth Supplement to Note Agreement dated as of November 1, 2002, the Series H Notes issued pursuant to the Sixth Supplement to Note Agreement dated as of December 1, 2002, the Series L Notes being issued pursuant to the Tenth Supplement to Note Agreement dated as February 15, 2003 concurrently with these Series K Notes and each Series of Additional Notes which may from time to time be issued pursuant to the provisions of Section 1.4 of the Note Agreement, are collectively referred to as the "Notes" (such term shall also include any such notes issued in substitution therefor pursuant to Section 9.2 of the Note Agreement). The Series K Notes shall be substantially in the form set out in Exhibit 1 hereto with such changes therefrom, if any, as may be approved by the Purchaser and the Company.

2. Subject to the terms and conditions hereof and as set forth in the Note Agreement and on the basis of the representations and warranties hereinafter set forth, the Company agrees to issue and sell to the Purchaser, and the Purchaser agrees to purchase from the Company, Series K Notes in the

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principal amount set forth opposite the Purchaser's name on Schedule A hereto at a price of 100% of the principal amount thereof on the closing date hereafter mentioned.

3. Delivery of the \$10,000,000 in aggregate principal amount of the Series K 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, ABA No. 121000358, Account No. 14879-00161, Account Name: California Water Service Company Security Sales, in the amount of the purchase price at 11:00 A.M., San Francisco, California time, on February 28, 2003 or such later date (not later than March 5, 2003) as shall mutually be agreed upon by the Company and the Purchaser of the Series K Notes (the "Closing Date").

#### 4. Prepayment of Notes.

(a) Required Prepayments. No prepayments are required to be made with respect to the Series K Notes prior to the expressed maturity date thereof other than prepayments made in connection with an acceleration of the Series K Notes pursuant to the provisions of Section 6.3 of the Note Agreement.

(b) Optional Prepayment with Premium. Upon compliance with Section 4(d) below 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 Section 4(b).

(c) 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 Section 4(d) below 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 Section 4(c) shall be without premium.

(d) Notice of Optional Prepayments. The Company will give notice of any prepayment of the Notes pursuant to Section 4(b) or 4(c) 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 Ninth Supplement 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 prepayment having been so given, the aggregate principal amount of the Notes to be prepaid specified in such notice, together with accrued

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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.

(e) Application of Prepayments. In the case of each partial prepayment of the Notes pursuant to the provisions of Section 4(b) or 4(c), 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.

(f) Direct Payment. Notwithstanding anything to the contrary contained in the Note Agreement, this Ninth 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 Section 4(f) 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.

(g) Make Whole Amount. The term "Make-Whole Amount" means, with respect to any Series K Note, an amount equal to the excess, if any, of the Discounted Value of the Remaining Scheduled Payments with respect to the Called Principal of such Note over the amount of such Called Principal, provided that the Make-Whole Amount may in no event be less than zero. For the purposes of determining the Make-Whole Amount, the following terms have the following meanings:

"Called Principal" means, with respect to any Series K Note, the principal of such Note that is to be prepaid pursuant to Section 4(b) or has become or is declared to be immediately due and payable pursuant to Section 6.3 of the Note Agreement, as the context requires.

"Discounted Value" means, with respect to the Called Principal of any Series K Note, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which interest on the Series K Notes is payable) equal to the Reinvestment Yield with respect to such Called Principal.

"Reinvestment Yield" means, with respect to the Called Principal of any Series K Note, 0.50%, plus the yield to maturity implied by (i) the yields reported, as of 10:00 A.M. (New York City time) on the fifth Business Day preceding the Settlement Date with respect to such Called Principal, on the display page of the Bloomberg Financial Markets

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Services Screen PX1 or the equivalent screen provided by Bloomberg Financial Markets Commodities News for actively traded U.S. Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date, or (ii) if such yields are not reported as of such time or the yields reported as of such time are not ascertainable, the Treasury Constant Maturity Series Yields reported, for the latest day for which such yields have been so reported as of the second Business Day preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (519) (or any comparable successor publication) for actively traded U.S. Treasury securities having a constant maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date. Such implied yield will be determined, if necessary, by (a) converting U.S. Treasury bill quotations to bond-equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between (1) the actively traded U.S. Treasury security with the maturity closest to and greater than the Remaining Average Life and (2) the actively traded U.S. Treasury security with the maturity closest to and less than the Remaining Average Life.

"Remaining Average Life" means, with respect to any Called Principal, the number of years (calculated to the nearest one-twelfth year) obtained by dividing (i) such Called Principal into (ii) the sum of the products obtained by multiplying (a) the principal component of each Remaining Scheduled Payment with respect to such Called Principal by (b) the number of years (calculated to the nearest one-twelfth year) that will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

"Remaining Scheduled Payments" means, with respect to the Called Principal of any Series K Note, all payments of such Called Principal and interest thereon that would be due after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date, provided that if such Settlement Date is not a date on which interest payments are due to be made under the terms of the Series K Notes, then the amount of the next succeeding scheduled interest payment will be reduced by the amount of interest accrued to such Settlement Date and required to be paid on such Settlement Date pursuant to Section 4(b) hereof or Section 6.3 of the Note Agreement.

"Settlement Date" means, with respect to the Called Principal of any Series K Note, the date on which such Called Principal is to be prepaid pursuant to Section 4(b) hereof or has become or is declared to be immediately due and payable pursuant to Section 6.3 of the Note Agreement, as the context requires.

#### 5. Closing Conditions.

(a) Conditions. The obligation of the Purchaser to purchase the Series K 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 K Notes and to the following further conditions precedent:

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(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 K 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 2 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.

(ii) Compliance Certificate. Such Purchaser shall have received a certificate dated the Closing Date, signed by the Senior Financial Officer of the Company stating that such officer has reviewed the provisions of the Note Agreement and this Ninth Supplement and setting forth the information and computation (in sufficient detail) required in order to establish whether the Company is in compliance with Section 5.6 of the Note Agreement on the Closing Date.

(iii) Legal Opinions. Such Purchaser shall have received from Bingham McCutchen LLP, counsel for the Company, and Chapman and Cutler, special counsel for the Purchaser, their opinions dated the Closing Date, in form and substance satisfactory to such Purchaser, and covering the matters set forth respectively in Exhibits 3 and 4 hereto.

(iv) Regulatory Approval. Prior to the Closing Date, the issue and sale of the Series K 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 K Notes shall have been fulfilled. The Company shall have delivered to the Purchaser and its special counsel a certified copy of such order and the application therefor.

(v) Related Transactions. The Company shall have consummated the sale of the entire principal amount of the Series K Notes scheduled to be sold on the Closing Date pursuant to this Ninth Supplement.

(vi) Satisfactory Proceedings. All proceedings taken in connection with the transactions contemplated by this Ninth Supplement, 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.

(vii) Purchase Permitted By Applicable Law. On the Closing Date, the purchase of Series K Notes shall (a) be permitted by the laws and regulations of each jurisdiction to which the 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

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Governors of the Federal Reserve System) and (c) not subject the 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 the 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.

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

(ix) Private Placement Number. A Private Placement Number issued by Standard & Poor's CUSIP Service Bureau (in cooperation with the Securities Valuation Office of the National Association of Insurance Commissioners) shall have been obtained for the Series K Notes.

(b) The obligation of the Company to deliver the Series K Notes hereunder is subject to the conditions that (i) the Commission shall have authorized the issuance and sale by the Company of the Series K 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 K Notes scheduled to be sold on the Closing Date pursuant to this Ninth Supplement shall have been tendered by the Purchaser. If the condition specified in this Section 5(b) shall not have been fulfilled prior to or on the Closing Date, this Ninth Supplement and all the obligations of the Company hereunder, except as provided in Section 9.4 of the Note Agreement, may be cancelled by the Company.

(c) If on the Closing Date the Company fails to tender to the Purchaser the Series K Notes to be issued to the Purchaser on such date or if the conditions specified in Section 5(a) have not been fulfilled, the Purchaser may

thereupon elect to be relieved of all further obligations under this Ninth Supplement. Without limiting the foregoing, if the conditions specified in Section 5(a) 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 Section 5(c) shall operate to relieve the Company of any of its obligations hereunder or to waive the Purchaser's rights against the Company.

6. The Purchaser represents and warrants that the representations and warranties set forth in Section 3.2 of the Note Agreement are true and correct on the date hereof with respect to the Series K Notes purchased by the Purchaser.

7. The Company and the Purchaser agree to be bound by and comply with the terms and provisions of the Note Agreement as if such Purchaser were an original signatory to the Note Agreement.

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California Water Service Company  
Ninth Supplement

The execution hereof shall constitute a contract between the Company and the Purchaser for the uses and purposes hereinabove set forth, and 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: Gerald F. Feeney  
Title: Vice President, Chief Financial  
Officer and Treasurer

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California Water Service Company  
Ninth Supplement

Accepted as of February 15, 2003

Allstate Life Insurance Company

By:  
Name:

By:  
Name:  
Authorized Signatories

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#### INFORMATION RELATING TO PURCHASERS

Name and Address of Purchaser	PRINCIPAL AMOUNT OF SERIES K NOTES TO BE PURCHASED
Allstate Life Insurance Company 3075 Sanders Road, STE G5D Northbrook, Illinois 60062-7127 Attention: Private Placements Department Telephone Number: (847) 402-7117 Telecopier Number: (847) 402-3092	\$10,000,000

#### Payments

All payments on or in respect of the Notes to be made by Fedwire transfer of immediately available funds, identifying the name of the Issuer, the Private Placement Number preceded by "DPP" and the payment as principal, interest or premium, in the exact format as follows:

#### Notices

All notices of scheduled payments and written confirmation of each such payment, to be addressed:

Allstate Insurance Company  
Investment Operations-Private Placements  
3075 Sanders Road, STE G4A  
Northbrook, Illinois 60062-7127

Telephone: (847) 402-6672 Private Placements  
Telecopy: (847) 326-7032

All financial reports, compliance certificates and all other written communications, including notice of prepayments to be addressed as first provided above.

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

Taxpayer I.D. Number: 36-2554642

SCHEDULE A  
(to Supplement)

[FORM OF SERIES K NOTE]

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

4.58% Series K Senior Note  
Due June 30, 2010

PPN 130789 P\* 5

No. February 28, 2003  
\$

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

or registered assigns  
on the thirtieth day of June, 2010,  
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 4.58% per annum from the date hereof until maturity, payable semiannually on the thirtieth day of June and the thirty-first day of December 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 6.58% 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") issued pursuant to the Ninth Supplement (the "Ninth Supplement") to the Note Agreement dated as of March 1, 1999 (as from time to time amended and supplemented, the "Note Agreement"), between the Company, the Purchaser named therein and Additional Purchasers of Notes from time to 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

EXHIBIT 1  
(to Supplement)

outstanding under the Note Agreement to all the benefits provided for thereby or referred to therein. Each holder of this Note will be deemed, by its acceptance hereof, to have made the representation set forth 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 the 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 K Notes. The issuance and sale of the Series K Notes and the execution and delivery of the Ninth Supplement 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. The 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 December 31, 2002.

5. Financial Statements and Reports. The Company has furnished the Purchaser with a copy of its audited financial reports for 1999, 2000 and 2001 and an unaudited financial report for 2002 hereinafter called the "Company Reports," and a copy of Form 10-K filed by California Water Service Group ("CWSG") hereinafter called the "CWSG 10-K" with the Securities and Exchange Commission for 2001, 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 the CWSG 10-K. The Company has also furnished the Purchaser with an unaudited quarterly financial statement for the Company for the fiscal quarter ended September 30, 2002, and Forms 10 Q for CWSG for the fiscal quarter ended September 30, 2002 (the "Quarterly Reports"). The financial statements contained in the foregoing Company Reports, the CWSG 10-K, the Quarterly Reports 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.

#### EXHIBIT 2

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 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 of December 31, 2001, 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 Company Reports and CWSG 10-K 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 Company Information, 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, 2001, 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 2001 Company Report and paragraph 9 hereof. 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) some of the offices, but not 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 \$1,000,000)

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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 \$1,000,000, the Company has good and merchantable title to all its other property and assets subject only to the lien of the Mortgage Indenture and the lien of the Dominguez 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 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. As used herein, the term "Dominguez Mortgage Indenture" means the Trust Indenture dated as of August 1, 1954, as supplemented from time to time, between the Company, as successor to Dominguez Water Company ("Dominguez") and U.S. Bank, as Trustee, which provides a lien on properties owned by Dominguez immediately prior to the merger described in paragraph 9 hereof which lien secures \$9,000,000 in aggregate principal amount of Dominguez bonds which were assumed by the Company upon the merger.

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

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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 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.

On May 25, 2000, Dominguez Service Corporation was merged into the Company and subsequently Dominguez and its subsidiaries were also merged into the Company (collectively, the "merger"). The Company acquired in the Dominguez merger operations in the following cities, counties, townships or localities that Dominguez previously served:

Bodfish	Kern County	Los Angeles County
Carson	Kernville	Lucerne
Compton	Lake Hughes	Mountain Shadows
Duncans Mills	Lakeland	Onyx
Fremont Valley	Lancaster	Squirrel Valley
Guerneville	Leona Valley	Torrance
Harbor City	Long Beach	Wofford Heights

Water distribution systems were constructed and service furnished to the inhabitants of the localities currently known as Carson, Compton, Harbor City, Long Beach and Torrance by various predecessors of the Company prior to 1911 and the Company believes that it has a prior right to operate in these locations which right was not extinguished by the incorporation of these cities subsequent to 1911. Except as noted below, Dominguez has no franchises from these cities and has made no franchise payments to them and, to the Company's knowledge, no question has ever been raised as to the right to make water distribution and to maintain all pipes and mains necessary therefor.

As to the remaining localities, Dominguez has received written franchise agreements which are in full force and effect and has paid all franchise fees to date, with the exception of Compton, as to which the franchise expired without renewal in 1994. Dominguez continued to provide

water services to Compton subsequent to the expiration of the franchise, and to pay franchise fees, 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 Ninth Supplement or the Series K 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 holder of the Series K 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 K Notes or the execution, delivery or performance of the Ninth Supplement, 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 K 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 Ninth Supplement, the consummation of the transactions therein provided for and compliance with the provisions of the Ninth Supplement and the Series K 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.

17. Use of Proceeds. The Company will use the gross proceeds derived from the sale of the Series K Notes under the Ninth Supplement to refinance existing Indebtedness and for general corporate purposes. None of the transactions contemplated in the Ninth Supplement (including, without limitation thereof, the use of the proceeds from the sale of the Series K 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

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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 K 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, 2001, the last annual valuation date, the actuarial present value of all benefits vested under the Plans by more than \$10,898,000.

(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 Ninth Supplement and compliance by the Company with the provisions thereof and the Series K 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 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, after due inquiry, 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

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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. Except as disclosed in the "Environmental Matters" section of Item 1 of the CWSG 10-K, the "Environmental Matters" section of CWSG's 2001 Annual Report and the "Legal Proceedings" section of Item 3 of the CWSG 10-K with respect to matters in Chico and Marysville, California, 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 Ninth Supplement do not, nor does the Ninth Supplement, the Company Information or any written statement (including without limitation the 2001 Company Report and the 2001 CWSG Report) furnished by the Company to you in connection with the negotiation of the sale of the Series K 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 Note Agreement, the Ninth Supplement or the Series K Notes.

22. Private Offering. Neither the Company, directly or indirectly, nor any agent on its behalf has offered or will offer the Series K Notes or any similar Security or has solicited or will solicit an offer to acquire the Series K Notes or any similar Security from or has otherwise approached or negotiated or will approach or negotiate in respect of the Series K Notes or any similar Security with any Person other than the Purchaser and not more than 1 other institutional investor, who was offered a portion of the Series K 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 K Notes or any similar Security or has solicited or will solicit an offer to acquire the Series K Notes or any similar Security from any Person so as to cause the issuance and sale of the Series K Notes not to be exempt from the provisions of Section 5 of the Securities Act of 1933, as amended.

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CURRENT DEBT, FUNDED DEBT AND CAPITALIZED LEASES  
AS OF DECEMBER 31, 2002

1. Current Debt

\$34,000,000 borrowed under the Company's bank short-term line of credit with Bank of America.

2. Funded Debt

\$75,700,000 outstanding under the Company's various series of First Mortgage Bonds with due dates ranging from 2020 to 2023.

\$4,000,000 First Mortgage Bonds, Series J due 2023 (formerly Dominguez Water Company).

\$5,000,000 First Mortgage Bonds, Series K due 2012 (formerly Dominguez Water Company).

\$20,000,000 Series A Senior Notes due November 1, 2025.

\$20,000,000 Series B Senior Notes due November 1, 2028.

\$20,000,000 Series C Senior Notes due November 1, 2030.

\$20,000,000 Series D Senior Notes due November 1, 2031.

\$20,000,000 Series E Senior Notes due May 1, 2032.

\$20,000,000 Series F Senior Notes due November 1, 2017.

\$20,000,000 Series G Senior Notes due November 1, 2022.

\$20,000,000 Series H Senior Notes due December 1, 2022.

\$2,719,000 California Department of Water Resources Loans maturing 2011 to 2032.

\$430,000 obligations due on water system acquisitions.

3. Capitalized Leases

None.

ANNEX A  
(to Exhibit 2)

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. 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, ARCO Products Company and West Basin Municipal Water District relating to recycled water.

ANNEX B  
(to Exhibit 2)

DESCRIPTION OF CLOSING OPINION  
OF COUNSEL TO THE COMPANY

The closing opinion of Bingham McCutchen LLP, counsel for the Company, which is called for by Section 5(a) (iii) of the Ninth Supplement, shall be dated the Closing Date and addressed to the Purchaser, shall be satisfactory in scope and form to the Purchaser and shall be to the effect that:

1. The Company is a corporation duly incorporated, validly existing and in corporate good standing under the laws of California.

2. The execution and delivery by the Company of the Note Agreement, the Ninth Supplement and the Notes, and the performance by the Company of its obligations under the Note Agreement, the Ninth Supplement and the Notes, are within the Company's corporate powers and have been duly authorized by all requisite corporate action on the part of the Company. The Company has duly executed and delivered the Note Agreement, the Ninth Supplement and the Notes.

3. Each of the Note Agreement, the Ninth Supplement and the Notes constitutes a valid and binding agreement of the Company, enforceable against the Company in accordance with its terms. Based on Section 1646.5 of the California Civil Code, a California state court and a Federal court which applies the law of the State of California to the Note Agreement, the Ninth Supplement and the Notes would recognize and give effect to the choice of law provisions set forth in the Note Agreement, the Ninth Supplement and the Notes.

4. The execution and delivery by the Company of the Note Documents, and compliance by the Company with the provisions thereof will not, to the best of our knowledge, result in a breach or default (or give rise to any right of termination, cancellation or acceleration) under the Articles of Incorporation or By-Laws of the Company, or the Mortgage Indenture, the Credit Agreement dated as of July 31, 2001, between the Company and Bank of America as Administrative Agent, or any agreement or other instrument that is listed as a material contract in CWSG's Annual Report on Form 10-K for the year ended December 31, 2001. To the best of our knowledge, no consent or approval by, or any notification of or filing with, any court, public body or authority of the State of California is required to be obtained or effected by the Company in connection with the execution, delivery and performance by the Company of the Note Documents or the issuance or sale of the Notes, except for the authorization of the Commission, which authorization has been duly obtained and is in full force and effect.

5. Based upon the representations set forth in Section 6 of the Ninth Supplement, the accuracy of which we have not independently verified or investigated, the issuance, sale and delivery of the Notes under the circumstances contemplated by the Ninth Supplement do not, under existing law, require the registration of the Notes under the Securities Act of 1933, as amended, or the qualification of the Ninth Supplement or an indenture under the Trust Indenture Act of 1939, as amended.

EXHIBIT 3  
(to Supplement)

6. Based upon the assumption of the accuracy of information obtained by the Company from sources believed by the Company to be reliable (a) 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	

(b) that water distribution systems were constructed and service furnished to the inhabitants of each by various predecessors of the Company prior to 1911; and

(c) that there were no public water works owned or controlled by the municipality in any of them prior to 1911;

in our opinion,

(i) 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 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;

(ii) 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

(iii) the right probably also extends to territory annexed into each respective city after such repeal, although this latter question is not entirely free from doubt in the absence of a final decision of the courts thereon.

7. Dominguez Services Corporation (along with its subsidiaries, "Dominguez") was merged into the Company effective May 25, 2000 and Dominguez Water Company was also merged into the Company effective October 12, 2000. In the Dominguez mergers, the Company acquired the operations of Dominguez, which to our knowledge included service to the following cities, counties, townships or localities:

Bodfish	Kernville	Mountain Shadows
Carson	Lake Hughes	Onyx
Compton	Lakeland	Torrance
Duncans Mills	Lancaster	Squirrel Valley
Fremont Valley	Leona Valley	Wofford Heights
Guerneville	Long Beach	Los Angeles County
Harbor City	Lucerne	Kern County

8. We note that the Officers' Certificates state that: (a) to the Company's knowledge, water distribution systems were constructed and service furnished to the inhabitants of the localities currently



known as Carson, Compton, Harbor City, Long Beach and Torrance by various predecessors of the Company prior to 1911; (b) the Company believes that it has a prior right to operate in these locations which right was not extinguished by the incorporation of these cities subsequent to 1911; (c) except as noted below, to the Company's knowledge Dominguez has no franchises from these cities and has made no franchise payments to them; and (d) to the Company's knowledge, no question has ever been raised as to the right to make water distribution and to maintain all pipes and mains necessary therefor.

9. We note that the Officers' Certificates state that: (a) as to the remaining localities listed in paragraph 7, to the Company's knowledge, Dominguez has received written franchise agreements which are in full force and effect and has paid all franchise fees to date, with the exception of Compton, as to which the franchise expired without renewal in 1994; (b) to the Company's knowledge, Dominguez continued to provide water services to Compton subsequent to the expiration of the franchise, and to pay franchise fees; and (c) 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.

The opinion of Bingham McCutchen LLP shall cover such other matters relating to the sale of the Series K Notes as the Purchaser may reasonably request and shall provide that Chapman and Cutler in delivering its opinion under the Note Agreement may rely on the opinion of Bingham McCutchen LLP as to matters of California law. 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.

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#### DESCRIPTION OF SPECIAL COUNSEL'S CLOSING OPINION

The closing opinion of Chapman and Cutler, special counsel to the Purchaser, called for by Section 5(a)(iii) of the Ninth Supplement, shall be dated the Closing Date and addressed to the Purchaser, shall be satisfactory in form and substance to the Purchaser 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 Ninth Supplement and to issue the Series K Notes.

2. The Note Agreement and the Ninth Supplement 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 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 K 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 K Notes under the circumstances contemplated by the Ninth Supplement do not, under existing law, require the registration of the Series K 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 Bingham McCutchen LLP as to matters of California law. The opinion of Chapman and Cutler shall also state that the opinion of Bingham McCutchen LLP is satisfactory in scope and form to Chapman and Cutler and that, in their opinion, the Purchaser is 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 representations of the Company and the Purchaser delivered in connection with the issuance and sale of the Series K Notes.

EXHIBIT 4  
(to Supplement)

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CALIFORNIA WATER SERVICE COMPANY

TENTH SUPPLEMENT TO NOTE AGREEMENT

Dated as of February 15, 2003

Re: \$10,000,000 5.48% Series L Senior Notes  
Due March 1, 2018  
-----

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TENTH SUPPLEMENT TO NOTE AGREEMENT

Dated as of  
February 15, 2003

To the Purchaser named in  
Schedule A hereto

Ladies and Gentlemen:

This Tenth Supplement to Note Purchase Agreement (the "Tenth Supplement") is between California Water Service Company (the "Company") whose address is 1720 North First Street, San Jose, California 95112 and the institutional investor named on Schedule A attached hereto (the "Purchaser").

Reference is hereby made to that certain Note Agreement dated as of March 1, 1999 (the "Note Agreement") between the Company and the purchasers listed on Schedule I thereto. All capitalized terms not otherwise defined herein shall have the same meaning as specified in the Note Agreement. Reference is further made to Section 4.3 thereof which requires that, prior to the delivery of any Additional Notes, the Company and each Additional Purchaser shall execute and deliver a Supplement.

The Company hereby agrees with the Purchaser named on Schedule A hereto as follows:

1. The Company has authorized the issue and sale of \$10,000,000 aggregate principal amount of its 5.48% Series L Senior Notes due March 1, 2018 (the "Series L Notes"). The Series L Notes, together with the Series B Notes initially issued pursuant to the Note Agreement, the Series C Notes issued pursuant to the First Supplement to Note Agreement dated as of October 1, 2000, the Series D Notes issued pursuant to the Second Supplement to Note Agreement dated as of September 1, 2001, the Series E Notes issued pursuant to the Third Supplement to Note Agreement dated as of May 1, 2002, the Series F Notes issued pursuant to the Fourth Supplement to Note Agreement dated as of August 15, 2002, the Series G Notes issued pursuant to the Fifth Supplement to Note Agreement dated as of November 15, 2002, the Series H Notes issued pursuant to the Sixth Supplement to Note Agreement dated as of December 1, 2002, the Series K Notes being issued pursuant to the Ninth Supplement to Note Agreement dated as of February 15, 2003 concurrently with these Series L Notes and each Series of Additional Notes which may from time to time be issued pursuant to the provisions of Section 1.4 of the Note Agreement, are collectively referred to as the "Notes" (such term shall also include any such notes issued in substitution therefor pursuant to Section 9.2 of the Note Agreement). The Series L Notes shall be substantially in the form set out in Exhibit 1 hereto with such changes therefrom, if any, as may be approved by the Purchaser and the Company.

2. Subject to the terms and conditions hereof and as set forth in the Note Agreement and on the basis of the representations and warranties hereinafter set forth, the Company agrees

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to issue and sell to the Purchaser, and the Purchaser agrees to purchase from the Company, Series L Notes in the principal amount set forth opposite the Purchaser's name on Schedule A hereto at a price of 100% of the principal amount thereof on the closing date hereafter mentioned.

3. Delivery of the \$10,000,000 in aggregate principal amount of the Series L 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, ABA No. 121000358, Account No. 14879-00161, Account Name: California Water Service Company Security Sales, in the amount of the purchase price at 11:00 A.M., San Francisco, California time, on February 28, 2003 or such later date (not later than March 5, 2003) as shall mutually be agreed upon by the Company and the Purchaser of the Series L Notes (the "Closing Date").

#### 4. Prepayment of Notes.

(a) Required Prepayments. No prepayments are required to be made with respect to the Series L Notes prior to the expressed maturity date thereof other than prepayments made in connection with an acceleration of the Series L Notes pursuant to the provisions of Section 6.3 of the Note Agreement.

(b) Optional Prepayment with Premium. Upon compliance with Section 4(d) below 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 Section 4(b).

(c) 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 Section 4(d) below 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 Section 4(c) shall be without premium.

(d) Notice of Optional Prepayments. The Company will give notice of any prepayment of the Notes pursuant to Section 4(b) or 4(c) 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 Tenth Supplement 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

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shall also certify all facts, if any, which are conditions precedent to any such prepayment. Notice of 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.

(e) Application of Prepayments. In the case of each partial prepayment of the Notes pursuant to the provisions of Section 4(b) or 4(c), 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.

(f) Direct Payment. Notwithstanding anything to the contrary contained in the Note Agreement, this Tenth 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 Section 4(f) 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.

(g) Make Whole Amount. The term "Make-Whole Amount" means, with respect to any Series L Note, an amount equal to the excess, if any, of the Discounted Value of the Remaining Scheduled Payments with respect to the Called Principal of such Note over the amount of such Called Principal, provided that the Make-Whole Amount may in no event be less than zero. For the purposes of determining the Make-Whole Amount, the following terms have the following meanings:

"Called Principal" means, with respect to any Series L Note, the principal of such Note that is to be prepaid pursuant to Section 4(b) or has become or is declared to be immediately due and payable pursuant to Section 6.3 of the Note Agreement, as the context requires.

"Discounted Value" means, with respect to the Called Principal of any Series L Note, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which interest on the Series L Notes is payable) equal to the Reinvestment Yield with respect to such Called Principal.

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"Reinvestment Yield" means, with respect to the Called Principal of any Series L Note, 0.50%, plus the yield to maturity implied by (i) the yields reported, as of 10:00 A.M. (New York City time) on the fifth Business Day preceding the Settlement Date with respect to such Called Principal, on the display page of the Bloomberg Financial Markets Services Screen PX1 or the equivalent screen provided by Bloomberg Financial Markets Commodities News for actively traded U.S. Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date, or (ii) if such yields are not reported as of such time or the yields reported as of such time are not ascertainable, the Treasury Constant Maturity Series Yields reported, for the latest day for which such yields have been so reported as of the second Business Day preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (519) (or any comparable successor publication) for actively traded U.S. Treasury securities having a constant maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date. Such implied yield will be determined, if necessary, by (a) converting U.S. Treasury bill quotations to bond-equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between (1) the actively traded U.S. Treasury security with the maturity closest to and greater than the Remaining Average Life and (2) the actively traded U.S. Treasury security with the maturity closest to and less than the Remaining Average Life.

"Remaining Average Life" means, with respect to any Called Principal, the number of years (calculated to the nearest one-twelfth year) obtained by dividing (i) such Called Principal into (ii) the sum of the products obtained by multiplying (a) the principal component of each Remaining Scheduled Payment with respect to such Called Principal by (b) the number of years (calculated to the nearest one-twelfth year) that will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

"Remaining Scheduled Payments" means, with respect to the Called Principal of any Series L Note, all payments of such Called Principal and interest thereon that would be due after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date, provided that if such Settlement Date is not a date on which interest payments are due to be made under the terms of the Series L Notes, then the amount of the next succeeding scheduled interest payment will be reduced by the amount of interest accrued to such Settlement Date and required to be paid on such Settlement Date pursuant to Section 4(b) hereof or Section 6.3 of the Note Agreement.

"Settlement Date" means, with respect to the Called Principal of any Series L Note, the date on which such Called Principal is to be prepaid pursuant to Section 4(b) hereof or has become or is declared to be immediately due and payable pursuant to Section 6.3 of the Note Agreement, as the context requires.

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## 5. Closing Conditions.

(a) Conditions. The obligation of the Purchaser to purchase the Series L 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 L 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 L 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 2 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.

(ii) Compliance Certificate. Such Purchaser shall have received a certificate dated the Closing Date, signed by the Senior Financial Officer of the Company stating that such officer has reviewed the provisions of the Note Agreement and this Tenth Supplement and setting forth the information and computation (in sufficient detail) required in order to establish whether the Company is in compliance with Section 5.6 of the Note Agreement on the Closing Date.

(iii) Legal Opinions. Such Purchaser shall have received from Bingham McCutchen LLP, counsel for the Company, and Chapman and Cutler, special counsel for the Purchaser, their opinions dated the Closing Date, in form and substance satisfactory to such Purchaser, and covering the matters set forth respectively in Exhibits 3 and 4 hereto.

(iv) Regulatory Approval. Prior to the Closing Date, the issue and sale of the Series L 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 L Notes shall have been fulfilled. The Company shall have delivered to the Purchaser and its special counsel a certified copy of such order and the application therefor.

(v) Related Transactions. The Company shall have consummated the sale of the entire principal amount of the Series L Notes scheduled to be sold on the Closing Date pursuant to this Tenth Supplement.

(vi) Satisfactory Proceedings. All proceedings taken in connection with the transactions contemplated by this Tenth Supplement, and all documents necessary to the consummation thereof, shall be satisfactory in form and substance to such Purchaser and

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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.

(vii) Purchase Permitted by Applicable Law. On the Closing Date, the purchase of Series L Notes shall (a) be permitted by the laws and regulations of each jurisdiction to which the 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 the 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 the 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 the Purchaser to determine whether such purchase is so permitted.

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

(ix) Private Placement Number. A Private Placement Number issued by Standard & Poor's CUSIP Service Bureau (in cooperation with the Securities Valuation Office of the National Association of Insurance Commissioners) shall have been obtained for the Series L Notes.

(b) The obligation of the Company to deliver the Series L Notes hereunder is subject to the conditions that (i) the Commission shall have authorized the issuance and sale by the Company of the Series L 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 L Notes scheduled to be sold on the Closing Date pursuant to this Tenth Supplement shall have been tendered by the Purchaser. If the condition specified in this Section 5(b) shall not have been fulfilled prior to or on the Closing Date, this Tenth Supplement and all the obligations of the Company hereunder, except as provided in Section 9.4 of the Note Agreement, may be cancelled by the Company.

(c) If on the Closing Date the Company fails to tender to the Purchaser the Series L Notes to be issued to the Purchaser on such date or if the conditions specified in Section 5(a) have not been fulfilled, the Purchaser may

thereupon elect to be relieved of all further obligations under this Tenth Supplement. Without limiting the foregoing, if the conditions specified in Section 5(a) 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 Section 5(c) shall operate to relieve the Company of any of its obligations hereunder or to waive the Purchaser's rights against the Company.

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6. The Purchaser represents and warrants that the representations and warranties set forth in Section 3.2 of the Note Agreement are true and correct on the date hereof with respect to the Series L Notes purchased by the Purchaser.

7. The Company and the Purchaser agree to be bound by and comply with the terms and provisions of the Note Agreement as if such Purchaser were an original signatory to the Note Agreement.

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California Water Service Company  
Tenth Supplement

The execution hereof shall constitute a contract between the Company and the Purchaser for the uses and purposes hereinabove set forth, and 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: Gerald F. Feeney  
Title: Vice President, Chief Financial  
Officer and Treasurer

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California Water Service Company  
Tenth Supplement

Accepted as of February 15, 2003

AMERICAN GENERAL LIFE AND ACCIDENT  
INSURANCE COMPANY

By: AIG Global Investment Corp.

By  
Name: Sarah Helmich  
Title: Vice President

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INFORMATION RELATING TO THE PURCHASER

NAME AND ADDRESS OF PURCHASER	PRINCIPAL AMOUNT OF SERIES G NOTES TO BE PURCHASED
AMERICAN GENERAL LIFE AND ACCIDENT INSURANCE COMPANY c/o AIG Global Investment Corporation P.O. Box 3247 Houston, Texas 77253-3247 Attention: Private Placement Department, A36-04 Fax Number: (713) 831-1072 Overnight Mailing Address: 2929 Allen Parkway, A36-04 Houston, Texas 77019-2155	\$10,000,000

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, 5.48% Senior Notes, Series L, due March 1, 2018, PPN 130789 P@ 3, principal or interest") to:

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  
801 Pennsylvania  
Kansas City, Missouri 64105  
Facsimile Number: (816) 691-3619

Duplicate payment notices and all other correspondences to be addressed to American General Life and Accident Insurance Company and PA 10 as first provided above with a copy to:

AIG Global Investment Corporation  
Legal Department - Investment Management  
2929 Allen Parkway, Suite A36-01  
Houston, Texas 77019-2155  
Facsimile Number: (713) 831-2328

Name of Nominee in which Notes are to be issued: None  
Taxpayer I.D. Number: 62-0306330

SCHEDULE A  
(to Supplement)

[FORM OF SERIES L NOTE]

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

5.48% Series L Senior Note  
Due March 1, 2018

PPN: 130789 P@ 3

No. February 28, 2003

\$

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 March, 2018,  
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 5.48% per annum from the date hereof until maturity, payable semiannually on the first day of each March and September in each year (commencing on the second 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 7.48% 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") issued pursuant to the Tenth Supplement (the "Tenth Supplement") to the Note Agreement dated as of March 1, 1999 (as from time to time amended and supplemented, the "Note Agreement"), between the Company, the Purchaser named therein and Additional Purchasers of Notes from time to 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

EXHIBIT 1  
(to Supplement)



the Note Agreement to all the benefits provided for thereby or referred to therein. Each holder of this Note will be deemed, by its acceptance hereof, to have made the representation set forth 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 the 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 L Notes. The issuance and sale of the Series L Notes and the execution and delivery of the Tenth Supplement 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. The 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 December 31, 2002.

5. Financial Statements and Reports. The Company has furnished the Purchaser with a copy of its audited financial reports for 1999, 2000 and 2001 and a copy of its unaudited financial report for 2002 hereinafter called the "Company Reports," and a copy of Form 10-K filed by California Water Service Group ("CWSG") hereinafter called the "CWSG 10-K" with the Securities and Exchange Commission for 2001, together with all reports or documents required to be filed by CWSG pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, since the filing of the CWSG 10-K. The Company has also furnished the Purchaser with an unaudited quarterly financial statement for the Company for the fiscal quarter ended September 30, 2002, and Forms 10-Q for CWSG for the fiscal quarter ended September 30, 2002 (the "Quarterly Reports"). The financial statements contained in the foregoing Company Reports, the CWSG 10-K, the Quarterly Reports 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.

EXHIBIT 2  
(to supplement)

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 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 of December 31, 2001, 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 Company Reports and CWSG 10-K 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 Company Information, 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, 2001, 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 2001 Company Report and paragraph 9 hereof. 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) some of the offices, but not 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 \$1,000,000) 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

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thereto is fee simple. Except for parcels of land having an aggregate book value of not more than \$1,000,000, the Company has good and merchantable title to all its other property and assets subject only to the lien of the Mortgage Indenture and the lien of the Dominguez 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 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. As used herein, the term "Dominguez Mortgage Indenture" means the Trust Indenture dated as of August 1, 1954, as supplemented from time to time, between the Company, as successor to Dominguez Water Company ("Dominguez") and U.S. Bank, as Trustee, which provides a lien on properties owned by Dominguez immediately

prior to the merger described in paragraph 9 hereof which lien secures \$9,000,000 in aggregate principal amount of Dominguez bonds which were assumed by the Company upon the merger.

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

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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 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.

On May 25, 2000, Dominguez Service Corporation was merged into the Company and subsequently Dominguez and its subsidiaries were also merged into the Company (collectively, the "merger"). The Company acquired in the Dominguez merger operations in the following cities, counties, townships or localities that Dominguez previously served:

Bodfish	Kern County	Los Angeles County
Carson	Kernville	Lucerne
Compton	Lake Hughes	Mountain Shadows
Duncans Mills	Lakeland	Onyx
Fremont Valley	Lancaster	Squirrel Valley
Guerneville	Leona Valley	Torrance
Harbor City	Long Beach	Wofford Heights

Water distribution systems were constructed and service furnished to the

inhabitants of the localities currently known as Carson, Compton, Harbor City, Long Beach and Torrance by various predecessors of the Company prior to 1911 and the Company believes that it has a prior right to operate in these locations which right was not extinguished by the incorporation of these cities subsequent to 1911. Except as noted below, Dominguez has no franchises from these cities and has made no franchise payments to them and, to the Company's knowledge, no question has ever been raised as to the right to make water distribution and to maintain all pipes and mains necessary therefor.

As to the remaining localities, Dominguez has received written franchise agreements which are in full force and effect and has paid all franchise fees to date, with the exception of Compton, as to which the franchise expired without renewal in 1994. Dominguez continued to

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provide water services to Compton subsequent to the expiration of the franchise, and to pay franchise fees, 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 Tenth Supplement or the Series L 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 holder of the Series L 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

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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 L Notes or the execution, delivery or performance of the Tenth Supplement, 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 L 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 Tenth Supplement, the consummation of the transactions therein provided for and compliance with the provisions of the Tenth Supplement and the Series L 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.

17. Use of Proceeds. The Company will use the gross proceeds derived from the sale of the Series L Notes under the Tenth Supplement to refinance existing Indebtedness and for general corporate purposes. None of the transactions contemplated in the Tenth Supplement (including, without limitation thereof, the use of the proceeds from the sale of the Series L 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.

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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 L 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, 2001, the last annual valuation date, the actuarial present value of all benefits vested under the Plans by more than \$10,898,000.

(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 Tenth Supplement and compliance by the Company with the provisions thereof and the Series L 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 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, after due inquiry, 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,

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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. Except as disclosed in the "Environmental Matters" section of Item 1 of the CWSG 10-K, the "Environmental Matters" section of CWSG's 2001 Annual Report and the "Legal Proceedings" section of Item 3 of the CWSG 10-K with respect to matters in Chico and Marysville, California, 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 Tenth Supplement do not, nor does the Tenth Supplement, the Company Information or any written statement (including without limitation the 2001 Company Report and the 2001 CWSG Report) furnished by the Company to you in connection with the negotiation of the sale of the Series L 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 Note Agreement, the Tenth Supplement or the Series L Notes.

22. Private Offering. Neither the Company, directly or indirectly, nor any agent on its behalf has offered or will offer the Series L Notes or any similar Security or has solicited or will solicit an offer to acquire the Series L Notes or any similar Security from or has otherwise approached or negotiated or will approach or negotiate in respect of the Series L Notes or any similar Security with any Person other than the Purchaser and not more than 1 other institutional investor, who was offered a portion of the Series L 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 L Notes or any similar Security or has solicited or will solicit an offer to acquire the Series L Notes or any similar Security from any Person so as to cause the issuance and sale of the Series L Notes not to be exempt from the provisions of Section 5 of the Securities Act of 1933, as amended.

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CURRENT DEBT, FUNDED DEBT AND CAPITALIZED LEASES  
AS OF DECEMBER 31, 2002

1. Current Debt  
  
\$34,000,000 borrowed under the Company's bank short-term line of credit with Bank of America.
2. Funded Debt  
  
\$75,700,000 outstanding under the Company's various series of First Mortgage Bonds with due dates ranging from 2020 to 2023.  
  
\$4,000,000 First Mortgage Bonds, Series J due 2023 (formerly Dominguez Water Company).  
  
\$5,000,000 First Mortgage Bonds, Series K due 2012 (formerly Dominguez Water Company).  
  
\$20,000,000 Series A Senior Notes due November 1, 2025.

\$20,000,000 Series B Senior Notes due November 1, 2028.  
\$20,000,000 Series C Senior Notes due November 1, 2030.  
\$20,000,000 Series D Senior Notes due November 1, 2031.  
\$20,000,000 Series E Senior Notes due May 1, 2032.  
\$20,000,000 Series F Senior Notes due November 1, 2017.  
\$20,000,000 Series G Senior Notes due November 1, 2022.  
\$20,000,000 Series H Senior Notes due December 1, 2022.  
\$2,719,000 California Department of Water Resources Loans maturing 2011 to 2032.  
\$430,000 obligations due on water system acquisitions.

3. Capitalized Leases

None.

ANNEX A  
(to Exhibit 2)

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. 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, ARCO Products Company and West Basin Municipal Water District relating to recycled water.

ANNEX B  
(to Exhibit 2)

DESCRIPTION OF CLOSING OPINION  
OF COUNSEL TO THE COMPANY

The closing opinion of Bingham McCutchen LLP, counsel for the Company, which is called for by Section 5(a)(iii) of the Tenth Supplement, shall be dated the Closing Date and addressed to the Purchaser, shall be satisfactory in scope and form to the Purchaser and shall be to the effect that:

1. The Company is a corporation duly incorporated, validly existing and in corporate good standing under the laws of California.

2. The execution and delivery by the Company of the Note Agreement, the Tenth Supplement and the Notes, and the performance by the Company of its obligations under the Note Agreement, the Tenth Supplement and the Notes, are within the Company's corporate powers and have been duly authorized by all requisite corporate action on the part of the Company. The Company has duly executed and delivered the Note Agreement, the Tenth Supplement and the Notes.

3. Each of the Note Agreement, the Tenth Supplement and the Notes constitutes a valid and binding agreement of the Company, enforceable against the Company in accordance with its terms. Based on Section 1646.5 of the California Civil Code, a California state court and a Federal court which applies the law of the State of California to the Note Agreement, the Tenth Supplement and the Notes would recognize and give effect to the choice of law provisions set forth in the Note Agreement, the Tenth Supplement and the Notes.

4. The execution and delivery by the Company of the Note Documents, and compliance by the Company with the provisions thereof (i) will not, to the best of our knowledge, result in a breach or default (or give rise to any right of termination, cancellation or acceleration) under the Articles of Incorporation or By-Laws of the Company, or the Mortgage Indenture, the Credit Agreement dated as of July 31, 2001, between the Company and Bank of America as Administrative Agent, or any agreement or other instrument that is listed as a material contract in CWSG's Annual Report on Form 10-K for the year ended December 31, 2001. To the best of our knowledge, no consent or approval by, or any notification of or filing with, any court, public body or authority of the State of California is required to be obtained or effected by the Company in connection with the execution, delivery and performance by the Company of the Note Documents or the issuance or sale of the Notes, except for the authorization of the Commission, which authorization has been duly obtained and is in full force and effect.

5. Based upon the representations set forth in Section 6 of the Tenth Supplement, the accuracy of which we have not independently verified or investigated, the issuance, sale and delivery of the Notes under the circumstances contemplated by the Tenth Supplement do not, under existing law, require the registration of the Notes under the Securities Act of 1933, as amended, or the qualification of the Tenth Supplement or an indenture under the Trust Indenture Act of 1939, as amended.

EXHIBIT 3  
(to Supplement)

6. Based upon the assumption of the accuracy of information obtained by the Company from sources believed by the Company to be reliable (a) 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	

(b) that water distribution systems were constructed and service furnished to the inhabitants of each by various predecessors of the Company prior to 1911; and

(c) that there were no public water works owned or controlled by the municipality in any of them prior to 1911;

in our opinion,

(i) 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 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;



(ii) 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

(iii) the right probably also extends to territory annexed into each respective city after such repeal, although this latter question is not entirely free from doubt in the absence of a final decision of the courts thereon.

7. Dominguez Services Corporation (along with its subsidiaries, "Dominguez") was merged into the Company effective May 25, 2000 and Dominguez Water Company was also merged into the Company effective October 12, 2000. In the Dominguez mergers, the Company acquired the operations of Dominguez, which to our knowledge included service to the following cities, counties, townships or localities:

Bodfish	Kernville	Mountain Shadows
Carson	Lake Hughes	Onyx
Compton	Lakeland	Torrance
Duncans Mills	Lancaster	Squirrel Valley
Fremont Valley	Leona Valley	Wofford Heights
Guerneville	Long Beach	Los Angeles County
Harbor City	Lucerne	Kern County

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8. We note that the Officers' Certificates state that: (a) to the Company's knowledge, water distribution systems were constructed and service furnished to the inhabitants of the localities currently known as Carson, Compton, Harbor City, Long Beach and Torrance by various predecessors of the Company prior to 1911; (b) the Company believes that it has a prior right to operate in these locations which right was not extinguished by the incorporation of these cities subsequent to 1911; (c) except as noted below, to the Company's knowledge Dominguez has no franchises from these cities and has made no franchise payments to them; and (d) to the Company's knowledge, no question has ever been raised as to the right to make water distribution and to maintain all pipes and mains necessary therefor.

9. We note that the Officers' Certificates state that: (a) as to the remaining localities listed in paragraph 7, to the Company's knowledge, Dominguez has received written franchise agreements which are in full force and effect and has paid all franchise fees to date, with the exception of Compton, as to which the franchise expired without renewal in 1994; (b) to the Company's knowledge, Dominguez continued to provide water services to Compton subsequent to the expiration of the franchise, and to pay franchise fees; and (c) 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.

The opinion of Bingham McCutchen LLP shall cover such other matters relating to the sale of the Series L Notes as the Purchaser may reasonably request and shall provide that Chapman and Cutler in delivering its opinion under the Note Agreement may rely on the opinion of Bingham McCutchen LLP as to matters of California law. 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.

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#### DESCRIPTION OF SPECIAL COUNSEL'S CLOSING OPINION

The closing opinion of Chapman and Cutler, special counsel to the Purchaser, called for by Section 5(a)(iii) of the Tenth Supplement, shall be dated the Closing Date and addressed to the Purchaser, shall be satisfactory in form and substance to the Purchaser 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 Tenth Supplement and to issue the Series L Notes.

2. The Note Agreement and the Tenth Supplement 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 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 L 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 L Notes under the circumstances contemplated by the Tenth Supplement do not, under existing law, require the registration of the Series L 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 Bingham McCutchen LLP as to matters of California law. The opinion of Chapman and Cutler shall also state that the opinion of Bingham McCutchen LLP is satisfactory in scope and form to Chapman and Cutler and that, in their opinion, the Purchaser is 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 representations of the Company and the Purchaser delivered in connection with the issuance and sale of the Series L Notes.

EXHIBIT 4  
(to Supplement)

BUSINESS LOAN AGREEMENT

This Agreement dated as of February 28, 2003, is among Bank of America N.A. (the "Bank"), California Water Service Group ("Borrower 1"), CWS Utility Services ("Borrower 2"), and New Mexico Water Service Company ("Borrower 3"). In this Agreement, all of the Borrowers are sometimes referred to collectively as the "Borrower."

1. FACILITY NO. 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 "Facility No. 1 Commitment") is Ten Million Dollars (\$10,000,000).
- (b) This is a revolving line of credit. During the availability period, the Borrower may repay principal amounts and reborrow them.
- (c) The Borrower agrees not to permit the principal balance outstanding to exceed the Facility No. 1 Commitment. If the Borrower exceeds this limit, the Borrower will immediately pay the excess to the Bank upon the Bank's demand.

1.2 Availability Period. The line of credit is available between the date of this Agreement and April 30, 2005, or such earlier date as the availability may terminate as provided in this Agreement (the "Facility No. 1 Expiration Date"). It is provided, however, that this line of credit will not be available to Borrower 3 until Borrower 3 (a) has completed that certain water treatment plant project in New Mexico (the "NM Project") that Borrower 3 is engaged in as of the date of this Agreement and (b) has provided to the Bank, in form and content acceptable to the Bank, a guaranty of the indebtedness of California Water Service Company to the Bank. It is further provided that upon the satisfaction of the foregoing conditions and so long as no event of default has occurred and is then continuing under this Agreement, this line of credit will be made available to Borrower 3 only if (i) Borrower 3 uses the proceeds of the first advance it requests hereunder to repay in full all amounts then outstanding under any and all credit facilities that Borrower 3 had obtained to finance the NM Project and thereupon terminates all such facilities or (ii) provides the Bank with evidence acceptable to the Bank that all such credit facilities have been repaid in full and terminated.

1.3 Repayment Terms.

- (a) The Borrower will pay interest on March 31, 2003 and then monthly thereafter until payment in full of any principal outstanding under this line of credit. Any interest period for an optional interest rate (as described below) shall expire no later than the Facility No. 1 Expiration Date.
- (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 Facility No. 1 Expiration Date.

1.4 Interest Rate.

- (a) The interest rate is a rate per year equal to the Bank's Prime Rate minus the Applicable Margin (as defined below).
- (b) The Prime Rate is the rate of interest publicly announced from time to time by the Bank as its Prime Rate. The Prime 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 Prime Rate. Any change in the Prime Rate shall take effect at the opening of business on the day specified in the public announcement of a change in the Bank's Prime Rate.

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1.5 Optional Interest Rates. Instead of the interest rate based on the rate stated in the paragraph entitled "Interest Rate" above, the Borrower may elect the optional interest rates listed below for this Facility No. 1 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) The LIBOR Rate plus the Applicable Margin as defined below.

1.6 Applicable Margin. The Applicable Margin shall be the following amounts per annum, based upon the Debt to Capitalization Ratio (as defined below) as calculated on a consolidated basis from Borrower 1's most recent financial statements received by the Bank as required in the Covenants section; provided, however, that until the Bank receives the first financial statement, such amounts shall be those indicated for pricing level 2 set forth below:

Pricing Level	Ratio	Applicable Margin (in percentage points per annum)	
		Prime Rate -	LIBOR Rate +
1	less than 0.50:1.00	0.75	1.00
2	equal to or greater than 0.50:1.00 and less than 0.60:1.00	0.50	1.25
3	equal to or greater than 0.60:1.00	0.25	1.50

"Debt to Capitalization Ratio" means the ratio of Funded Debt to the sum of Net Worth plus Funded Debt. "Funded Debt" means all outstanding liabilities for borrowed money and other interest-bearing liabilities of Borrower 1, including current and long-term debt. "Net Worth" means the value of Borrower 1's total assets (including leaseholds and leasehold improvements and reserves against assets) less its total liabilities, including but not limited to accrued and deferred income taxes.

The Applicable Margin shall be in effect from the date the most recent financial statement is received by the Bank until the date the next financial statement is received; provided, however, that if the Borrower fails to timely deliver the next financial statement, the Applicable Margin from the date such financial statement was due until the date such financial statement is received by the Bank shall be the highest pricing level set forth above.

1.7 Letters of Credit. This line of credit may be used for financing:

- (a) standby letters of credit with a maximum maturity of 365 days but not to extend more than 180 days beyond the Facility No. 1 Expiration Date. 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.
- (h) The amount of the letters of credit outstanding at any one time (including the drawn and unreimbursed amounts of the letters of credit) may not exceed Five Million Dollars (\$5,000,000).
- (c) In calculating the principal amount outstanding under the Facility No. 1 Commitment, the calculation shall include the amount of any letters of credit outstanding, including amounts drawn on any letters of credit and not yet reimbursed.
- (d) 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 Commercial Letter of Credit or Application and Agreement for Standby Letter of Credit, as applicable.
  - (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 any Borrower.
  - (vi) to allow the Bank to automatically charge any Borrower's 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 month during the interest period. At the end of any interest period, the interest rate will revert to the rate stated in the paragraph(s) entitled "Interest Rate" above, 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 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 or two 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 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 One Hundred Thousand Dollars (\$100,000).
- (c) The "LIBOR Rate" means the interest rate determined by the following formula, rounded upward to the nearest 1/100 of one percent. (All amounts in the calculation will be determined by the Bank as of the first day of the interest period.)

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

Where,

- (i) "London Inter-Bank Offered Rate" means the average per annum interest rate at which U.S. dollar deposits would be offered for the applicable interest period by major banks in the London inter-bank market, as shown on the Telerate Page 3750 (or any successor page) at approximately 11:00 a.m. London time two (2) London Banking Days before the commencement of the interest period. If such rate does not appear on the Telerate Page 3750 (or any successor page), the rate for that interest period will be determined by such alternate method as reasonably selected by the Bank. A "London Banking Day" is a day on which the Bank's London Banking Center 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

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Liabilities, as defined in Federal Reserve Board Regulation D, rounded upward to the nearest 1/100 of one percent. The percentage will be expressed as a decimal, and will include, but not be limited to, marginal, emergency, supplemental, special, and other reserve percentages.

- (d) The Borrower shall irrevocably request a LIBOR Rate Portion no later than 12:00 noon Pacific time on the LIBOR Banking Day preceding the day on which the London Inter-Bank Offered Rate will be set, as specified above. For example, if there are no intervening holidays or weekend days in any of the relevant locations, the request must be made at least three days before the LIBOR Rate takes effect.
- (e) The Borrower may not elect a LIBOR Rate with respect to any principal amount which is scheduled to be repaid before the last day of the applicable interest period.
- (f) 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.
- (g) Each prepayment of a LIBOR Rate Portion, whether voluntary, by reason of acceleration or otherwise, will be accompanied by the amount of

accrued interest on the amount prepaid and a prepayment fee as described below. A "prepayment" is a payment of an amount on a date earlier than the scheduled payment date for such amount as required by this Agreement.

- (h) The prepayment fee shall be in an amount sufficient to compensate the Bank for any loss, cost or expense incurred by it as a result of the prepayment, including any loss of anticipated profits and any loss or expense arising from the liquidation or reemployment of funds obtained by it to maintain such Portion or from fees payable to terminate the deposits from which such funds were obtained. The Borrower shall also pay any customary administrative fees charged by the Bank in connection with the foregoing. For purposes of this paragraph, the Bank shall be deemed to have funded each Portion by a matching deposit or other borrowing in the applicable interbank market, whether or not such Portion was in fact so funded.

### 3.1 Fees.

- (a) Late Fee. To the extent permitted by law, the Borrower agrees to pay a late fee in an amount not to exceed four percent (4%) of any payment that is more than fifteen (15) days late. The imposition and payment of a late fee shall not constitute a waiver of the Bank's rights with respect to the default.
- (b) Unused Commitment Fee. The Borrower agrees to pay a fee on any difference between the Facility No. 1 Commitment and the amount of credit it actually uses, determined by the average of the daily amount of credit outstanding during the specified period. The fee will be calculated at the following percentage points per annum, based upon the Debt to Capitalization Ratio (as defined in Paragraph 1.6 above). The calculation of credit outstanding shall include the undrawn amount of letters of credit. The Debt to Capitalization Ratio will be calculated in the manner described in Paragraph 1.6; provided, however, that until the Bank receives the first financial statement, the fee will be calculated at the percentage points indicated for fee level 2 set forth below:

Fee Level	Ratio	Applicable Fee (in percentage points per annum)
1	less than 0.50:1.00	.125
2	equal to or greater than 0.50:1.00 but less than 0.60:1.00	.250
3	equal to or greater than 0.60:1.00	.375

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This fee is due on April 1, 2003, and on the first day of each following quarter until the expiration of the availability period.

The Applicable Fee shall be in effect from the date the most recent financial statement is received by the Bank until the date the next financial statement is received; provided, however, that if the Borrower fails to timely deliver the next financial statement, the Applicable Fee from the date such financial statement was due until the date such financial statement is received by the Bank shall be the highest fee level set forth above.

3.2 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.

3.3 Reimbursement Costs. 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 to the extent permitted by applicable law.

## 4. DISBURSEMENTS, PAYMENTS AND COSTS

### 4.1 Disbursements and Payments.

- (a) Each payment by the Borrower will be made in immediately available funds by direct debit to a deposit account as specified below or by mail to the address shown on the Borrower's statement or at one of the Bank's banking centers in the United States.
- (b) Each disbursement by the Bank and each payment by the Borrower will be 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.

4.2 Telephone and Telefax Authorization.

- (a) The Bank may honor telephone or telefax instructions for advances or repayments or for the designation of optional interest rates and telefax requests for the issuance of letters of credit given, or purported to be 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 account number 14878-03863 owned by Borrower 1, or such other of the Borrower's accounts with the Bank as designated in writing by the Borrower.
- (i) The Borrower will indemnify and hold the Bank harmless 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 paragraph will survive this Agreement's termination, and will benefit the Bank and its officers, employees, and agents.

4.3 Direct Debit (Pre-Billing).

- (a) The Borrower agrees that the Bank will debit deposit account number 14878-03863 owned by Borrower 1, or such other of the Borrower's accounts with the Bank as designated in writing by the Borrower (the "Designated Account") on the date each payment of principal and interest and any fees from the Borrower becomes due (the "Due Date").

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- (b) Prior to each Due Date, the Bank will mail to the Borrower a statement of the amounts that will be due on that Due Date (the "Billed Amount"). The bill will be mailed a specified number of calendar days prior to the Due Date, which number of days will be mutually agreed from time to time by the Bank and the Borrower. The calculations in the bill will be made on the assumption that no new extensions of credit or payments will be made between the date of the billing statement and the Due Date, and that there will be no changes in the applicable interest rate.
- (c) The Bank will debit the Designated Account for the Billed Amount, regardless of the actual amount due on that date (the "Accrued Amount"). If the Billed Amount debited to the Designated Account differs from the Accrued Amount, the discrepancy will be treated as follows:
  - (i) If the Billed Amount is less than the Accrued Amount, the Billed Amount for the following Due Date will be increased by the amount of the discrepancy. The Borrower will not be in default by reason of any such discrepancy.
  - (ii) If the Billed Amount is more than the Accrued Amount, the Billed Amount for the following Due Date will be decreased by the amount of the discrepancy.

Regardless of any such discrepancy, interest will continue to accrue based on the actual amount of principal outstanding without compounding. The Bank will not pay the Borrower interest on any overpayment.

- (d) The Borrower will maintain sufficient funds in the Designated Account to cover each debit. If there are insufficient funds in the Designated Account on the date the Bank enters any debit authorized by this Agreement, the Bank may reverse the debit.
- (e) The Borrower may terminate this direct debit arrangement at any time by sending written notice to the Bank at the address specified at the end of this Agreement. If the Borrower terminates this arrangement, then the principal amount outstanding under this Agreement will at the option of the Bank bear interest at a rate per annum which is 0.5 percentage point higher than the rate of interest otherwise provided under this Agreement.

4.4 Banking Days. Unless otherwise provided in this Agreement, a banking day is a day other than a Saturday, Sunday or other day on which commercial banks are authorized to close, or are in fact closed, in the state where the Bank's lending office is located, and, if such day relates to amounts bearing interest at an offshore rate (if any), means any such day on which dealings in dollar deposits are conducted among banks in the offshore dollar interbank market. 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.

4.5 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.

4.6 Default Rate. Upon the occurrence of any default under this Agreement, all amounts outstanding under this Agreement, including any interest, fees, or costs which are not paid when due, will at the option of the Bank bear interest at a rate which is 2.0 percentage points higher than the rate of interest otherwise provided under this Agreement. This may result in compounding of interest. This will not constitute a waiver of any default.

## 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 Conditions to First Extension of Credit. Before the first extension of credit:

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(a) Authorizations. If any Borrower or any guarantor is anything other than a natural person, evidence that the execution, delivery and performance by such Borrower and/or such guarantor of this Agreement and any instrument or agreement required under this Agreement have been duly authorized.

(b) Governing Documents. If required by the Bank, a copy of each Borrower's organizational documents.

(c) Payment of Fees. Payment of all accrued and unpaid expenses incurred by the Bank as required by the paragraph entitled "Reimbursement Costs."

(d) Good Standing. Certificates of good standing for each Borrower from its state of formation and from any other state in which such Borrower is required to qualify to conduct its business.

(e) 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 renewal of these representations and warranties as of the date of the request:

6.1 Formation. Each Borrower is 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 sufficiently complete to give the Bank accurate knowledge of the Borrower's (and any guarantor's) financial condition, including all material contingent liabilities. Since the date of the most recent financial statement provided to the Bank, there has been no material adverse change in the business condition (financial or otherwise), operations, properties or prospects of any Borrower (or any guarantor).

6.7 Lawsuits. There is no lawsuit, tax claim or other dispute pending or threatened against any Borrower which, if lost, would impair such 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, except as have been disclosed in writing to the Bank.

6.10 Tax Matters. No Borrower has any knowledge of any pending assessments or adjustments of its income tax for any year and all taxes due have been paid, except as have been disclosed in writing to the Bank.

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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 Insurance. The Borrower has obtained, and maintained in effect, the insurance coverage required in the "Covenants" section of this Agreement.

## 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 Facility No. 1 only for working capital, permitted acquisitions, general corporate purposes including issuance of standby letters of credit, and to bridge capital expenditures.

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 fiscal year end, Borrower 1's annual financial statements. These financial statements must be audited (with an opinion satisfactory to the Bank) by a Certified Public Accountant acceptable to the Bank. The statements shall be prepared on a consolidated and consolidating basis.
- (b) Within 60 days of the period's end, Borrower 1's quarterly financial statements certified and dated by an authorized financial officer. These financial statements may be company-prepared. The statements shall be prepared on a consolidated and consolidating basis.
- (c) Copies of the Form 10-K Annual Report, Form 10-Q Quarterly Report, and Form 8-K Current Report for Borrower 1 within 10 days after the date of filing with the Securities and Exchange Commission.
- (d) Borrower 1's annual financial projections covering a time period acceptable to the Bank and specifying the assumptions used in creating the projections. The projections shall be provided to the Bank by April 30th of each fiscal year beginning fiscal year 2004.
- (e) Borrower 2's narrative business plan by April 30th of each fiscal year beginning fiscal year 2004.
- (f) Within 90 days of the fiscal year end, the annual financial statements of California Water Service Company. These financial statements must be audited (with an opinion satisfactory to the Bank) by a Certified Public Accountant acceptable to the Bank. The statements shall be prepared on an unconsolidated basis.
- (g) Within 60 days of the period's end, the quarterly financial statements of California Water Service Company, certified and dated by an authorized financial officer. These financial statements may be company-prepared. The statements shall be prepared on an unconsolidated basis.
- (h) The annual financial projections of California Water Service Company covering a time period acceptable to the Bank and specifying the assumptions used in creating the projections. The projections shall be provided to the Bank by April 30th of each fiscal year beginning fiscal year 2004.
- (i) Within the period(s) provided in (a) and (b) above, a compliance certificate of the Borrower signed by an authorized financial officer of the Borrower setting forth (i) the computation (on a consolidated basis) of the Debt to Capitalization Ratio (as defined in Paragraph 1.6 above) 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 there exists as of the date of the certificate, any default under this Agreement and, if any such default exists, specifying the nature thereof and the action the Borrower is taking and proposes to take with respect thereto.

7.3 Out of Debt Period. To repay in full the advances outstanding under Facility No. 1 for a period of at least thirty (30) consecutive days in

each Line-Year. "Line-Year" means the period between the date of this Agreement and December 31, 2003, and each subsequent one-year period (if any). For purposes of this paragraph, "advances" does not include undrawn amounts of outstanding letters of credit.

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7.4 Other Debts. Not to have outstanding or incur any direct or contingent liabilities or lease obligations (other than those to the Bank), or become liable for the liabilities of others, without the Bank's written consent. 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, lines of credit and leases in existence on the date of this Agreement disclosed in writing to the Bank.
- (e) Additional debts and lease obligations for the acquisition of fixed assets, to the extent permitted under Paragraph 7.5(d) below.
- (f) Additional debts assumed in connection with acquisitions permitted under Paragraph 7.8(b) below.
- (g) Additional obligations of any Borrower consisting of first mortgage bonds or unsecured senior notes substantially similar in structure to those certain first mortgage bonds and unsecured senior notes that are obligations of California Water Service Company and are outstanding as of the date of this Agreement.

7.5 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) Liens and security interests 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) Additional purchase money security interests in assets acquired after the date of this Agreement, if the total principal amount of debts secured by such liens does not exceed Two Million Five Hundred Thousand Dollars (\$2,500,000) in the aggregate at any one time for all the Borrowers.
- (e) Liens securing first mortgage bonds permitted under the preceding paragraph.

7.6 Maintenance of Assets.

- (a) Not to sell, assign, lease, transfer or otherwise dispose of any part of any Borrower's business or any Borrower's assets except in the ordinary course of such Borrower's business. It is provided, however, that this negative covenant shall not be deemed to prohibit sales by Borrower 2 of those certain parcels of real property previously transferred or sold to Borrower 2 by California Water Service Company because such parcels were not essential to the regulated water operations of California Water Service Company.
- (b) Not to sell, assign, lease, transfer or otherwise dispose of any assets for less than fair market value, or enter into any agreement to do so.
- (c) Not to enter into any sale and leaseback agreement covering any of its fixed assets.
- (d) To maintain and preserve all rights, privileges, and franchises each Borrower now has.
- (e) To make any repairs, renewals, or replacements to keep each Borrower's properties in good working condition.

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7.7 Loans. Not to make any loans, advances or other extensions of credit to any individual or entity, except for:

- (a) Existing extensions of credit disclosed to the Bank in writing.
- (b) Extensions of credit to any Borrower's current subsidiaries.

- (c) Extensions of credit in the nature of accounts receivable or notes receivable arising from the sale or lease of goods or services in the ordinary course of business to non-affiliated entities.
- 7.8 Additional Negative Covenants. Not to, without the Bank's written consent:
- (a) 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.
- (b) Acquire or purchase a business or its assets, for a consideration, including assumption of direct or contingent debt, in excess of Five Million Dollars (\$5,000,000) in the aggregate. It is provided, however, that this negative covenant does not apply to Borrower 1's proposed acquisition of Kaanapali Water Corporation for a consideration, including assumption of direct or contingent debt, not in excess of Eight Million Dollars (\$8,000,000), to which acquisition the Bank has already consented.
- (c) Engage in any business activities substantially different from any Borrower's present business.
- (d) Liquidate or dissolve any Borrower's business.
- (e) Voluntarily suspend any Borrower's business for more than 7 days in any 365-day period.
- 7.9 Notices to Bank. To promptly notify the Bank in writing of:
- (a) Any lawsuit over One Million Dollars (\$1,000,000) against any Borrower (or any guarantor).
- (b) Any substantial dispute between any governmental authority and any Borrower (or any guarantor).
- (c) Any event of default under this Agreement, or any event which, with notice or lapse of time or both, would constitute an event of default.
- (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.
- (f) Any actual contingent liabilities of any Borrower (or any guarantor), and any such contingent liabilities which are reasonably foreseeable, where such liabilities are in excess of One Million Dollars (\$1,000,000) in the aggregate.
- 7.10 General Business Insurance. To maintain insurance as is usual for the business each Borrower is in.
- 7.11 Compliance with Laws. To comply with the laws (including any fictitious name statute), regulations, and orders of any government body with authority over any Borrower's business.
- 7.12 ERISA Plans. Promptly during each year, to pay and cause any subsidiaries to pay contributions adequate to meet at least the minimum funding standards under ERISA with respect to each and every Plan; file each annual report required to be filed pursuant to ERISA in connection with each Plan for each year; and notify the Bank within ten (10) days of the occurrence of any Reportable Event that might constitute grounds for termination of any capital Plan by the Pension Benefit Guaranty Corporation or for the appointment by the appropriate United States District

Court of a trustee to administer any Plan. "ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time. Capitalized terms in this paragraph shall have the meanings defined within ERISA.

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

7.14 Audits. To allow the Bank and its agents to inspect any Borrower's properties and examine, audit, and make copies of books and records at any reasonable time. If any of any 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.

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

7.16 Mandatory Prepayment; Early Termination. To immediately repay the entire principal balance of this Agreement, together with interest, any fees (including any prepayment fees) and any other amounts due hereunder, and not obtain any further credit hereunder, upon the occurrence of the following event: Facility No. 1 of the Business Loan Agreement dated \_\_\_\_\_, \_\_\_\_\_, between California Water Service Company and the Bank, as now in effect or as hereafter renewed, amended or restated (the "Other Credit Facility"), terminates for any reason, including, without limitation, termination of the Other Credit Facility at the request of California Water Service Company, termination resulting from failure by the Bank to renew the Other Credit Facility, or termination as otherwise provided under the Other Credit Facility.

## 8. DEFAULT AND REMEDIES

If any of the following events of default 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 entire debt immediately and without prior notice. In addition, if any event of default occurs, the Bank shall have all rights, powers and remedies available under any instruments and agreements required by or executed in connection with this Agreement, as well as all rights and remedies available at law or in equity. 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. The Borrower fails to make a payment under this Agreement when due.

8.2 Other Bank Agreements. Any Borrower (or any Obligor) or any of any Borrower's related entities or affiliates fails to meet the conditions of, or fails to perform any obligation under any other agreement any Borrower (or any Obligor) or any of any Borrower's related entities or affiliates, has with the Bank or any affiliate of the Bank. For purposes of this Agreement, "Obligor" shall mean any guarantor or any party pledging collateral to the Bank.

8.3 Cross-default. Any default occurs under any agreement in connection with any credit any Borrower (or any Obligor) or any of any Borrower's related entities or affiliates has obtained from anyone else or which any Borrower (or any Obligor) or any of any Borrower's related entities or affiliates has guaranteed, or any default occurs under that certain Business Loan Agreement dated as of the date hereof between the Bank and California Water Service Company, as now in effect and as hereafter amended restated renewed, or superseded.

8.4 False Information. Any Borrower or any Obligor has given the Bank false or misleading information or representations.

8.5 Bankruptcy. Any Borrower, any Obligor, or any general partner of any Borrower or of any Obligor files a bankruptcy petition, a bankruptcy petition is filed against any of the foregoing parties, or any Borrower, any Obligor, or any general partner of any Borrower or of any Obligor makes a general assignment for the benefit of creditors.

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8.6 Receivers. A receiver or similar official is appointed for a substantial portion of any Borrower's or any Obligor's business, or the business is terminated, or, if any Obligor is anything other than a natural person, such Obligor is liquidated or dissolved.

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

8.8 Judgments. Any judgments or arbitration awards are entered against any Borrower or any Obligor, or any Borrower or any Obligor 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.

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

8.10 Government Action. Any government authority takes action that the Bank believes materially adversely affects any Borrower's or any Obligor's financial condition or ability to repay.

8.11 Default under Related Documents. Any default occurs under any guaranty, subordination agreement, security agreement, deed of trust, mortgage, or other document required by or delivered in connection with this Agreement or any such

document is no longer in effect, or any guarantor purports to revoke or disavow the guaranty.

8.12 ERISA Plans. Any one or more of the following events occurs with respect to a Plan of any Borrower subject to Title IV of ERISA, provided such event or events could reasonably be expected, in the judgment of the Bank, to subject any Borrower to any tax, penalty or liability (or any combination of the foregoing) which, in the aggregate, could have a material adverse effect on the financial condition of any Borrower:

- (a) A reportable event shall occur under Section 4043(c) of ERISA with respect to a Plan.
- (b) Any Plan termination (or commencement of proceedings to terminate a Plan) or the full or partial withdrawal from a Plan by the Borrower or any ERISA Affiliate.

8.13 Debt Ratings. California Water Service Company's Debt Ratings with Moody's shall be lower than Baa3 or with S&P shall be lower than BBB-. "Debt Rating" means, as of any date of determination, the rating as determined by either Moody's or S&P (collectively, the "Debt Ratings") of California Water Service Company's non-credit-enhanced, senior unsecured long-term debt.

8.14 Restrictive Covenant. Borrower 1 directly or indirectly agrees to any arrangement whereby the ability of California Water Service Company to pay dividends to Borrower 1 is restricted.

8.15 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.

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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 and Waiver of Jury Trial

- (a) This paragraph concerns the resolution of any controversies or claims between the parties, whether arising in contract, tort or by statute, including but not limited to controversies or claims that arise out of or relate to: (i) this Agreement (including any renewals, extensions or modifications); or (ii) any document related to this Agreement (collectively a "Claim"). For the purposes of this arbitration provision only, the term "parties" shall include any parent corporation, subsidiary or affiliate of the Bank involved in the servicing, management or administration of any obligation described or evidenced by this Agreement.
- (b) At the request of any party to this Agreement, any Claim shall be resolved by binding arbitration in accordance with the Federal Arbitration Act (Title 9, U. S. Code) (the "Act"). The Act will apply even though this Agreement provides that it is governed by the law of a specified state.
- (c) Arbitration proceedings will be determined in accordance with the Act, the applicable rules and procedures for the arbitration of disputes of JAMS or any successor thereof ("JAMS"), and the terms of this paragraph. In the event of any inconsistency, the terms of this paragraph shall control.
- (j)
- (d) The arbitration shall be administered by JAMS and conducted, unless otherwise required by law, in any U. S. state where real or tangible personal property collateral for this credit is located or if there is no such collateral, in the state specified in the governing law section of this Agreement. All Claims shall be determined by one arbitrator;

however, if Claims exceed Five Million Dollars (\$5,000,000), upon the request of any party, the Claims shall be decided by three arbitrators. All arbitration hearings shall commence within ninety (90) days of the demand for arbitration and close within ninety (90) days of commencement and the award of the arbitrator(s) shall be issued within thirty (30) days of the close of the hearing. However, the arbitrator(s), upon a showing of good cause, may extend the commencement of the hearing for up to an additional sixty (60) days. The arbitrator(s) shall provide a concise written statement of reasons for the award. The arbitration award may be submitted to any court having jurisdiction to be confirmed and enforced.

- (e) The arbitrator(s) will have the authority to decide whether any Claim is barred by the statute of limitations and, if so, to dismiss the arbitration on that basis. For purposes of the application of the statute of limitations, the service on JAMS under applicable JAMS rules of a notice of Claim is the equivalent of the filing of a lawsuit. Any dispute concerning this arbitration provision or whether a Claim is arbitrable shall be determined by the arbitrator(s). The arbitrator(s) shall have the power to award legal fees pursuant to the terms of this Agreement.
- (f) This paragraph does not limit the right of any party to: (i) exercise self-help remedies, such as but not limited to, setoff; (ii) initiate judicial or non-judicial foreclosure against any real or personal property collateral; (iii) exercise any judicial or power of sale rights, or (iv) act in a court of law to obtain an interim remedy, such as but not limited to, injunctive relief, writ of possession or appointment of a receiver, or additional or supplementary remedies.
- (g) The procedure described above will not apply if the Claim, at the time of the proposed submission to arbitration, arises from or relates to an obligation to the Bank secured by real property. In this case, all of the parties to this Agreement must consent to submission of the Claim to arbitration. If both parties do not consent to arbitration, the Claim will be resolved as follows: The parties will designate a referee (or a panel of referees) selected under the auspices of JAMS in the same manner as arbitrators are selected in JAMS administered proceedings. The designated referee(s) will be appointed by a court as provided in California Code of Civil Procedure Section 638 and the following related sections. The referee (or presiding referee of the panel) will be an active attorney or a retired judge. The award that results from the decision of the

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referee(s) 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.

- (k) The filing of a court action is not intended to constitute a waiver of the right of any party, including the suing party, thereafter to require submittal of the Claim to arbitration.
- (i) By agreeing to binding arbitration, the parties irrevocably and voluntarily waive any right they may have to a trial by jury in respect of any Claim. Furthermore, without intending in any way to limit this Agreement to arbitrate, to the extent any Claim is not arbitrated, the parties irrevocably and voluntarily waive any right they may have to a trial by jury in respect of such Claim. This provision is a material inducement for the parties entering into this Agreement.

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 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 any 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.

9.7 Joint and Several Liability. This paragraph shall apply if two or more Borrowers sign this Agreement:

- (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). Each obligation, promise, covenant, representation and warranty in this Agreement shall be deemed to have been made by, and be binding upon, each Borrower, unless this Agreement expressly provides otherwise. 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 waives any defense by reason of any other Borrower's or any other person's defense, disability, or release from liability. The Bank can exercise its rights against each Borrower even if any other Borrower or any other person no longer is liable because of a statute of limitations or for other reasons.
- (e) 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).
- (f) 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

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indebtedness by any other Borrower and all rights to any other notices to any party liable on any of the credit extended under this Agreement.

- (g) 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.
- (h) Until all obligations of the Borrowers to the Bank under this Agreement have been paid in full and any commitments of the Bank or facilities provided by the Bank under this Agreement have been terminated, each Borrower (a) 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; (b) 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.
- (i) Each Borrower waives any right to require the Bank to proceed against any other Borrower or any other person; proceed against or exhaust any security; or pursue any other remedy. Further, each Borrower consents to the taking of, or failure to take, any action which might in any manner or to any extent vary the risks of the Borrower under this Agreement or which, but for this provision, might operate as a discharge of the Borrower.

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;
- (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. Any reference in any

related document to a "promissory note" or a "note" executed by the Borrower and dated as of the date of this Agreement shall be deemed to refer to this Agreement, as now in effect or as hereafter amended, renewed, or restated.

9.9 Indemnification. The Borrower will indemnify and hold the Bank harmless from any loss, liability, damages, judgments, and costs of any kind relating to or arising directly or indirectly out of (a) this Agreement or any document required hereunder, (b) any credit extended or committed by the Bank to the Borrower hereunder, and (c) any litigation or proceeding related to or arising out of this Agreement, any such document, or any such credit. This indemnity includes but is not limited to attorneys' fees (including the allocated cost of in-house counsel). This indemnity extends to the Bank, its parent, subsidiaries and all of their directors, officers, employees, agents, successors, attorneys, and assigns. This indemnity will survive repayment of the Borrower's obligations to the Bank. All sums due to the Bank hereunder shall be obligations of the Borrower, due and payable immediately without demand.

9.10 Notices. Unless otherwise provided in this Agreement or in another agreement between the Bank and the Borrower, all notices required under this Agreement shall be personally delivered or sent by first class mail, postage prepaid, or by overnight courier, to the addresses on the signature page of this Agreement, or sent by facsimile to the fax numbers listed on the signature page, or to such other addresses as the Bank and the Borrower may specify from time to time in writing. Notices and other communications shall be effective (i) if mailed, upon the earlier of receipt or five (5) days after deposit in the U.S. mail, first class, postage prepaid, (ii) if telecopied, when

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transmitted, or (iii) if hand-delivered, by courier or otherwise (including telegram, lettergram or mailgram), when delivered.

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

<TABLE>  
<CAPTION>  
<S>  
Borrower:

<C>  
Bank:

California Water Service Group

Bank of America, N.A.

By:  
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By:  
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Gerald F. Feeney, Vice President/CFO  
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John C. Plecque, Senior Vice President  
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CWS Utility Services

By:  
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By:  
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Gerald F. Feeney, Vice President/CFO  
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Chris P. Giannotti, Senior Vice President  
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New Mexico Water Service Company

By:  
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Gerald F. Feeney, Vice President/CFO  
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sent:

2. ADDRESS WHERE NOTICES TO THE BORROWER ARE TO BE SENT:

1720 North First Street

-----  
San Jose, CA 95112  
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Address where notices to the Bank are to be

Bay Area Commercial Banking Office #1473  
315 Montgomery Street, 13th Floor  
San Francisco, CA 94104  
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</TABLE>

## BUSINESS LOAN AGREEMENT

This Agreement dated as of February 28, 2003, is between Bank of America, N.A. (the "Bank") and California Water Service Company (the "Borrower").

## 1. FACILITY NO. 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 "Facility No. 1 Commitment") is the amount indicated for each period set forth below:

Period -----	Commitment Amount -----
From the date of this Agreement through June 30, 2003	\$55,000,000
On July 1, 2003 and thereafter	\$45,000,000

- (b) This is a revolving line of credit. During the availability period, the Borrower may repay principal amounts and reborrow them.

- (1)
- (2) (c) The Borrower agrees not to permit the principal balance outstanding to exceed the Facility No. 1 Commitment. If the Borrower exceeds this limit, the Borrower will immediately pay the excess to the Bank upon the Bank's demand.

1.2 Availability Period. The line of credit is available between the date of this Agreement and April 30, 2005, or such earlier date as the availability may terminate as provided in this Agreement (the "Facility No. 1 Expiration Date").

## 1.3 Repayment Terms.

- (a) The Borrower will pay interest on March 31, 2003 and then monthly thereafter until payment in full of any principal outstanding under this line of credit. Any interest period for an optional interest rate (as described below) shall expire no later than the Facility No. 1 Expiration Date.
- (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 Facility No. 1 Expiration Date.

## 1.4 Interest Rate.

- (a) The interest rate is a rate per year equal to the Bank's Prime Rate minus the Applicable Margin (as defined below).
- (b) The Prime Rate is the rate of interest publicly announced from time to time by the Bank as its Prime Rate. The Prime 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

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Bank may price loans to its customers at, above, or below the Prime Rate. Any change in the Prime Rate shall take effect at the opening of business on the day specified in the public announcement of a change in the Bank's Prime Rate.

1.5 Optional Interest Rates. Instead of the interest rate based on the rate stated in the paragraph entitled "Interest Rate" above, the Borrower may elect the optional interest rates listed below for this Facility No. 1 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) The LIBOR Rate plus the Applicable Margin as defined below.

1.6 Applicable Margin. The Applicable Margin shall be the following amounts

per annum, based upon the Debt to Capitalization Ratio (as defined below) as calculated on a consolidated basis from California Water Service Group's most recent financial statements received by the Bank as required in the Covenants section; provided, however, that until the Bank receives the first financial statement, such amounts shall be those indicated for pricing level 2 set forth below:

Pricing Level	Ratio	Applicable Margin (in percentage points per annum)	
		Prime Rate -	LIBOR Rate +
1	less than 0.50:1.00	0.75	1.00
2	equal to or greater than 0.50:1.00 and less than 0.60:1.00	0.50	1.25
3	equal to or greater than 0.60:1.00	0.25	1.50

"Debt to Capitalization Ratio" means the ratio of Funded Debt to the sum of Net Worth plus Funded Debt. "Funded Debt" means all outstanding liabilities for borrowed money and other interest-bearing liabilities of California Water Service Group, including current and long-term debt. "Net Worth" means the value of California Water Service Group's total assets (including leaseholds and leasehold improvements and reserves against assets) less its total liabilities, including but not limited to accrued and deferred income taxes.

The Applicable Margin shall be in effect from the date the most recent financial statement is received by the Bank until the date the next financial statement is received; provided, however, that if the Borrower fails to timely deliver the next financial statement, the Applicable Margin from the date such financial statement was due until the date such financial statement is received by the Bank shall be the highest pricing level set forth above.

1.7 Letters of Credit. This line of credit may be used for financing:

- (a) standby letters of credit with a maximum maturity of 365 days but not to extend more than 180 days beyond the Facility No. 1 Expiration Date. 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.
- (l) The amount of the letters of credit outstanding at any one time (including the drawn and unreimbursed amounts of the letters of credit) may not exceed Ten Million Dollars (\$10,000,000).
- (c) In calculating the principal amount outstanding under the Facility No. 1 Commitment, the calculation shall include the amount of any letters of credit outstanding, including amounts drawn on any letters of credit and not yet reimbursed.
- (d) The following letters of credit are outstanding from the Bank for the account of the Borrower:

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Letter of Credit Number	Amount
3049659	\$1,039,396
3052866	\$5,047,227

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.

(e) 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 Commercial Letter of Credit or Application and Agreement for

Standby Letter of Credit, as applicable.

- (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 month during the interest period. At the end of any interest period, the interest rate will revert to the rate stated in the paragraph(s) entitled "Interest Rate" above, 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 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 or two 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 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 One Hundred Thousand Dollars (\$100,000).
- (c) The "LIBOR Rate" means the interest rate determined by the following formula, rounded upward to the nearest 1/100 of one percent. (All amounts in the calculation will be determined by the Bank as of the first day of the interest period.)

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

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Where,

- (i) "London Inter-Bank Offered Rate" means the average per annum interest rate at which U.S. dollar deposits would be offered for the applicable interest period by major banks in the London inter-bank market, as shown on the Telerate Page 3750 (or any successor page) at approximately 11:00 a.m. London time two (2) London Banking Days before the commencement of the interest period. If such rate does not appear on the Telerate Page 3750 (or any successor page), the rate for that interest period will be determined by such alternate method as reasonably selected by the Bank. A "London Banking Day" is a day on which the Bank's London Banking Center is open for business and dealing in offshore dollars.
- (ii) "Reserve Percentage" means the total of the maximum reserve percentages for determining the reserves to be maintained by member banks of the Federal Reserve System for Eurocurrency Liabilities, as defined in Federal Reserve Board Regulation D, rounded upward to the nearest 1/100 of one percent. The percentage will be expressed as a decimal, and will include, but not be limited to, marginal, emergency, supplemental, special, and other reserve percentages.
- (d) The Borrower shall irrevocably request a LIBOR Rate Portion no later than 12:00 noon Pacific time on the LIBOR Banking Day preceding the day on which the London Inter-Bank Offered Rate will be set, as specified above. For example, if there are no intervening holidays or weekend days in any of the relevant locations, the request must be made at least three days before the LIBOR Rate takes effect.
- (e) The Borrower may not elect a LIBOR Rate with respect to any principal amount which is scheduled to be repaid before the last day of the applicable interest period.
- (f) 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.
- (g) Each prepayment of a LIBOR Rate Portion, whether voluntary, by reason of acceleration or otherwise, will be accompanied by the amount of accrued interest on the amount prepaid and a prepayment fee as described below. A "prepayment" is a payment of an amount on a date earlier than the scheduled payment date for such amount as required by this Agreement.
- (i) The prepayment fee shall be in an amount sufficient to compensate the Bank for any loss, cost or expense incurred by it as a result of the prepayment, including any loss of anticipated profits and any loss or expense arising from the liquidation or reemployment of funds obtained by it to maintain such Portion or from fees payable to terminate the deposits from which such funds were obtained. The Borrower shall also pay any customary administrative fees charged by the Bank in connection with the foregoing. For purposes of this paragraph, the Bank shall be deemed to have funded each Portion by a matching deposit or other borrowing in the applicable interbank market, whether or not such Portion was in fact so funded.

3. FEES AND EXPENSES

3.1 Fees.

- (a) Late Fee. To the extent permitted by law, the Borrower agrees to pay a late fee in an amount not to exceed four percent (4%) of any payment that is more than fifteen (15) days late. The imposition and payment of a late fee shall not constitute a waiver of the Bank's rights with respect to the default.

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- (b) Unused Commitment Fee. The Borrower agrees to pay a fee on any difference between the Facility No. 1 Commitment and the amount of credit it actually uses, determined by the average of the daily amount of credit outstanding during the specified period. The fee will be calculated at the following percentage points per annum, based upon the Debt to Capitalization Ratio (as defined in Paragraph 1.6 above). The calculation of credit outstanding shall include the undrawn amount of letters of credit. The Debt to Capitalization Ratio will be calculated in the manner described in Paragraph 1.6; provided, however, that until the Bank receives the first financial statement, the fee will be calculated at the percentage points indicated for fee level 2 set forth below:

Fee Level	Ratio	Applicable Fee (in percentage points per annum)
1	Less than 0.50:1.00	.125
2	Equal to or greater than 0.50:1.00 and less than 0.60:1.00	.250
3	Equal to or greater than 0.60:1.00	.375

This fee is due on April 1, 2003, and on the first day of each following quarter until the expiration of the availability period.

The Applicable Fee shall be in effect from the date the most recent financial statement is received by the Bank until the date the next financial statement is received; provided, however, that if the Borrower fails to timely deliver the next financial statement, the Applicable Fee from the date such financial statement was due until the date such financial statement is received by the Bank shall be the highest fee level set forth above.

3.2 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.

3.3 Reimbursement Costs. 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 to the extent permitted by applicable law.

4. DISBURSEMENTS, PAYMENTS AND COSTS

4.1 Disbursements and Payments.

- (a) Each payment by the Borrower will be made in immediately available funds by direct debit to a deposit account as specified below or, for any payment not subject to direct debit as specified below, by mail to the address shown on the Borrower's statement or at one of the Bank's banking centers in the United States.
- (b) Each disbursement by the Bank and each payment by the Borrower will be 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.

4.2 Telephone and Telefax Authorization.

- (a) The Bank may honor telephone or telefax instructions for advances or repayments or for the designation of optional interest rates and telefax requests for the issuance of letters of credit given, or purported to be

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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 account number 14872-00230 owned by the Borrower, or such other of the Borrower's accounts with the Bank as designated in writing by the Borrower.
- (c) The Borrower will indemnify and hold the Bank harmless 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 paragraph will survive this Agreement's termination, and will benefit the Bank and its officers, employees, and agents.

4.3 Direct Debit (Pre-Billing).

- (a) The Borrower agrees that the Bank will debit deposit account number 14872-00230 owned by the Borrower, or such other of the Borrower's accounts with the Bank as designated in writing by the Borrower (the "Designated Account") on the date each payment of principal and interest and any fees from the Borrower becomes due (the "Due Date").
- (b) Prior to each Due Date, the Bank will mail to the Borrower a statement of the amounts that will be due on that Due Date (the "Billed Amount"). The bill will be mailed a specified number of calendar days prior to the Due Date, which number of days will be mutually agreed from time to time by the Bank and the Borrower. The calculations in the bill will be made on the assumption that no new extensions of credit or payments will be made between the date of the billing statement and the Due Date, and that there will be no changes in the applicable interest rate.
- (c) The Bank will debit the Designated Account for the Billed Amount, regardless of the actual amount due on that date (the "Accrued Amount"). If the Billed Amount debited to the Designated Account differs from the Accrued Amount, the discrepancy will be treated as follows:
  - (i) If the Billed Amount is less than the Accrued Amount, the Billed Amount for the following Due Date will be increased by the amount of the discrepancy. The Borrower will not be in default by reason of any such discrepancy.
  - (ii) If the Billed Amount is more than the Accrued Amount, the Billed Amount for the following Due Date will be decreased by the amount of the discrepancy.

Regardless of any such discrepancy, interest will continue to accrue based on the actual amount of principal outstanding without compounding. The Bank will not pay the Borrower interest on any overpayment.

- (d) The Borrower will maintain sufficient funds in the Designated Account to cover each debit. If there are insufficient funds in the Designated Account on the date the Bank enters any debit authorized by this Agreement, the Bank may reverse the debit.
- (e) The Borrower may terminate this direct debit arrangement at any time by sending written notice to the Bank at the address specified at the end

of this Agreement. If the Borrower terminates this arrangement, then the principal amount outstanding under this Agreement will at the option of the Bank bear interest at a rate per annum which is 0.5 percentage point higher than the rate of interest otherwise provided under this Agreement.

4.4 Banking Days. Unless otherwise provided in this Agreement, a banking day is a day other than a Saturday, Sunday or other day on which commercial banks are authorized to close, or are in fact closed, in the state where the Bank's lending office is located, and, if such day relates to amounts bearing interest at an offshore rate (if any), means any such day on which dealings in dollar deposits are conducted among banks in the offshore dollar interbank market. All payments and disbursements which would be due on a day which is not a banking day will be due on

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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.

4.5 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.

4.6 Default Rate. Upon the occurrence of any default under this Agreement, all amounts outstanding under this Agreement, including any interest, fees, or costs which are not paid when due, will at the option of the Bank bear interest at a rate which is 2.0 percentage points higher than the rate of interest otherwise provided under this Agreement. This may result in compounding of interest. This will not constitute a waiver of any default.

## 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 Conditions to First Extension of Credit. Before the first extension of credit:

- (a) Authorizations. If any Borrower or any guarantor is anything other than a natural person, evidence that the execution, delivery and performance by such Borrower and/or such guarantor of this Agreement and any instrument or agreement required under this Agreement have been duly authorized.
- (b) Governing Documents. If required by the Bank, a copy of the Borrower's organizational documents.
- (c) Guaranties. Guaranties signed by California Water Service Group and CWS Utility Services.
- (d) Payment of Fees. Payment of all accrued and unpaid expenses incurred by the Bank as required by the paragraph entitled "Reimbursement Costs."
- (e) Good Standing. Certificates of good standing for the Borrower from its state of formation and from any other state in which the Borrower is required to qualify to conduct its business.
- (f) 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 renewal of these representations and warranties as of the date of the request:

6.1 Formation. The Borrower is 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 sufficiently complete to give the Bank accurate knowledge of the Borrower's (and any guarantor's) financial condition, including all material contingent liabilities. Since the date of the most recent financial statement provided to the Bank, there has been no material adverse change in the business condition (financial or otherwise), operations, properties or prospects of the Borrower (or any guarantor).

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, except as have been disclosed in writing to the Bank.

6.10 Tax Matters. The Borrower has no knowledge of any pending assessments or adjustments of its income tax for any year and all taxes due have been paid, except as have been disclosed in writing to the Bank.

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 Insurance. The Borrower has obtained, and maintained in effect, the insurance coverage required in the "Covenants" section of this Agreement.

## 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 Facility No. 1 only for working capital, general corporate purposes including issuance of standby letters of credit, and to bridge capital expenditures.

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 fiscal year end, the Borrower's annual financial statements. These financial statements must be audited (with an opinion satisfactory to the Bank) by a Certified Public Accountant acceptable to the Bank. The statements shall be prepared on an unconsolidated basis.
- (b) Within 60 days of the period's end, the Borrower's quarterly financial statements, certified and dated by an authorized financial officer. These financial statements may be company-prepared. The statements shall be prepared on an unconsolidated basis.
- (c) Within 90 days of the fiscal year end, the annual financial statements of California Water Service Group. These financial statements must be audited (with an opinion satisfactory to the Bank) by a Certified Public Accountant acceptable to the Bank. The statements shall be prepared on a consolidated and consolidating basis.
- (d) Within 60 days of the period's end, the quarterly financial statements of California Water Service Group, certified and dated by an authorized financial officer. These financial statements may be company-prepared. The statements shall be prepared on a consolidated and consolidating basis.
- (e) Copies of the Form 10-K Annual Report, Form 10-Q Quarterly Report, and Form 8-K Current Report for California Water Service Group within 10 days after the date of filing with the Securities and Exchange Commission.

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- (f) The Borrower's annual financial projections covering a time period acceptable to the Bank and specifying the assumptions used in creating the projections. The projections shall be provided to the Bank by April 30th of each fiscal year beginning fiscal year 2004.



- (g) The annual financial projections of California Water Service Group covering a time period acceptable to the Bank and specifying the assumptions used in creating the projections. The projections shall be provided to the Bank by April 30th of each fiscal year beginning fiscal year 2004.
- (h) A narrative business plan of CWS Utility Services by April 30th of each fiscal year beginning fiscal year 2004.
- (i) Within the period(s) provided in (a) and (b) above, a compliance certificate of the Borrower signed by an authorized financial officer of the Borrower setting forth (i) the computation (on a consolidated basis) of the Debt to Capitalization Ratio (as defined in Paragraph 1.6 above) 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 there exists as of the date of the certificate, any default under this Agreement and, if any such default exists, specifying the nature thereof and the action the Borrower is taking and proposes to take with respect thereto.

7.3 Out of Debt Period. To repay in full the advances outstanding under Facility No. 1 for a period of at least thirty (30) consecutive days in each Line-Year. "Line-Year" means the period between the date of this Agreement and December 31, 2003, and each subsequent one-year period (if any). For purposes of this paragraph, "advances" does not include undrawn amounts of outstanding letters of credit.

7.4 Other Debts. Not to have outstanding or incur any direct or contingent liabilities or lease obligations (other than those to the Bank), or become liable for the liabilities of others, without the Bank's written consent. 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, lines of credit and leases in existence on the date of this Agreement disclosed in writing to the Bank.
- (e) Additional debts and lease obligations for the acquisition of fixed assets, to the extent permitted under Paragraph 7.5(d) below.
  - (f) Additional obligations of the Borrower consisting of first mortgage bonds or unsecured senior notes substantially similar in amount and structure to those certain first mortgage bonds and unsecured senior notes that are outstanding as of the date of this Agreement.

7.5 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) Liens and security interests in favor of the Bank.
- (b) Liens for taxes not yet due.
- (b) Liens outstanding on the date of this Agreement disclosed in writing to the Bank.

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- (d) Additional purchase money security interests in assets acquired after the date of this Agreement, if the total principal amount of debts secured by such liens does not exceed Two Million Five Hundred Thousand Dollars (\$2,500,000) at any one time.
- (e) Liens securing first mortgage bonds permitted under the preceding paragraph.

7.6 Maintenance of Assets.

- (a) Not to sell, assign, lease, transfer or otherwise dispose of any part of the Borrower's business or the Borrower's assets except in the ordinary course of the Borrower's business. It is provided, however, that this negative covenant shall not be deemed to prohibit transfers and sales by the Borrower to CWS Utility Services of those certain parcels of real property that are not essential to the Borrower's regulated water operations.
- (b) Not to sell, assign, lease, transfer or otherwise dispose of any assets for less than fair market value, or enter into any agreement to do so.

- (c) Not to enter into any sale and leaseback agreement covering any of its fixed assets.
- (d) To maintain and preserve all rights, privileges, and franchises the Borrower now has.
- (e) To make any repairs, renewals, or replacements to keep the Borrower's properties in good working condition.

7.7 Loans. Not to make any loans, advances or other extensions of credit to any individual or entity, except for:

- (a) Existing extensions of credit disclosed to the Bank in writing.
- (b) Extensions of credit to the Borrower's current subsidiaries.
- (c) Extensions of credit in the nature of accounts receivable or notes receivable arising from the sale or lease of goods or services in the ordinary course of business to non-affiliated entities.

7.8 Additional Negative Covenants. Not to, without the Bank's written consent:

- (a) 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.
- (b) Acquire or purchase a business or its assets.
- (c) Engage in any business activities substantially different from the Borrower's present business.
- (d) Liquidate or dissolve the Borrower's business.
- (e) Voluntarily suspend its business for more than 7 days in any 365-day period.

7.9 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 any governmental authority and the Borrower (or any guarantor).
- (c) Any event of default under this Agreement, or any event which, with notice or lapse of time or both, would constitute an event of default.

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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.
- (f) Any actual contingent liabilities of any Borrower (or any guarantor), and any such contingent liabilities which are reasonably foreseeable, where such liabilities are in excess of One Million Dollars (\$1,000,000) in the aggregate.

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

7.11 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.

7.12 ERISA Plans. Promptly during each year, to pay and cause any subsidiaries to pay contributions adequate to meet at least the minimum funding standards under ERISA with respect to each and every Plan; file each annual report required to be filed pursuant to ERISA in connection with each Plan for each year; and notify the Bank within ten (10) days of the occurrence of any Reportable Event that might constitute grounds for termination of any capital Plan by the Pension Benefit Guaranty Corporation or for the appointment by the appropriate United States District Court of a trustee to administer any Plan. "ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time. Capitalized terms in this paragraph shall have the meanings defined within ERISA.

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

7.14 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.

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

#### 8. DEFAULT AND REMEDIES

If any of the following events of default 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 entire debt immediately and without prior notice. In addition, if any event of default occurs, the Bank shall have all rights, powers and remedies available under any instruments and agreements required by or executed in connection with this Agreement, as well as all rights and remedies available at law or in equity. 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. The Borrower fails to make a payment under this Agreement when due.

8.2 Other Bank Agreements. Any Borrower (or any Obligor) or any of the Borrower's related entities or affiliates fails to meet the conditions of, or fails to perform any obligation under any other agreement any Borrower (or any Obligor) or any of the Borrower's related entities or affiliates has with the Bank or any affiliate of the Bank. For purposes of this Agreement, "Obligor" shall mean any guarantor or any party pledging collateral to the Bank.

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

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8.4 False Information. Any Borrower or any Obligor has given the Bank false or misleading information or representations.

8.5 Bankruptcy. Any Borrower, any Obligor, or any general partner of the Borrower or of any Obligor files a bankruptcy petition, a bankruptcy petition is filed against any of the foregoing parties, or any Borrower, any Obligor, or any general partner of the Borrower or of any Obligor makes a general assignment for the benefit of creditors.

8.6 Receivers. A receiver or similar official is appointed for a substantial portion of any Borrower's or any Obligor's business, or the business is terminated, or, if any Obligor is anything other than a natural person, such Obligor is liquidated or dissolved.

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

8.8 Judgments. Any judgments or arbitration awards are entered against any Borrower or any Obligor, or any Borrower or any Obligor 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.

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

8.10 Government Action. Any government authority takes action that the Bank believes materially adversely affects the Borrower's or any Obligor's financial condition or ability to repay.

8.11 Default under Related Documents. Any default occurs under any guaranty, subordination agreement, security agreement, deed of trust, mortgage, or other document required by or delivered in connection with this Agreement or any such document is no longer in effect, or any guarantor purports to revoke or disavow the guaranty.

8.12 ERISA Plans. Any one or more of the following events occurs with respect to a Plan of the Borrower subject to Title IV of ERISA, provided such event or events could reasonably be expected, in the judgment of the Bank, to subject the Borrower to any tax, penalty or liability (or any combination of the

foregoing) which, in the aggregate, could have a material adverse effect on the financial condition of the Borrower:

- (a) A reportable event shall occur under Section 4043(c) of ERISA with respect to a Plan.
- (b) Any Plan termination (or commencement of proceedings to terminate a Plan) or the full or partial withdrawal from a Plan by the Borrower or any ERISA Affiliate.

8.13 Debt Ratings. The Borrower's Debt Ratings with Moody's shall be lower than Baa3 or with S&P shall be lower than BBB-. "Debt Rating" means, as of any date of determination, the rating as determined by either Moody's or S&P (collectively, the "Debt Ratings") of the Borrower's non-credit-enhanced, senior unsecured long-term debt.

8.14 Restrictive Covenant. California Water Service Group directly or indirectly agrees to any arrangement whereby the ability of the Borrower to pay dividends to California Water Service Group is restricted.

8.15 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.

## 9. ENFORCING THIS AGREEMENT; MISCELLANEOUS

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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 and Waiver of Jury Trial.

- (a) This paragraph concerns the resolution of any controversies or claims between the parties, whether arising in contract, tort or by statute, including but not limited to controversies or claims that arise out of or relate to: (i) this Agreement (including any renewals, extensions or modifications); or (ii) any document related to this Agreement (collectively a "Claim"). For the purposes of this arbitration provision only, the term "parties" shall include any parent corporation, subsidiary or affiliate of the Bank involved in the servicing, management or administration of any obligation described or evidenced by this Agreement.
- (b) At the request of any party to this Agreement, any Claim shall be resolved by binding arbitration in accordance with the Federal Arbitration Act (Title 9, U. S. Code) (the "Act"). The Act will apply even though this Agreement provides that it is governed by the law of a specified state.
- (c) Arbitration proceedings will be determined in accordance with the Act, the applicable rules and procedures for the arbitration of disputes of JAMS or any successor thereof ("JAMS"), and the terms of this paragraph. In the event of any inconsistency, the terms of this paragraph shall control.
- (m)
- (d) The arbitration shall be administered by JAMS and conducted, unless otherwise required by law, in any U. S. state where real or tangible personal property collateral for this credit is located or if there is no such collateral, in the state specified in the governing law section of this Agreement. All Claims shall be determined by one arbitrator; however, if Claims exceed Five Million Dollars (\$5,000,000), upon the request of any party, the Claims shall be decided by three arbitrators. All arbitration hearings shall commence within ninety (90) days of the demand for arbitration and close within ninety (90) days of commencement and the award of the arbitrator(s) shall be issued within thirty (30) days of the close of the hearing. However, the arbitrator(s), upon a showing of good cause, may extend the

commencement of the hearing for up to an additional sixty (60) days. The arbitrator(s) shall provide a concise written statement of reasons for the award. The arbitration award may be submitted to any court having jurisdiction to be confirmed and enforced.

- (e) The arbitrator(s) will have the authority to decide whether any Claim is barred by the statute of limitations and, if so, to dismiss the arbitration on that basis. For purposes of the application of the statute of limitations, the service on JAMS under applicable JAMS rules of a notice of Claim is the equivalent of the filing of a lawsuit. Any dispute concerning this arbitration provision or whether a Claim is arbitrable shall be determined by the arbitrator(s). The arbitrator(s) shall have the power to award legal fees pursuant to the terms of this Agreement.
- (f) This paragraph does not limit the right of any party to: (i) exercise self-help remedies, such as but not limited to, setoff; (ii) initiate judicial or non-judicial foreclosure against any real or personal property collateral; (iii) exercise any judicial or power of sale rights, or (iv) act in a court of law to obtain an interim remedy, such as but not limited to, injunctive relief, writ of possession or appointment of a receiver, or additional or supplementary remedies.
- (g) The procedure described above will not apply if the Claim, at the time of the proposed submission to arbitration, arises from or relates to an obligation to the Bank secured by real property. In this case, all of the parties to this Agreement must consent to submission of the Claim to arbitration. If both parties do not

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consent to arbitration, the Claim will be resolved as follows: The parties will designate a referee (or a panel of referees) selected under the auspices of JAMS in the same manner as arbitrators are selected in JAMS administered proceedings. The designated referee(s) will be appointed by a court as provided in California Code of Civil Procedure Section 638 and the following related sections. The referee (or presiding referee of the panel) will be an active attorney or a retired judge. The award that results from the decision of the referee(s) 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.

- (n) The filing of a court action is not intended to constitute a waiver of the right of any party, including the suing party, thereafter to require submittal of the Claim to arbitration.
- (i) By agreeing to binding arbitration, the parties irrevocably and voluntarily waive any right they may have to a trial by jury in respect of any Claim. Furthermore, without intending in any way to limit this Agreement to arbitrate, to the extent any Claim is not arbitrated, the parties irrevocably and voluntarily waive any right they may have to a trial by jury in respect of such Claim. This provision is a material inducement for the parties entering into this Agreement.

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 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.

9.7 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;
- (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. Any reference in any related document to a "promissory note" or a "note" executed by the Borrower and dated as of the date of this Agreement shall be deemed to refer to this Agreement, as now in effect or as hereafter amended, renewed, or restated.

9.8 Indemnification. The Borrower will indemnify and hold the Bank harmless from any loss, liability, damages, judgments, and costs of any kind relating to or arising directly or indirectly out of (a) this Agreement or any document required hereunder, (b) any credit extended or committed by the Bank to the Borrower hereunder, and (c) any litigation or proceeding related to or arising out of this Agreement, any such document, or any such credit. This indemnity includes but is not limited to attorneys' fees (including the allocated cost of in-house counsel). This indemnity extends to the Bank, its parent, subsidiaries and all of their directors, officers, employees, agents, successors, attorneys, and assigns. This indemnity will survive repayment of the Borrower's obligations to the Bank. All sums due to the Bank hereunder shall be obligations of the Borrower, due and payable immediately without demand.

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9.9 Notices. Unless otherwise provided in this Agreement or in another agreement between the Bank and the Borrower, all notices required under this Agreement shall be personally delivered or sent by first class mail, postage prepaid, or by overnight courier, to the addresses on the signature page of this Agreement, or sent by facsimile to the fax numbers listed on the signature page, or to such other addresses as the Bank and the Borrower may specify from time to time in writing. Notices and other communications shall be effective (i) if mailed, upon the earlier of receipt or five (5) days after deposit in the U.S. mail, first class, postage prepaid, (ii) if telecopied, when transmitted, or (iii) if hand-delivered, by courier or otherwise (including telegram, lettergram or mailgram), when delivered.

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.

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

<TABLE>  
<CAPTION>  
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Borrower:

Bank:

California Water Service Company

Bank of America, N.A.

By:

By:

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Gerald F. Feeney, Vice President/CFO  
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John C. Plecque, Senior Vice President  
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By:

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-----  
Chris P. Giannotti, Senior Vice President  
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3.

Address where notices to the Bank are to be

sent:

4. Address where notices to the Borrower are to be sent:

Bay Area Commercial Banking Office #1473  
315 Montgomery Street, 13th Floor  
San Francisco, CA 94104

1720 North First Street

San Jose, CA 95112

</TABLE>

CALIFORNIA WATER SERVICE COMPANY  
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

AMENDMENT NO. 3

WHEREAS, California Water Service Company (the "Company") maintains the California Water Service Company Supplemental Executive Retirement Plan (the "Plan"), for the benefit of a select group of the Company's management and highly compensated employees;

WHEREAS, the Board of Directors has amended the Plan to decrease the number of years required for full vesting in the Plan from 35 years to 15 years;

NOW, THEREFORE, effective as of January 1, 2003, the Plan is hereby amended as follows:

3. The table in Section 5.1(a) of the Plan used to determine participants' "Normal Retirement Benefits" under the Plan is restated to read as follows:

Years of Service	Percentage
5	11.25%
6	16.13
7	21.00
8	25.88
9	30.75
10	34.63
11	40.50
12	45.38
13	50.25
14	55.13
15	60.00



## EXHIBIT 13.1

## Ten-Year Financial Review

Dollars in thousands, except per share amounts

		2002	2001	2000	1999	1998	1997	1996	1995
1994	1993	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
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<b>&lt;CAPTION&gt;</b>									
Summary of Operations									
Operating revenue									
Residential		\$184,894	\$173,823	\$171,234	\$163,681	\$150,491	\$158,210	\$148,313	\$132,859
\$127,228	\$122,585								
Business		46,404	44,944	44,211	41,246	38,854	40,520	37,605	35,873
33,712	31,360								
Industrial		11,043	9,907	11,014	12,695	10,150	10,376	9,748	9,952
9,080	8,415								
Public authorities		12,706	11,860	11,609	10,898	9,654	11,173	10,509	9,585
9,397	8,535								
Other		8,104	6,286	6,738	6,417	5,777	4,886	4,083	4,833
3,767	4,985								
Total operating revenue		263,151	246,820	244,806	234,937	214,926	225,165	210,258	193,102
183,184	175,880								
Operating expenses		232,854	221,669	211,610	201,890	183,245	188,020	177,356	164,958
155,012	145,517								
Interest expense, other income and expenses, net		11,224	10,186	13,233	11,076	11,821	11,388	11,502	11,176
11,537	12,785								
Net income		\$ 19,073	\$ 14,965	\$ 19,963	\$ 21,971	\$ 19,860	\$ 25,757	\$ 21,400	\$ 16,968
16,635	\$ 17,578								
Common Share Data									
Earnings per share - diluted		\$ 1.25	\$ 0.97	\$ 1.31	\$ 1.44	\$ 1.31	\$ 1.71	\$ 1.42	\$ 1.13
1.17	\$ 1.26								
Dividend declared		1.12	1.115	1.100	1.085	1.070	1.055	1.040	1.020
0.990	0.960								
Dividend payout ratio		90%	115%	84%	75%	82%	62%	73%	90%
85%	76%								
Book value		\$ 13.12	\$ 12.95	\$ 13.13	\$ 12.89	\$ 12.49	\$ 12.15	\$ 11.47	\$ 10.97
10.72	\$ 10.03								
Market price at year-end		23.65	25.75	27.00	30.31	31.31	29.53	21.00	16.38
16.00	20.00								
Common shares outstanding at year-end (in thousands)		15,182	15,182	15,146	15,094	15,015	15,015	15,015	14,934
14,890	13,773								
Return on average common stockholders' equity		9.7%	7.6%	10.1%	11.5%	10.8%	14.5%	12.8%	10.6%
11.1%	12.6%								
Long-term debt interest coverage		2.73	2.64	3.31	3.79	3.64	4.37	3.81	3.41
3.49	3.34								
Balance Sheet Data									
Net utility plant		\$696,988	\$624,342	\$582,782	\$564,390	\$538,741	\$515,917	\$495,985	\$471,994
\$455,769	\$437,065								
Utility plant expenditures		88,800	62,049	37,161	48,599	41,061	37,511	40,310	31,031
32,435	31,097								
Total assets		800,582	710,214	666,605	645,507	613,143	594,444	569,745	553,027
516,507	497,717								
Long-term debt including current portion		251,365	207,981	189,979	171,613	152,674	153,271	151,725	154,416
138,628	138,863								
Capitalization ratios:									
Common stockholders' equity		44.0%	48.8%	51.1%	53.0%	54.6%	53.8%	52.7%	50.9%
52.9%	49.3%								
Preferred stock		0.7%	0.9%	0.9%	0.9%	1.0%	1.0%	1.1%	1.1%
1.2%	1.2%								
Long-term debt		55.3%	50.3%	48.0%	46.1%	44.4%	45.2%	46.2%	48.0%
45.9%	49.5%								
Other Data									
Water production (million gallons)									
Wells and surface supply		67,488	65,283	65,408	65,144	57,482	63,736	60,964	54,818
53,274	48,598								
Purchased		64,735	61,343	62,237	58,618	54,661	59,646	56,769	57,560
59,850	59,103								
Total water production		132,223	126,626	127,645	123,762	112,143	123,382	117,733	112,378
113,124	107,701								
Metered customers		380,087	371,281	366,242	361,235	354,832	350,139	345,307	335,238

332,146	326,564									
Flat-rate customers		78,901	79,146	78,104	77,892	77,568	77,878	77,991	78,330	
79,159	81,416									
Customers at year-end, including Hawthorne		458,988	450,427	444,346	439,127	432,400	428,017	423,298	413,568	
411,305	407,980									
New customers added		8,561	6,081	5,219	6,727	4,383	4,719	9,730	2,263	
3,325	2,906									
Revenue per customer		\$ 579	\$ 552	\$ 554	\$ 539	\$ 500	\$ 529	\$ 502	\$ 468	\$
447	\$ 433									
Utility plant per customer		2,182	2,020	1,916	1,851	1,768	1,694	1,632	1,580	
1,520	1,459									
Employees at year-end		802	783	797	790	759	752	740	738	
729	717									

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

California Water Service Group (Company) is a holding company, incorporated in Delaware, with four operating subsidiaries: California Water Service Company (Cal Water), CWS Utility Services (Utility Services), New Mexico Water Service Company (New Mexico Water) and Washington Water Service Company (Washington Water). Cal Water, New Mexico Water and Washington Water are regulated public utilities. Their assets and operating revenues currently comprise the majority of the Company's assets and revenues. The regulated utilities also provide some non-regulated water-related services. Utility Services provides non-regulated water operations and related services to private companies and municipalities. The following discussion and analysis provides information regarding the Company, its assets, operations and financial condition.

FORWARD-LOOKING STATEMENTS

This annual report, including the Letter to Stockholders and Management's Discussion and Analysis, contains forward-looking statements within the meaning established by the Private Securities Litigation Reform Act of 1995 (Act). The forward-looking statements are intended to qualify under provisions of the federal securities laws for "safe harbor" treatment established by the Act. Forward-looking 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, forecasts, predicts, believes, estimates, anticipates, projects 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. They are subject to uncertainty and changes in circumstances. Actual results may vary materially from what is contained in a forward-looking statement. Factors that may cause a result different than expected or anticipated include: future economic conditions, governmental and regulatory commissions' decisions, changes in regulatory commissions' policies or procedures, the timeliness of regulatory commissions' actions concerning rate relief, new legislation, electric power interruptions, access to capital, increases in suppliers' prices and the availability of supplies including water and power, 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, especially as it impacts water sales. When considering forward-looking statements, the reader should keep in mind the cautionary statements included in this paragraph. The Company assumes no obligation to provide public updates of forward-looking statements.

BUSINESS

Cal Water, which began operation in 1926, is a public utility supplying water service to 440,500 customers in 75 California communities through 25 separate water systems or districts. Cal Water's 24 regulated systems, which are subject to regulation by the California Public Utilities Commission (CPUC), serve 434,400 customers. An additional 6,100 customers receive service through a long-term lease of the City of Hawthorne's water system, which is not subject to CPUC regulation. Cal Water accounts for 96% of the Company's total customers and 98% of the Company's operating revenue.

Washington Water's utility operations are regulated by the Washington Utilities and Transportation Commission (WUTC). Washington Water, which started operations in 1999, provides domestic water service to 14,400 customers in the Tacoma and Olympia areas, and accounts for 2% of the Company's operating revenue. An additional 3,900 customers are served under operating agreements with private owners.

New Mexico Water acquired the assets of Rio Grande Utility Corporation in July 2002. New Mexico Water provides service to 2,400 water and 1,700 wastewater customers south of Albuquerque. Its regulated operations, which

account for less than 1% of the Company's operating revenue, are subject to the jurisdiction of the New Mexico Public Regulation Commission. It also provides non-regulated meter reading service under contract with a county.

Rates and operations for regulated customers are subject to the jurisdiction of the respective state's regulatory commissions. The commissions require that water rates for each regulated district be independently determined. The commissions are expected to authorize water rates sufficient to recover normal operating expenses and allow the utility to earn a fair and reasonable return on invested capital. Rates for the City of Hawthorne water system are established in accordance with an operating agreement and are subject to ratification by the Hawthorne City Council. Fees for other operating agreements are based on contracts negotiated between the parties.

Utility Services derives non-regulated income from contracts with other private companies and municipalities to operate water systems and provide meter reading and billing services. It also leases communication antenna sites, operates recycled water systems and conducts real estate sales of surplus properties.

#### CRITICAL ACCOUNTING POLICIES

The Company maintains its accounting records in accordance with accounting principles generally accepted in the United States of America and as directed by the regulatory commissions to which the Company's operations are subject. The process of preparing financial statements requires the use of estimates on the part of management. The estimates used by management are based on historic experience and an understanding of current facts and circumstances. Management believes that the following accounting policies are critical because they involve a higher degree of complexity and judgement and can have a material impact on the Company's results of operations and financial condition.

**Revenue Recognition.** Revenue from metered customers includes billings to customers based on monthly meter readings plus an estimate for unbilled revenue which represents water used between the last reading of the customer's meter and the end of the accounting period. The unbilled revenue amount is recorded as a current asset on the balance sheet under the caption "Unbilled Revenue." At December 31, 2002, the unbilled revenue amount was \$8.0 million and at December 31, 2001, was \$7.3 million. The unbilled revenue amount is generally higher during the summer months when water sales are higher. The amount recorded as unbilled revenue varies depending on water usage in the preceding

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period, the number of days between meter reads for each billing cycle, and the number of days between each cycle's meter reading and the end of the accounting cycle.

Flat-rate customers are billed in advance at the beginning of the service period. The revenue is prorated so that the portion of revenue applicable to the current accounting period is included in that period's revenue. The portion related to a subsequent accounting period is recorded as unearned revenue on the balance sheet and recognized as revenue when earned in the subsequent accounting period. The unearned revenue liability was \$1.7 million at December 31, 2002 and 2001. It is included in "Other accrued liabilities" on the balance sheet.

**Expense-balancing and Memorandum Accounts.** Expense-balancing accounts and memorandum accounts represent costs incurred, but not billed to Cal Water customers. The amounts included in these accounts relate to rate increases charged to the Company by suppliers of purchased water and purchased power, and increases in pump taxes. The Company does not record expense-balancing or memorandum accounts in its financial statements as revenue, nor record a receivable until the CPUC has authorized recovery of the higher costs and customers have been billed. The accounts are only used to track the higher costs. The cost increases, which are beyond the Company's control, are referred to as "offsetable expenses" because under certain circumstances they are recoverable from customers in future offset rate increases.

In October 2001, the CPUC adopted a resolution implementing its staff's interim recommendation concerning practices and policies that enable water utilities to recover cost increases in purchased water, purchased power and pump taxes. The interim recommendation directed that future Company requests to recover offsetable expenses will be processed only if an operating district has filed a General Rate Case (GRC) application within a three-year period and the district is not earning more than its authorized rate of return on a forward-looking, pro forma basis. Neither of these requirements applied to offset rate increase recovery prior to adoption of the resolution. The CPUC also directed its staff to open a proceeding to evaluate offsetable expense recovery practices and policies and to recommend permanent revisions.

Historically, offset rate increases enabled water utilities to recover as a pass-through cost increases for offsetable expenses that were not known or anticipated when customer rates were established and were beyond the utility's control. Offsetable expenses incurred prior to the CPUC's adoption of the

staff's interim recommendation were frozen as of November 29, 2001 in the balancing accounts. The Company was authorized to track offsetable expenses incurred after the CPUC changed its policy with regard to regulatory memorandum accounts for potential recovery subject to the CPUC's future determination of appropriate practices and policies. Because of the uncertainty of collection, the Company's accounting policy is to not record the expense-balancing and memorandum account amounts in its financial statements until such amounts are billed to customers.

In September 2002, the assigned administrative law judge recommended that the CPUC adopt as permanent the interim recommendation regarding recovery of expense-balancing and memorandum accounts as described above, but modify the limit on the amount subject to recovery. Under the interim rules, a utility is not allowed to recover any of the balancing or memorandum account balance if it is earning more than its authorized return on equity. However, the proposed modification by the administrative law judge would allow recovery of a portion of the balancing or memorandum account up to the amount by which the Company's over earning of its authorized rate of return did not exceed the amount in the balancing account. While this recommendation was an improvement over the interim rules currently in place, the Company believes there should be no limit on allowed recovery of the balancing and memorandum accounts. The Company is continuing to present its arguments to the CPUC staff.

In December 2002, the CPUC issued a decision that will allow the Company to recover offsetable expenses tracked in the frozen balancing accounts. The decision provided that recovery of these expenses will not be subject to the interim rules adopted in October 2001. The CPUC is now expected to adopt permanent rules regarding recovery of memorandum accounts during the first half of 2003. The Company is unable to predict what the final rules will comprise or their financial impact.

At December 31, 2001, the amount included in the balancing and memorandum accounts was \$6.5 million. At December 31, 2002, the amount had increased to \$12.5 million after reflecting collection of \$1.9 million of balancing account power costs during 2002. The increase in balancing and memorandum accounts was attributable primarily to higher electric costs incurred by the Company since 2001 when power rates charged to the Company by electric suppliers, as authorized by the CPUC, increased an average of 48%. Increases in the memorandum accounts are expected to be smaller once current power rates are reflected in customer rates through future GRC decisions and assuming there are no large increases in purchased water or power costs.

Regulated Utility Accounting. Because the Company operates extensively in a regulated business, it is subject to the provisions of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." Regulators establish rates that are expected to permit the recovery of the cost of service and a return on investment. In the event a portion of the Company's operations were no longer subject to the provisions of SFAS No. 71, the Company would be required to write off related regulatory assets and liabilities that are not specifically recoverable and determine if other assets might be impaired. If a regulatory commission determined that a portion of the Company's assets were not recoverable in customer rates, the Company would be required to determine if it had suffered an asset impairment that would require a write-down in the assets' valuation. There had been no such asset impairment as of December 31, 2002.

Income Taxes. Significant judgment by management is required in determining the provision for income taxes. The preparation of consolidated financial statements requires the estimation of income tax expense. The process involves the estimating of current tax exposure together with assessing temporary differences resulting from different treatment of certain items, such as depreciation, for tax and financial statement reporting. These differences result in deferred tax assets and liabilities, which are reported in the consolidated balance sheet. The Company must also assess the likelihood that deferred tax assets will be recovered in future taxable income. To the extent recovery is unlikely, a valuation allowance would be recorded. If a valuation allowance were required, it could significantly increase income tax expense. In management's view, a valuation allowance was not required at December 31, 2002.

Pension Benefits. The Company incurs costs associated with its pension and postretirement health care benefits plans. To measure the expense of these benefits, management must estimate compensation increases, mortality rates, future health cost increases and discount rates used to value related liabilities and to determine appropriate funding. Different estimates used by management could result in significant variances in the cost recognized for pension benefit plans. The estimates used are based on historical experience, current facts, future expectations and recommendations from independent advisors and actuaries. The Company uses an investment advisor to provide expert advice in managing its benefit investments. To diversify investment risk, the plan's goal is to invest 60% of the assets in equity mutual funds and 40% in bond funds. At December 31, 2002, 48% of the assets were invested in equity mutual funds and 52% in bond funds. Based on the market values of the investment funds, for the year ended December 31, 2002, the total return on the pension plan

assets was a decline of 3.7%, and for the year ended December 31, 2001, pension plan assets had a positive 2.6% total return. For December 31, 2002, the discount rate used for pension plan obligations or pension plan expense was 6.7%, which was based on high-quality bond rates in December 2002. The long-term rate of return used to determine the Company's pension obligation was 8%. By comparison, a 20-year return of assets invested using the same investment diversification as for the Company's pension plan would have returned 11.8%. The Company anticipates any increase in funding for the pension and postretirement health care benefits plans will be recovered in future customer rates.

#### RESULTS OF OPERATIONS

**Earnings and Dividends.** Net income in 2002 was \$19,073,000 compared to \$14,965,000 in 2001 and \$19,963,000 in 2000. Diluted earnings per common share were \$1.25 in 2002, \$0.97 in 2001 and \$1.31 in 2000. The weighted average number of common shares outstanding was 15,185,000 in 2002, 15,186,000 in 2001, and 15,129,000 in 2000. As explained below, the decline in 2001 net income resulted from three primary factors: low water sales to existing customers due to weather conditions, significantly higher purchased power costs and delays in receipt of regulatory rate relief.

At its January 2002 meeting, the Board of Directors increased the common stock dividend for the 35th consecutive year. 2002 also marked the 58th consecutive year that a dividend had been paid on the Company's common stock. The annual dividend paid in 2002 was \$1.12, a 0.4% increase over the \$1.115 paid in 2001, which was an increase of 1.4% over the \$1.100 paid in 2000. The dividend increases were based on projections that the higher dividend could be sustained while still providing the Company with adequate financial resources and flexibility. Earnings not paid as dividends are reinvested in the business for the benefit of stockholders. The dividend payout ratio was 90% in 2002, 115% in 2001, and 84% in 2000, an average of 97% during the three-year period.

**Operating Revenue.** Operating revenue, including revenue from the City of Hawthorne lease, was \$263.2 million, 6.6% more than the \$246.8 million recorded in 2001. Revenue in 2000 was \$244.8 million. The sources of changes in operating revenue were:

Dollars in millions	2002	2001	2000
Customer water usage	\$ 6.9	\$ (5.7)	\$ 4.8
Rate increases	6.6	5.4	3.0
Usage by new customers	2.8	2.3	2.1
Net change	\$ 16.3	\$ 2.0	\$ 9.9
Average revenue per customer (in dollars)	\$ 579	\$ 552	\$ 554
Average metered customer usage (Ccf)	373	363	371
New customers added	8,600	6,100	5,200

Temperatures and rainfall in the Company's service territories were relatively normal throughout 2002. In 2001, the weather patterns were cooler and more rainy than normal. From a water sales perspective, 2002's weather resulted in a 2% increase in customer's water usage compared to 2001 and a \$6.9 million increase in revenue.

Rate increases added \$6.6 million to 2002 revenue. Revenue from GRC decisions received in 2001 accounted for \$2.7 million of the increase, \$2.0 million came from step rate increases and \$1.9 million from offset rate increases to recover electric costs included in expense-balancing accounts for four California districts. No new GRC decisions were authorized by the CPUC during 2002. Washington Water did receive a GRC decision in 2002. The "RATES AND REGULATION" section of this report provides a detailed discussion of regulatory activity.

During 2001, revenue from usage by existing customers declined \$5.7 million. A cool, wet spring, mild summer and early fall rains throughout the Company's service territories caused water usage by existing customers to decline by 2%. Rainfall was near normal in the northern part of California, but well above normal in the south. The unusually heavy rains in southern California reduced water sales, a trend that continued all year because of the year's weather pattern. Washington Water experienced dry conditions during the winter and spring months; however, summer rains reduced water sales in the normally high usage summer months.

The December 31, 2002, customer count including the Hawthorne customers was 459,000, an increase of 2% from the 450,400 customers at the end of 2001, which was an increase of 1% from the 444,300 customers at the end of 2000. The increase in customers is due to normal growth within existing service areas and acquisitions of water systems. The acquisition in July 2002 of the Rio Grande Utility Corporation's 4,100 customers is included in the customer count increase.

those for the Hawthorne operation, were \$232.9 million in 2002, \$221.7 million in 2001 and \$211.6 million in 2000.

Water pumped from Company-owned wells provided 50.4% of water delivered to customers in 2002. Water purchased from wholesale suppliers provided 49.0% and the remaining 0.6% was obtained from surface supplies. For 2001, the corresponding percentages were 50.6%, 48.9% and 0.5%.

As a group, water production costs, which consist of purchased water, purchased power and pump taxes, comprise the largest segment of total operating costs. Water production costs accounted for 45% of total operating costs in 2002, 2001 and 2000. The rates charged for wholesale water supplies, electricity and pump taxes are established by various public agencies. As such, these rates are beyond the Company's control. The table below provides comparative information regarding water production costs during the past three years:

Dollars in millions	2002	2001	2000
Purchased water	\$ 76.7	\$ 73.2	\$73.8
Purchased power	22.9	21.1	15.1
Pump taxes	6.3	5.9	6.3
Total water production costs	\$105.9	\$100.2	\$95.2
Change from prior year	6%	5%	5%
Water production (billions of gallons)	132	127	128
Change from prior year	4%	(1)%	3%

Water production expenses vary with wholesale suppliers' prices, the quantity of water produced to supply customer water usage, and the sources of supply. In 2002, four wholesale water suppliers increased their rates charged to the Company. The increases ranged from 2% to 5%. One wholesale supplier reduced its rate by 9%. In 2001, seven wholesale water suppliers increased rates with increases ranging from 2% to 7%. In December 2001, wholesale suppliers in the Los Angeles area refunded \$1.4 million for over-collection of prior period water purchases. The refunds were recorded as a reduction of purchased water costs. There were no comparable refunds in 2002. During 2003, wholesale rate increases are expected in 17 districts ranging from 1% to 47%. The 47% increase will add an estimated \$1.0 million to purchased water cost. The increased costs will be tracked in regulatory memorandum accounts that the Company will include in future rate proceedings for recovery.

Purchased power is required to operate wells and pumps. Prior to 2001, the Company had not been subjected to significant electric power cost increases. However, California energy costs rose significantly in 2001. In January 2001, the CPUC approved an energy surcharge that increased the Company's cost of purchased electricity by 10%. A second, more significant 38% increase in electric costs became effective in May 2001, bringing the total increase to 48%. When the CPUC proposed electric cost increases, the Company believed the higher costs were recoverable from consumers on a pass-through basis under established CPUC procedures regarding expense-balancing accounts. However, the CPUC subsequently revised its rules regarding recovery of the higher costs, resulting in delays in recovering the higher costs. While no new power rate increases are proposed or known at this time, the Company continues to purchase electricity from suppliers at rates greater than it is recovering from its water customers in 20 California districts.

Purchased power increased \$1.8 million in 2002, \$6.0 million in 2001 and \$0.7 million in 2000. The 2002 cost increase was caused by higher electric rates paid through May 2002 as compared to 2001's electric rates and a 5% increase in well production. The purchased power cost increase in 2000 was due mainly to a 3% increase in water production.

Employee payroll and benefits charged to operations and maintenance was \$50.3 million in 2002, \$47.8 million for 2001, and \$44.5 million for 2000. The increases in payroll and related benefits are attributable to general wage increases effective at the start of each year and additional hours worked. At year-end 2002, there were 802 employees, including 12 employees added in New Mexico with the acquisition of Rio Grande Utility Corporation. At the end of 2001 and 2000, there were 783 and 797 employees, respectively. Most non-supervisory employees are represented by the Utility Workers Union of America, AFL-CIO, with the exception of certain engineering and laboratory employees who are represented by the International Federation of Professional and Technical Engineers, AFL-CIO. In December 2002, the Company successfully negotiated new three-year agreements with both unions covering 2003 through 2005. Wage increases under the new agreements will be 1% in 2003, 1.5% in 2004 and 2% in 2005. Improvements in employee benefit plans were also negotiated.

During 2000, a curtailment of the Dominguez pension plan was recorded resulting in a non-taxable gain of \$1.2 million that was offset against operating expenses. The curtailment occurred because the Dominguez pension plan was frozen at the merger date and its participants became participants in the Company's pension plan. Previous amounts expensed by Dominguez but not funded to the plan comprise the curtailment amount. This amount is included in the \$44.5

million reported for payroll and benefits charged to operations and maintenance expense.

Income tax expense was \$12.6 million in 2002, \$9.7 million in 2001 and \$11.6 million in 2000. The changes in taxes are generally due to variations in taxable income.

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Long-term debt interest expense increased \$1.4 million compared to 2001. Series E, 7.11% \$20 million senior notes were issued in May 2002 and Series F, 5.90% \$20 million senior notes were issued in August 2002. Proceeds from the issues were used to repay short-term bank borrowings and to fund the Company's construction program.

As part of a program to refinance certain high interest rate first mortgage bonds, Series G and Series H, 5.29% senior notes were issued in November and December 2002, each for \$20 million. With the proceeds from these two issues, three series of first mortgage bonds totaling \$33 million were redeemed. The remaining proceeds were used to repay short-term bank borrowings.

The issuance of the new senior notes caused long-term interest expense to increase because of the higher principal amount outstanding. In 2001, interest on long-term debt increased \$1.3 million over 2000. The issuance of \$20 million of Series D senior notes in September 2001 and \$20 million of Series C senior notes in October 2000, net of sinking fund payments on first mortgage bonds, resulted in a larger principal amount of long-term debt outstanding and thus increased interest expense. In 2002, 2001 and 2000, interest capitalized on construction projects was \$1.5 million, \$0.9 million, and \$0.7 million, respectively. The increase in the amount capitalized in 2002 is attributable to an increase in the Company's construction expenditures, particularly those associated with construction of a water treatment plant in the Bakersfield district. Interest coverage of long-term debt before income taxes was 2.7 times in 2002, 2.6 times in 2001 and 3.3 times in 2000. The reduction in interest coverage for 2002 and 2001 compared to 2000 resulted from lower earnings and the new senior note issues outstanding. The interest coverage is expected to improve once GRC decisions are authorized by the CPUC and as a result of the lower interest costs realized by refinancing certain first mortgage bond issues.

Other interest expense, which includes short-term bank borrowings needed to meet operating and interim construction funding, decreased \$0.6 million in 2002. The amount borrowed in 2002 was larger because of an increase in capital expenditures. In 2001, other interest increased by \$0.1 million because higher borrowings were necessary due to reduced cash flow from operations and increased capital expenditures. Lower interest rates on short-term borrowings in both years offset the interest cost that resulted from higher borrowing levels. There was \$36.4 million in short-term borrowings outstanding at December 31, 2002 and \$22.0 million at December 31, 2001.

Other Income and Expenses. Other income is derived from management contracts under which the Company operates private and municipally-owned water systems and recycled water systems and provides meter reading, water testing and billing services to various cities; leases of communication antenna sites; sales of surplus property; and interest on short-term investments. Other income, net of expenses, was \$5.6 million in 2002, \$5.8 million in 2001 and \$1.4 million in 2000. During 2002, \$3.0 million in pre-tax profits were realized from surplus properties sold as part of the Real Estate Program that is described in more detail in the "LIQUIDITY AND CAPITAL RESOURCES" section of this report. There were \$3.9 million of gains from surplus property sales in 2001 and no property sales in 2000.

#### RATES AND REGULATION

2002 Regulatory Activity. Washington Water filed a GRC application in February 2002. The WUTC issued its decision early in April 2002 granting a \$1 million increase in annual revenue to cover higher operating costs and capital expenditures.

In June 2002, the CPUC authorized the Company to increase rates in its Bakersfield district by \$796,000 on an annual basis. This decision was based on an advice letter filing to cover approximately \$6 million of construction cost incurred to date for a new water treatment plant.

The Company filed a Notice of Intent to file GRC applications for three California districts in July 2002. The Commission's staff accepted the applications in November. Four additional district GRC applications, including the General Office operation, were submitted in January 2003. Combined, these districts represent 17% of the California customers. The Commission staff has indicated that a decision on these filings should be expected in late 2003.

2001 Regulatory Activity. After analyzing 17 Cal Water districts that were eligible for general rate filings in 2001, and based on current earnings levels, projected expense increases, including higher electric power costs, and expected capital expenditures, applications were filed in July 2001 for 15 districts covering about 70% of Cal Water's customers. The applications

requested an 11.5% return on equity including 75 basis points to reflect the increased risk associated with the CPUC's changes in recovery of water production expense increases and \$21 million in new annual revenue. Under the CPUC's rate case processing schedule, a decision on the district GRC applications was expected by the third quarter of 2002. However, despite the filing of briefs by all parties in May 2002, a Proposed Decision has not been issued. At this time, a final decision is expected in April 2003, about 20 months after filing of the applications. Based on the administrative law judge's Draft of a Proposed Decision (DPD) released in January 2003, the Company would be authorized a \$12.8 million increase in annual revenue. Additionally, the DPD recommends a return on equity of 9.7% with an equity percentage of capitalization at 51.5%. While that is positive news, it does not recognize that regulatory delays have resulted in the loss of revenues, which the DPD finds just and reasonable.

The DPD also recommends an allocation method for sharing expenses between regulated and non-regulated activities that is inconsistent with a prior Commission decision that was issued following a Commission rulemaking investigation. Furthermore, the DPD proposes changing the rate-setting practice regarding the treatment of gain on the sale for surplus property. The existing rules are based on legislation adopted in 1995 by the California legislature, which requires that gains realized on the sale of surplus property be reinvested in new utility plant and that the Company be allowed to earn a reasonable rate of return on the reinvestment. As proposed in the DPD, the Company would be required to treat the reinvestment of gains on the sale of surplus property as contributed plant and it would not be allowed to earn a return on its reinvestment. The Company, along with other California water utilities, opposes these rate-setting changes and will aggressively defend the legislation administratively and, if necessary, pursue legislative remedies. If these proposals were adopted by the Commission, they would have a

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detrimental impact on the Company's non-regulated activities and surplus real estate program. The DPD on treatment of gains on sale of properties could result in a reduction of earnings and the rate base on which the Commission determines the Company's future earnings. However, because this is only a draft that does not recommend specific actions, the Company cannot predict the final outcome of this matter. Since 1997, the Company has recorded \$10.4 million in pretax gains under its surplus property sale program.

In October 2001, the CPUC adopted a resolution implementing its staff's interim recommendation concerning practices and policies that enable water utilities to recover increases in purchased water, purchased power and pump taxes. These expenses are referred to as "offsetable expenses." The CPUC also directed its staff to open a proceeding to evaluate offsetable expense recovery practices and policies, and recommend permanent revisions. Historically, offset rate increases have enabled water utilities to recover increases in offsetable expenses that were not anticipated when customer rates were established and are beyond the utility's control. Future Company requests to recover offsetable expenses will be processed only if a district has filed a GRC application within its three-year rate case cycle and the district is not earning more than its authorized rate of return on a forward-looking, pro forma basis. Neither of these requirements applied to offset rate increases prior to adoption of the resolution. The Company can continue to track offsetable expenses in regulatory memorandum accounts for potential recovery subject to the CPUC's future determination of appropriate practices and policies.

During 2001, the rates charged to the Company by electric power suppliers were increased 48%. In May 2001, immediately after the CPUC authorized substantial electric rate increases for the state's two largest power companies, the Company requested authorization to recover \$5.9 million in higher power costs for 23 of its 24 regulated California districts. The CPUC's authorization allowing the Company to recover a portion of the higher power costs in four districts was not effective until September and November 2001, well after the high usage summer months. The authorization will allow recovery in four districts totaling \$2.7 million in additional annual revenue. The CPUC did not authorize any additional recovery of the higher electric costs during 2002. However, in December 2002, the CPUC did authorize the Company to file for recovery of up to \$6.4 million of electric cost increases tracked in expense-balancing accounts. In January 2003, the Company applied to the CPUC requesting authorization to recover the \$6.4 million of electric increases included in the expense-balancing accounts. A resolution regarding these advice letter filings is expected in the first half of 2003.

Legislative Initiative. Regulatory delays in obtaining GRC decisions have been costly to California regulated water utilities. In recent years, the Company has experienced significant revenue losses due to regulatory delays. The Company normally files its GRC applications in July. The CPUC's stated rate processing plan provides for a decision within ten months of accepting a GRC application. When decisions are not issued in a timely manner, customer rates are not increased. As a result, the Company loses revenue and does not recover costs during the period the decisions are delayed.

California Assembly Bill 2838 became effective January 1, 2003. This



bill is intended to preserve the cash flow and financial ratings of regulated water utilities by providing interim rate relief based on inflation and a procedure for applying the final adopted GRC rates on a retroactive basis. In December 2002, the Company filed for protection of its 2002 GRC applications under the new law. The Commission staff rejected the application on the basis that the legislation does not apply to GRC applications submitted prior to January 1, 2003. An appeal of the Commission staff rejection has been filed with the Commission.

#### WATER SUPPLY

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 the supply from wholesale suppliers; and other districts obtain the supply from a combination of well and purchased sources. A small portion of the supply is from surface sources processed through three Company-owned water treatment plants. In 2003, the Company expects to complete construction of a new water treatment plant in the Bakersfield district that will increase the amount of surface water delivered to that system and reduce the amount of water pumped from wells. On average, slightly more than half of the water delivered to customers is produced from wells and surface supply, with the remainder purchased from wholesale suppliers.

California's normal weather pattern yields little precipitation between mid-spring and mid-fall. The Washington service areas receive precipitation in all seasons with the heaviest amounts during the winter. New Mexico's rainfall is heaviest in the summer monsoon season. Water usage in all service areas is highest during the warm and dry summers and declines in the cool winter months. Rain and snow during the winter months replenish underground water basins and fill reservoirs providing the water supply for subsequent delivery to customers. To date, snow and rainfall accumulation during the 2002-2003 water year has been above average. Precipitation in the prior five years has been near normal levels. Water storage in California's reservoirs at the end of 2002 was at historic average. The Company believes that its supply from underground aquifers and purchased sources should be adequate to meet customer demand during 2003. The Company also develops long-term water supply plans for each of its districts to help assure an adequate water source under various operating and supply conditions.

#### 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 strives for complete compliance with all requirements set forth by the various agencies.

The Safe Drinking Water Act (SDWA) 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 expected to pose a risk to public health

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when 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. The amended SDWA allows the EPA to require monitoring of up to 30 contaminants in any five-year cycle. 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 in accordance with SDWA requirements. Employees are provided training in water operations and water treatment procedures. Water pumped from underground sources is treated as necessary or required by regulations. The Company owns and operates three surface water treatment plants. The cost of existing 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. The states can impose more stringent regulations than mandated by EPA. In addition to the EPA's requirements, various regulatory agencies could require increased monitoring and possibly require additional treatment of water supplies.

During 2001, EPA released a new, lower Maximum Contaminant Level (MCL) standard of 10 parts per billion for arsenic, a naturally-occurring element that is sometimes present in groundwater. Compliance with the new standard is required by January 2006. Of the Company's 600 wells, 56 will require treatment to comply with the new MCL. The Company estimates the compliance cost at \$61 million in capital expenditures over the next three years and \$10 million in additional annual operating costs. The State of California could establish a

lower arsenic MCL standard. If the state were to set the standard at five parts per billion, the estimated capital expenditures necessary for compliance would be approximately \$125 million. At this time, the Company is unable to predict if the state will adopt the EPA standard or require a lower MCL. The Company is participating in testing alternate arsenic treatment technologies in order to meet the standard in the most cost-efficient manner. The required capital expenditures to meet the new standards and the increased operating costs associated with new treatment are expected to be recovered in customers' future water rates.

The Company anticipates that the EPA will issue other regulations that will require further monitoring and possible treatment for specific contaminants. Depending on the MCLs contained in the regulations, the cost of compliance with the new regulations could be significant in certain Company districts. The Company intends to request recovery for capital investments and additional treatment costs needed to remain in compliance with established health standards through the ratemaking process.

The Company is also working with regional water quality control boards and air quality districts to meet current and upcoming regulations. The focus of this work is to meet more stringent National Pollutant Discharge Elimination System requirements for water discharged from wells and for diesel exhaust emissions from operation of emergency generators.

#### LIQUIDITY AND CAPITAL RESOURCES

Liquidity. The Company's short-term liquidity is provided by bank lines of credit and internally generated funds. On a long-term basis, the Company obtains financing through its access to debt and equity markets.

Short-term Financing. Negotiations to renew separate bank credit agreements for the Company and Cal Water that were scheduled to expire on April 30, 2003, have been completed. The new agreements, which replace a combined \$60 million credit line, became effective on February 28, 2003, and expire on April 30, 2005. Under the new agreements the Company will have available a total of \$65 million. Of the total, \$55 million is designated for Cal Water and \$10 million for the Company, including funding of its subsidiaries' operations. Cal Water's \$55 million portion can be used solely for purposes of the regulated California utility. As of July 1, 2003, the credit facility available to Cal Water will be reduced to \$45 million. The reduction will lower the commitment fee paid by Cal Water on the unused portion of the credit line. The prior agreements required a 30-day out-of-debt period for borrowings under the agreements in calendar year 2002. However, on September 23, 2002, the agreements were amended to extend the out-of-debt compliance period to between January 1, 2002 and April 30, 2003. The new agreements will also have a 30-day out-of-debt requirement that must be met by December 31, 2003.

During 2002 and 2001, the Company had committed \$7.6 million of the \$10 million credit line to a contractor for construction of a customer and operation center. The Company has occupied the new facility where four of its southern California district operations were consolidated. The combined operations will provide for more efficient service to customers in the South Bay area of Los Angeles County. The tax-free exchange of seven surplus Company properties to the contractor for the new customer and operations center was completed on September 30, 2002. Because the transaction was structured as a property exchange, acquiring the new facility did not require a significant expenditure of cash. Under terms of the exchange agreement, during the construction period the Company had guaranteed the contractor's bank loan. The new facility, which is valued at over \$7 million, served as security to the Company for the guarantee. When the property exchange was completed, the contractor paid off the bank loan, and the Company was released from its guarantee.

Washington Water has loan commitments from two banks to meet its operating and capital equipment purchase requirements at interest rates negotiated with the banks. At December 31, 2002, nothing was outstanding under the short-term commitments. Generally, short-term borrowings under the commitments are converted annually to long-term borrowings with repayment terms tied to system and equipment acquisitions.

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New Mexico Water Company has a credit arrangement with a New Mexico bank that was renewed in January 2003 for a 16-month period. The interest rate for the agreement is based on prime rate plus 75 basis points. At December 31, 2002, the amount borrowed was \$2,380,000. The renewal increased the amount available under the line to \$2.9 million.

The water business is seasonal. Revenue is lower in the cool, wet winter months when less water is used compared to the warm, dry summer months when water use is higher and more revenue is generated. During the winter period, the need for short-term borrowings under the bank lines of credit increases. The increase in cash flow during the summer allows short-term borrowings to be paid down. Short-term borrowings that remain outstanding more than one year have generally been converted to long-term debt. In years when more than normal precipitation falls in the Company's service areas or

temperatures are lower than normal, especially in the summer months, customer water usage can be lower than normal. The reduction in water usage reduces cashflow from operations and increases the need for short-term bank borrowings. During 2002 and 2001, the need for short-term borrowings was greater due to an increase in construction expenditures primarily related to construction of the Bakersfield water treatment plant. Regulatory lag, which is the delay in receiving authorization to increase customer rates to cover capital expenditures and higher operating costs, resulted in the need for increased short-term bank borrowings in both 2002 and 2001.

**Credit Ratings.** California Water Service Company's first mortgage bonds are rated by Moody's Investors Service (Moody's) and Standard & Poor's (S&P). The Company's bank line of credit agreement contains a provision that if the Company's Moody's or S&P's senior debt ratings falls below investment grade, the credit line may be terminated by the bank. At the end of the third quarter 2002, the Company met separately with the two credit rating agencies at annual rating reviews. Following the review, Moody's issued a news release stating that it was placing the Company's Aa3 senior secured debt rating on review for possible downgrade and subsequently lowered the rating to A1. Moody's indicated that the primary reason for the action was delayed rate relief from the CPUC and the Company's capital spending requirements for water infrastructure and environmental compliance needs. In November 2002, S&P lowered the Company's corporate credit rating from AA- to A+. In its news release, S&P stated that the change "has been caused principally by deterioration in regulatory support from the California Public Utilities Commission," noting that decisions for recovery of reasonable expenses have been delayed as much as 18 months. In the news release, S&P classified the Company's outlook as "stable," saying, "Standard & Poor's does not expect that Cal Water will experience any funding anxiety beyond that associated with regulatory tardiness." The Company believes the credit rating agencies will maintain investment grade ratings for the Company's first mortgage bonds.

**Long-term Financing.** Long-term financing, which includes common stock, preferred stock, first mortgage bonds, senior notes and other debt securities, has been used to replace short-term borrowings and fund construction. Internally-generated funds come from earnings not paid out as dividends, depreciation and deferred income taxes. Additional information regarding the bank borrowings and long-term debt is presented in notes 8 and 9 to the financial statements. The Company believes that long-term financing is available to it through debt and equity markets. In March 2002, the CPUC issued a decision granting Cal Water authority to complete up to \$250 million of equity and debt financing through 2005, subject to certain restrictions. In addition to Company funds, construction projects are funded by developers' contributions in aid of construction which are not refundable and advances for construction which are refundable.

In both 2002 and 2001, long-term financing was provided by issuance of senior notes. During 2002, Series E, 7.11% senior notes were issued in May and Series F, 5.90% senior notes were issued in August. During 2001, Series D, 7.13% senior notes were issued in September. Each series, which is an obligation of Cal Water, was issued for \$20 million. These senior note issues do not require sinking fund payments.

During 2002, the Company initiated a program to refinance a portion of Cal Water's outstanding first mortgage bonds. The refinancing is intended to take advantage of the available lower interest rates. The Company estimates that the total program, which will be completed in two phases, will save approximately \$1.5 million in annual interest costs. The first phase of the program was completed in 2002 and included refinancing of Series S, BB and DD first mortgage bonds, and Series P that matured on November 1, 2002. Including Series P, the total first mortgage bond principal balance refinanced for the four series was \$33,940,000. The refinancing was accomplished with funds from the issue of two new series of lower interest cost, unsecured senior notes. Series G, \$20 million senior notes were issued in November 2002 and Series H, \$20 million senior notes were issued in December 2002. The interest rate on both series is 5.29% and both mature in 2022. Each series requires annual sinking fund payments of \$1.8 million commencing in 2012.

The second phase of the refinancing is expected to be completed in May 2003 when two \$10 million senior notes are issued under Series I and J to redeem Series EE first mortgage bonds. Institutional investors have committed to these two issues. The interest rate for Series I will be determined at closing, but is expected to be similar to the Series J interest rate which will be 5.54%. Depending on interest rates at the time, Series FF and GG first mortgage bonds will be considered for possible refinancing during 2003.

In 2002 and 2000, \$1.9 million and \$3.6 million, respectively, of net income was reinvested in the business after payment of dividends. Cash flow during 2001 was lower than expected because of lower water usage by existing customers, regulatory lag in receiving rate relief and increased operating costs, especially for purchased power costs. As a result, funds required to pay 2001 dividends exceeded net income by \$2.1 million, resulting in a reduction of stockholders' equity. The reduced cash flow also required the Company to borrow additional funds under the bank line of credit agreement.

The Company has a Dividend Reinvestment and Stock Purchase Plan (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. The Plan provides that shares required for the Plan may be purchased on the open market or be newly issued shares. During 2002 and 2001, shares 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

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per share could be dilutive. Also, stockholders may experience dilution of their ownership percentage unless they participate in an offering at the same level of current ownership.

2003 Financing Plan. The Company's 2003 financing plan includes raising approximately \$60 million of new capital. The plan includes issuance of \$20 million in senior notes to institutional investors. The senior note financing was completed on February 28, 2003, when Series K 4.58% and Series L 5.48% notes were issued, each for \$10 million. Additionally, a global shelf registration statement is being prepared. From the global shelf registration, the Company expects to issue approximately \$40 million of common stock. As currently contemplated, the common stock issue will be accomplished with an initial issue during the second quarter and a second issue late in the third quarter. However, the Company does not plan to issue common stock until after the CPUC has issued a decision for the 2001 GRC applications. Therefore, if the CPUC decision is delayed, the common stock issues are also likely to be delayed. Beyond 2003, future issues from the shelf registration could include common stock, preferred stock or debt instruments sold to individual investors.

Contractual Obligations. The Company's contractual obligations are summarized in the table below. Long-term debt payments include annual sinking fund payments on first mortgage bonds, maturities of long-term debt and annual payments on other long-term obligations. Advances for Construction represent annual contract refunds to developers for the cost of water systems paid for by the developers. The contracts are non-interest bearing and refunds are generally on a straight-line basis over a 40-year period. Operating leases are generally rents for office space. The total amount presented for operating leases is for a 20-year period.

<TABLE>  
<CAPTION>

Contractual Obligations (In thousands)	Total	Less Than			After
		1 Year	2-3 Years	4-5 Years	
<S>	<C>	<C>	<C>	<C>	<C>
Long-Term Debt	\$251,365	\$1,000	\$ 1,896	\$ 1,776	\$246,693
Advances for Construction	115,459	4,605	15,243	11,146	84,465
Operating leases	21,000	833	1,834	1,834	16,499

</TABLE>

The Company has water supply contracts with wholesale suppliers in 16 of its operating districts. For each contract, the cost of water is established by the wholesale supplier and is generally beyond the Company's control. The amount paid annually to the wholesale suppliers is charged to purchased water expense on the Company's statement of income. Three contracts noted below require minimum payments. The other contracts do not require minimum annual payments. The amount paid under the contracts, except for the contract with Stockton East Water District (SEWD), varies with the volume of water purchased from the wholesalers. The contract with SEWD requires payments totaling \$3,779,000 for 2003, a 27% increase over 2002. The amount paid under this contract is fixed annually and generally does not vary with the quantity of water delivered by the district during the year. Because of the fixed price arrangement, the Company operates to receive as much water as possible from SEWD in order to minimize the cost of operating wells to supplement SEWD deliveries. Two contracts require the Company to purchase minimum quantities of water at the contractors' current wholesale rate for purchased water. Under both contracts, the Company operates so that purchases exceed the contractual minimum amount. The Company plans to continue to purchase at least the minimum water requirement under both contracts in the future.

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 first mortgage bonds.

In 2002, utility plant expenditures totaled \$88.4 million compared to \$62.0 million in 2001. The 2002 construction program included \$71.6 million of Company-funded projects and \$16.8 million of projects funded by funds received from developers for non-refundable contributions in aid of construction and refundable advances for construction. The Company's 2002 projects were funded by internally-generated funds, borrowings under bank credit lines, and issuance of long-term debt senior notes. The Company's 2001 projects were funded by internally-generated funds, borrowings under bank credit lines, and issuance of \$20 million in senior notes.

The 2003 Company-funded construction budget was authorized at \$51.7 million. It includes \$4.5 million for the fifth year of a five-year program to construct a water treatment plant to accommodate growth and meet water quality standards in the Bakersfield district. Construction of the plant is proceeding on-time and on-budget. Over the five-year period, the plant and related pumping and pipeline facilities are estimated to cost \$49.0 million. Also in the 2003 budget is \$10.7 million for new and replacement water mains and \$12.1 million for new wells, pumping equipment and storage facilities. The budget will be funded by funds from operations, bank borrowings and long-term debt and equity financing. New subdivision construction will be financed by developers' non-refundable contributions-in-aid-of-construction and refundable advances for construction.

Company-funded construction budgets over the next five years are projected to be about \$330 million. Included in the estimated amount is \$61 million for compliance with arsenic water quality regulations, completion of the Bakersfield treatment plant and expansion and replacement of water plant infrastructure including the start of a program to replace certain wells that are nearing the end of their service life.

Capital Structure. In 2002, common stockholders' equity increased \$1.9 million and in 2000 increased \$3.6 million by net income not paid out as dividends. In 2001, common stockholders equity was reduced by the \$2.1 million that dividends paid exceeded net income. 36,180 shares of common stock were issued in 2001 for the acquisition of the Nish water systems. The long-term debt portion of the capital structure increased in 2002, 2001 and 2000 primarily due to the issuance of new senior notes. It was reduced by first mortgage bond sinking fund payments.

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The Company's total capitalization at December 31, 2002, was \$453.1 million and at the end of 2001 was \$402.7 million. Because of the decline in 2001 net income and issuance of additional senior notes, the debt component of capitalization has increased and the equity component has decreased. The Company expects that its planned issuance of common equity, and receipt of regulatory relief will add to the common equity portion of capitalization in 2003 and future years. At December 31 capitalization ratios were:

	2002	2001
Common equity	44.0%	48.8%
Preferred stock	0.7%	0.9%
Long-term debt	55.3%	50.3%

The return on average common equity was 9.7% in 2002 compared to 7.6% in 2001. The low return on average common equity in 2001 was directly related to the decline in net income.

Acquisitions. Rio Grande Utility Corporation. On July 1, 2002, after receiving state regulatory commission approval, the Company acquired certain assets of Rio Grande Utility Corporation (Rio Grande) through New Mexico Water. The purchase included the water and wastewater assets of Rio Grande, which serves 2,400 water and 1,700 wastewater customers about 30 miles south of Albuquerque. The purchase price was \$2,300,000 in cash, plus assumption of \$3,100,000 in outstanding debt. Rate base for the system is approximately \$5,400,000.

The Rio Grande purchase price was allocated to the fair value of net assets acquired, including utility plant, water rights and assumed liabilities. The results of operations include the operating results of Rio Grande since the acquisition date. The allocation of fair value is based on management's estimate of the fair value for purchase accounting purposes at the date of acquisition. The purchase price allocations are subject to revision if management obtains additional information.

For 2001, Rio Grande had gross revenue of \$1,485,000. Its gross utility plant in service at December 31, 2001, was \$12,458,000 and net utility plant in service was \$9,153,000. The regulatory decision authorizing the purchase included an authorization to increase annual water rates by \$115,000.

National Utilities Corporation. In June 2002, New Mexico Water signed an agreement to purchase National Utilities Corporation for approximately \$700,000. National Utilities serves 700 water customers located adjacent to the Rio Grande water system and another 1,000 water customers located 150 miles south of Albuquerque, New Mexico. The purchase will entitle New Mexico Water to purchase up to 2,000 acre-feet of water annually as required for its operations. The purchase is subject to the approval of the New Mexico Public Regulation Commission. Regulatory approval is expected in the third quarter of 2003. National Utilities had 2002 revenue of \$554,000 and total assets of \$1,410,000. Its net utility plant in service at December 31, 2001, was \$1,178,000.

Kaanapali Water Corporation. In August 2002, the Company agreed to acquire the Kaanapali Water Corporation for \$7.7 million in cash. Kaanapali

Water provides water utility services to 500 customers on the island of Maui in Hawaii, including 10 resorts and eight condominium projects. It posted 2001 revenues of \$3.3 million, and has net plant of approximately \$7.3 million and current assets of \$0.4 million. The transaction is subject to approval of the Hawaii Public Utilities Commission, and an application requesting approval was filed in October 2002. A decision is expected by mid-2003.

Nish Water Systems. On January 25, 2001, the CPUC approved the Company's acquisition of the Nish water systems in Visalia. The four systems serve 1,100 customers and had annual revenue of \$0.2 million. The Company issued 36,180 shares of its common stock valued at \$0.9 million and assumed debt of \$0.3 million to complete the transaction, which was accounted for 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.

Washington Water. In 2002, Washington Water purchased the assets of eight water companies that serve 181 customers and generate \$0.1 million in annual revenue. The combined purchase price was \$0.1 million. During 2001, Washington Water purchased the assets of seven water companies that serve 681 customers and generate about \$0.3 million in annual revenue. The combined purchase price was \$0.7 million.

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. Most surplus properties have a low cost basis. A program has been developed to realize the value of certain surplus properties through sale or lease of those properties. The program will be ongoing for a period of several years. During the next four years, the Company estimates that gross property transactions totaling over \$10 million could be completed. During 2002, the Company completed four sales totaling \$3.0 million in pretax proceeds. In 2001, \$4.0 million in pretax sales were completed through two sales.

Stockholder Rights Plan. As explained in Note 7 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.

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#### FINANCIAL RISK MANAGEMENT

The Company does not participate in hedge arrangements, such as forward contracts, swap agreements, options or other contractual agreements relative to the impact of market fluctuations on its assets, liabilities, production or contractual commitments. The Company operates only in the United States, and therefore, is not subject to foreign currency exchange rate risks.

Terrorism Risk. Since the September 11, 2001, terrorist attacks, to safeguard its water supply and facilities, the Company has heightened security at its facilities and taken added precautions for the safety of our employees and the water we deliver to our customers. While the Company does not make public comments on its security programs, it has been in contact with federal, state and local law enforcement agencies to coordinate and improve water delivery systems' security. The Company has also assigned a high priority to completing work necessary to comply with new EPA requirements concerning security of water facilities. This effort encompasses all of the Company's operations.

Interest Rate Risk. The Company does have exposure to market risk that includes changes in interest rates. Interest rate risk exists because the Company's financing includes the use of long-term debt obligations with maturity dates up to 30 years from the date of issue. If interest rates increase, the Company's future long-term financing may be done at higher rates, resulting in a need to recover higher cost in customers' future rates. Cal Water's long-term obligations are first mortgage bonds and senior note obligations that are generally placed with insurance companies at fixed interest rates. Washington Water's long-term obligations are for periods of up to 10 years and are placed with two banks. New Mexico Water's long-term debt obligations are with a bank with maturities of 16 months. During 2002, the Company issued four series of \$20 million senior notes with interest rates ranging from 5.29% to 7.11%. The range of interest rates is an example of changing market conditions. To expand access to capital debt markets, the Company will investigate the use of private and public markets for future debt issues. It may also consider financing on a parent company basis, rather than on a subsidiary-by-subsidary basis.

The Company's short-term financing is provided by bank lines of credit that are discussed under the "Liquidity and Capital Resources" section of this report. Short-term borrowings that are not repaid from operating cash or funded by retained earnings are generally converted to long-term debt issues. The

Company plans to continue the financing of its construction program with a combination of debt and equity issues. Financing of acquisitions have been done using Company common stock or through the debt financing vehicles available to the subsidiary companies.

Value Risk. Because the Company operates primarily in a regulated industry, its value risk is somewhat lessened; however, regulated parameters also can be recognized as limitations to operations and earnings, and the ability to respond to certain business conditions changes. During 2002 and 2001, the Company experienced value risk because of the impact on earnings of CPUC decisions or the lack of decision on earnings. Non-regulated operations are subject to risk of contract constraints and performance by the Company in achieving its objectives. Value risk management is accomplished using various financial models that consider changing business parameters. It is also supplemented by considering various risk control processes that may be available as circumstances warrant.

Stock Market Performance Risk. While the Company's stock price has not been significantly affected by poor performance of the general stock market over the past two years, the Company's performance could be affected in other areas. The Company provides its employees a defined benefit pension plan and postretirement medical benefit plan. The Company is responsible for funding both of these plans and a portion of the plans' assets are invested in stock market equities, other than Company stock. Poor performance of the equity investments could result in a need for additional future funding and cost to make up for a loss of value in the equity investments. The Company expects to recover its costs associated with the benefit plans in customer rates.

Equity Risk. The Company does not have equity investments and, therefore, it does not have equity risks.

#### RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which applies to legal obligations associated with the retirement of long-lived assets and the associated asset retirement costs. The Statement is effective for the Company in the first quarter of 2003. The Company does not expect the adoption of SFAS No. 143 to have a significant impact on its financial position or results of operations.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." This Statement requires that a liability for costs associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002. The Company does not expect the impact of adopting SFAS No. 146 to have a significant impact on the Company's financial position, results of operations, or cash flows.

In November 2002, the FASB issued Interpretation No. 45, "Guarantors Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." Interpretation No. 45 requires a liability to be recognized at the time a company issues a guarantee for the fair value of the obligations assumed under certain guarantee agreements. Additional disclosures about guarantee agreements are also required in the interim and annual financial statements. The Company does not believe adoption of Interpretation No. 45 will have a material impact on the Company's results of operations or financial position. The recognition and measurement provision of FIN 45 are effective

for the years beginning after December 31, 2002. The disclosure requirements are effective for December 31, 2002, financial statements; however, the Company is not a party to any guarantees at this time.

In December 2002, the FASB issued Statement No. 148, "Accounting for Stock-Based Compensation, Transition and Disclosure." This statement provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. It also requires that disclosure of the pro forma effect of using the fair-value method of accounting for stock-based employee compensation be displayed more prominently and in a table in annual financial statements. Additionally, the statement requires disclosure of the pro forma effect in interim financial statements. The transition and annual disclosure requirements of Statement No. 148 are effective for the Company for 2002. The interim disclosure requirements are effective for the Company's first quarter of 2003. The Company does not expect Statement No. 148 to have a material effect on its results of operations or financial condition.

## Consolidated Balance Sheet

In thousands, except per share data

December 31, 2002 and 2001	2002	2001
<b>Assets</b>		
Utility plant:		
Land	\$ 11,513	\$ 10,709
Depreciable plant and equipment	927,244	859,846
Construction work in progress	48,624	26,826
Intangible assets	13,929	12,277
Total utility plant	1,001,310	909,658
Less accumulated depreciation and amortization	304,322	285,316
Net utility plant	696,988	624,342
Current assets:		
Cash and cash equivalents	1,063	953
Receivables:		
Customers	14,831	14,572
Other	9,130	8,228
Unbilled revenue	7,969	7,291
Materials and supplies at average cost	2,760	2,147
Taxes and other prepaid expenses	7,234	7,224
Total current assets	42,987	40,415
Other assets:		
Regulatory assets	46,089	38,893
Unamortized debt premium and expense	6,798	3,800
Other	7,720	2,764
Total other assets	60,607	45,457
	\$ 800,582	\$ 710,214

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	2002	2001
<b>Capitalization and Liabilities</b>		
Capitalization:		
Common stock, \$0.01 par value; 25,000 shares authorized, 15,182 outstanding in 2002 and 2001	\$ 152	\$ 152
Additional paid-in capital	49,984	49,984
Retained earnings	149,215	147,299
Accumulated other comprehensive loss	(134)	(816)
Total common stockholders' equity	199,217	196,619
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	250,365	202,600
Total capitalization	453,057	402,694
Current liabilities:		
Current maturities of long-term debt	1,000	5,381
Short-term borrowings	36,379	22,000
Accounts payable	23,706	24,032
Accrued taxes	3,742	3,813
Accrued interest	2,873	2,535
Other accrued liabilities	23,841	21,228
Total current liabilities	91,541	78,989
Unamortized investment tax credits	2,774	2,882
Deferred income taxes	31,371	28,816
Regulatory and other liabilities	28,804	20,680
Advances for construction	115,459	106,657
Contributions in aid of construction	77,576	69,496
Commitments and contingencies		
	\$ 800,582	\$ 710,214

See accompanying Notes to Consolidated Financial Statements.

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## Consolidated Statement of Income

In thousands, except per share data

&lt;TABLE&gt;



<CAPTION> For the years ended December 31, 2002, 2001 and 2000 <S>	2002 <C>	2001 <C>	2000 <C>
Operating revenue	\$263,151	\$246,820	\$244,806
Operating expenses:			
Operations:			
Purchased water	76,672	73,174	73,768
Purchased power	22,897	21,130	15,136
Pump taxes	6,344	5,910	6,275
Administrative and general	37,646	36,521	32,974
Other	34,073	34,109	32,308
Maintenance	11,587	12,131	11,592
Depreciation and amortization	21,238	19,226	18,368
Income taxes	12,568	9,728	11,571
Property and other taxes	9,829	9,740	9,618
Total operating expenses	232,854	221,669	211,610
Net operating income	30,297	25,151	33,196
Other income and expenses:			
Non-regulated income, net	2,637	1,979	1,413
Gain on the sale of non-utility property	2,980	3,864	--
Total other income and expenses	5,617	5,843	1,413
Income before interest expense	35,914	30,994	34,609
Interest expense:			
Long-term debt interest	15,554	14,187	12,901
Other interest	1,287	1,842	1,745
Total interest expense	16,841	16,029	14,646
Net income	\$ 19,073	\$ 14,965	\$ 19,963
Earnings per share:			
Basic	\$ 1.25	\$ 0.98	\$ 1.31
Diluted	\$ 1.25	\$ 0.97	\$ 1.31
Weighted average number of common shares outstanding:			
Basic	15,182	15,182	15,126
Diluted	15,185	15,186	15,129

See accompanying Notes to Consolidated Financial Statements.

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Consolidated Statement of Common Stockholders' Equity and Comprehensive Income

<TABLE> <CAPTION> In thousands For the years ended December 31, 2002, 2001 and 2000 Total	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss
<S> <C>	<C>	<C>	<C>	<C>
Balance at December 31, 1999 \$ 194,584	\$ 151	\$ 49,340	\$ 145,610	\$ (517)
Net income 19,963	--	--	19,963	--
Other comprehensive income 31	--	--	--	31
Comprehensive income 19,994	--	--	--	--
Issuance of common stock 644	--	644	--	--
Dividends paid:				
Preferred stock 153	--	--	153	--
Common stock 16,235	--	--	16,235	--
Total dividends paid 16,388	--	--	16,388	--
Balance at December 31, 2000 198,834	151	49,984	149,185	(486)
Net income 14,965	--	--	14,965	--
Other comprehensive loss	--	--	--	(330)

(330)				
Comprehensive income	--	--	--	--
14,635				
Acquisition	1	--	220	--
221				
Dividends paid:				
Preferred stock	--	--	153	--
153				
Common stock	--	--	16,918	--
16,918				
Total dividends paid	--	--	17,071	--
17,071				
Balance at December 31, 2001	152	49,984	147,299	(816)
196,619				
Net income	--	--	19,073	--
19,073				
Other comprehensive income	--	--	--	682
682				
Comprehensive income	--	--	--	--
19,755				
Dividends paid:				
Preferred stock	--	--	153	--
153				
Common stock	--	--	17,004	--
17,004				
Total dividends paid	--	--	17,157	--
17,157				
Balance at December 31, 2002	\$ 152	\$ 49,984	\$ 149,215	\$ (134)
\$ 199,217				

</TABLE>

See accompanying Notes to Consolidated Financial Statements.

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#### Consolidated Statement of Cash Flows

In thousands

<TABLE>

<CAPTION>

For the years ended December 31, 2002, 2001 and 2000

<S>

	2002	2001	2000
	<C>	<C>	<C>
Operating activities:			
Net income	\$ 19,073	\$ 14,965	\$ 19,963
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	21,238	19,226	18,368
Deferred income taxes, investment tax credits, and regulatory assets and liabilities, net	786	2,919	(3,203)
Gain on sale of non-utility property	(2,980)	(3,864)	--
Changes in operating assets and liabilities			
Receivables	(1,088)	(2,186)	(1,503)
Unbilled revenue	(561)	673	235
Accounts payable	(431)	(2,461)	(255)
Other current assets and liabilities	1,287	6,642	1,093
Other changes, net	(3,909)	(625)	638
Net adjustments	14,342	20,324	15,373
Net cash provided by operating activities	33,415	35,289	35,336
Investing activities:			
Utility plant expenditures			
Company funded	(71,553)	(53,379)	(33,540)
Developer advances and contributions in aid of construction	(16,808)	(8,670)	(3,621)
Proceeds from sale of non-utility assets	3,006	3,999	--
Acquisitions	(2,300)	(701)	(709)
Net cash used in investing activities	(87,655)	(58,751)	(37,870)
Financing activities:			
Net short-term borrowings	12,435	7,402	599
Issuance of common stock	--	--	644
Issuance of long-term debt	80,324	20,524	20,326
Advances for construction	12,545	6,498	3,846
Refunds of advances for construction	(4,597)	(4,166)	(3,870)
Contributions in aid of construction	7,740	10,868	1,883
Retirement of long-term debt	(36,940)	(2,881)	(2,920)
Dividends paid	(17,157)	(17,071)	(16,388)
Net cash provided by financing activities	54,350	21,174	4,120
Change in cash and cash equivalents	110	(2,288)	1,586
Cash and cash equivalents at beginning of year	953	3,241	1,655
Cash and cash equivalents at end of year	\$ 1,063	\$ 953	\$ 3,241

Supplemental disclosures of cash flow information: Cash paid during the year for:

Interest (net of amounts capitalized)	\$ 16,527	\$ 14,785	\$ 14,785
Income taxes	10,205	11,775	11,775
Non-cash financing activity - common stock issued in acquisitions	--	899	--

</TABLE>

See accompanying Notes to Consolidated Financial Statements.

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Notes to Consolidated Financial Statements

December 31, 2002, 2001, and 2000

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#### ORGANIZATION AND OPERATIONS

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

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

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#### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Principles of Consolidation** The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Intercompany transactions and balances have been eliminated.

**Reclassifications** 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.

**Use of Estimates** The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 and waste 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.

**Expense balancing and memorandum accounts** are used to track suppliers' rate increases for purchased water, purchased power and pump taxes that are not included in customer water rates. The cost increases are referred to as "Offsetable Expenses" because under certain circumstances they are recoverable from customers in future rate increases designed to offset the higher costs. The Company does not record the balancing and memorandum accounts until the Commission has authorized a change in customer rates and the customer has been billed.

**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 \$1,473,000 in 2002, \$858,000 in 2001, and \$703,000 in 2000.

**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 cost and are amortized over their useful life. Included in intangible assets is \$6,515,000 paid to the City of Hawthorne in 1996 to lease the city's water system and associated water rights. The asset is being amortized on a straight-line basis over the 15-year life of the lease.

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 2.4% in 2002, 2001 and 2000. 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 in accordance with tax regulations.

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

Restricted Cash Restricted cash primarily represents proceeds collected through a surcharge on certain customers' bills plus interest earned on the proceeds and is used to service California Safe Drinking Water Bond obligations. In addition, there are compensating balances at a bank in support of borrowings. All restricted cash is classified in other prepaid expenses. At December 31, 2002 and 2001, the amounts restricted were \$1,131,000 and \$887,000, respectively.

Regulatory Assets The Company records regulatory assets for future revenues expected to be realized as the tax effects of certain temporary differences previously passed through to customers reverse. The temporary differences relate primarily to the difference between book and

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income tax depreciation on utility plant that was placed in service before the regulatory Commissions adopted normalization for ratemaking purposes. The regulatory assets are net of revenue related to deferred income taxes that were provided at prior tax rates and the amount that would be provided at current tax rates. The differences will reverse over the remaining book lives of the related assets.

In addition, regulatory assets include items that are recognized as liabilities for financial statement purposes, which will be recovered in future customer rates. The liabilities relate to postretirement benefits, vacation and self-insured workers' compensation accruals.

Long-lived Assets The Company regularly reviews its long-lived assets for impairment, annually or when events or changes in business circumstances have occurred, which indicate the carrying amount of such assets may not be fully realizable. Potential impairment of assets held for use is determined by comparing the carrying amount of an asset to the future undiscounted cash flows expected to be generated by that asset. If assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying value of the assets exceeds the fair value of the assets. There have been no such impairments as of December 31, 2002.

Long-term Debt Premium, Discount and Expense The discount and issuance expense on long-term debt is 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, less the accrued benefit, exceeds the unrecognized prior service cost. 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 for rate setting purposes. Annual refunds are made to developers 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, 2002 and 2001, the amounts refundable under the 20-year contracts were \$3,248,000 and \$4,320,000, respectively, and under 40-year contracts were \$111,136,000 and \$102,337,000, respectively. In addition, other Advances for Construction totaling \$1,075,000 at December 31, 2002, are refundable based upon customer connections. Estimated refunds for 2003 for all water main extension contracts are \$4,600,000.

Contributions in Aid of Construction Contributions in Aid of Construction represent payments received from developers, primarily for fire protection purposes, which are not subject to refunds. Facilities funded by contributions are included in utility plant, but excluded from rate base. Depreciation related to contributions is charged to Contributions in Aid of Construction.

Income Taxes The 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 only deposits for new services were taxable. In late 2000, federal regulations were further modified to exclude fire services from tax.

Earnings Per Share Basic earnings per share (EPS) is calculated by dividing income available to common stockholders (net income less preferred stock dividend of \$153,000) by the weighted average shares outstanding during the year. Diluted EPS is calculated by dividing income available to common stockholders by the weighted average shares outstanding including potentially dilutive shares as determined by application of the treasury stock method. The difference between basic and diluted weighted average number of common stock outstanding is the effect of dilutive common stock options outstanding.

Stock-based Compensation The Company has a stockholder-approved Long-Term Incentive Plan that allows granting of nonqualified stock options. The Company has adopted the disclosure requirements of Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," and as permitted by the statement, applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," for its plan. All of the Company's outstanding options have an exercise price equal to the market price on the date they were granted. No compensation expense was recorded for the years ended December 31, 2002, 2001 or 2000.

The table below illustrates the effect on net income and earnings per share as if the Company had applied the fair value recognition provisions of FASB Statement No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation.

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<TABLE>						
<CAPTION>						
In thousands, except per share amounts						
<S>	<C>	2002	<C>	2001	<C>	2000
Net income, as reported		\$19,073		\$14,965		\$19,963
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects		86		57		24
Pro forma net income		\$18,987		\$14,908		\$19,939
Earnings per share:						
Basic - as reported		\$ 1.25		\$ 0.98		\$ 1.31
Basic - pro forma		\$ 1.25		\$ 0.98		\$ 1.31
Diluted - as reported		\$ 1.25		\$ 0.97		\$ 1.31
Diluted - pro forma		\$ 1.24		\$ 0.97		\$ 1.30

Recent Accounting Pronouncements In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which applies to legal obligations associated with the retirement of long-lived assets and the associated asset retirement costs. The Statement is effective for the Company in the first quarter of 2003. The Company does not expect the adoption of SFAS No. 143 to have a significant impact on its financial position or results of operations.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and supersedes Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an

Activity (including Certain Costs Incurred in a Restructuring)." This Statement requires that a liability for costs associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002. The Company does not expect the impact of adopting SFAS No. 146 to be significant to the Company's financial position, results of operations, or cash flows.

In December 2002, the FASB issued Statement No. 148, "Accounting for Stock-Based Compensation, Transition and Disclosure." This statement provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. It also requires that disclosures of the pro forma effect of using the fair value method of accounting for stock-based employee compensation be displayed more prominently and in a table. Additionally, the statement requires disclosure of the pro forma effect in interim financial statements. The transition and annual disclosure requirements of Statement No. 148 are effective for the Company in 2002. The interim disclosure requirements are effective for the Company's first quarter of 2003. The Company does not expect Statement No. 148 to have a material effect on its results of operations or financial condition.

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#### MERGER WITH DOMINGUEZ SERVICES CORPORATION

The Merger between the Company and Dominguez was completed on May 25, 2000. On the merger date, each outstanding Dominguez common share was exchanged for 1.38 shares of Company common stock. The Company issued 2,210,254 new common shares in exchange for the 1,601,679 outstanding Dominguez shares. Dominguez provided water service in 21 California communities. The former Dominguez operations became districts within Cal Water. The Merger was accounted for as a pooling of interests. There were no intercompany transactions as a result of the Merger. Certain reclassifications were made to the historical financial statements of the companies to conform presentation. No adjustments were made to the Dominguez net assets in applying the accounting practices of the Company. Dominguez previously reported common stock of \$1,542,000 that was reclassified by the Company to "Paid-in-Capital" in accordance with the Company's financial statement presentation. The Company and Dominguez each had December 31 year-ends; therefore no adjustment was required to retained earnings due to a change in fiscal year-ends.

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#### OTHER ACQUISITIONS

During 2002, after receiving regulatory approval, the Company acquired the assets of Rio Grande Utility Corporation (Rio Grande) through its wholly-owned subsidiary, New Mexico Water. The purchase includes the water and wastewater assets of Rio Grande, which serves water and wastewater customers in unincorporated areas of Valencia County, New Mexico. The purchase price was \$2,300,000 in cash, plus assumption of \$3,100,000 in outstanding debt. Rate base for the system is \$5,400,000, including intangible water rights valued at \$732,000.

In 2001, the Company acquired four companies operating in Cal Water's Visalia district. The acquisitions were completed in February 2001, in exchange for 36,180 shares of Company common stock worth \$899,000 and assumed debt of \$218,000. The acquisitions were accounted for under the pooling of interests method of accounting; however, due to the results from operations not being material to the Company's consolidated results from operations, prior periods were not restated. The net equity acquired was recorded as an increase to retained earnings at the beginning of the year. In addition, Washington Water purchased the assets of eight water companies for cash of \$701,000.

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During 2000, Washington Water purchased the assets of Mirrormount Water Services and Lacamas Farmsteads Water Company for \$639,000 in cash and assumed debt. To provide in-house engineering, Washington Water also purchased the assets of Robischon Engineers, Inc. in April 2000 for \$70,000 in cash.

Condensed balance sheets and pro forma results of operations for these acquisitions have not been presented since the effect of these purchases are not material. Acquisitions that involved purchase of assets were accounted for under the purchase method of accounting.

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#### INTANGIBLE ASSETS

As of December 31, 2002 and 2001, intangible assets that will continue to be amortized and those not amortized were:

<TABLE>  
<CAPTION>

2001		2002		2000	
Amounts in thousands		Gross		Net	
Net		Gross	Accumulated	Net	Gross
Accumulated	Carrying	Carrying	Accumulated	Carrying	Carrying
	Value	Value	Amortization	Value	Value
Amortization	Value				
<S>	<C>	<C>	<C>	<C>	<C>
<C>					
Amortized intangible assets:					
Hawthorne lease		\$ 6,515	\$ 2,968	\$ 3,547	\$ 6,515
2,534	\$ 3,981				\$
Water pumping rights		1,046	2	1,044	1,046
--	1,046				
Water planning studies		1,783	238	1,545	1,054
109	945				
Leasehold improvements and other		2,160	1,027	1,133	1,969
920	1,049				
Total		\$11,504	\$ 4,235	\$ 7,269	\$10,584
3,563	\$ 7,021				\$
Unamortized intangible assets:					
Perpetual water rights		\$ 2,425	--	\$ 2,425	\$ 1,693
--	\$ 1,693				

For the years ending December 31, 2002, 2001 and 2000, amortization of intangible assets was \$670,000, \$630,000 and \$507,000. Estimated future amortization expense related to intangible assets for the succeeding five years is \$671,000 per year for 2003 to 2007 and \$3,243,000 beyond 2007.

6

#### PREFERRED STOCK

As of December 31, 2002 and 2001, 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.

The outstanding 139,000 shares of \$25 par value cumulative, 4.4% Series C preferred shares are not convertible to common stock. A premium of \$243,250 would be due upon voluntary liquidation of Series C. There is no premium in the event of an involuntary liquidation. Each Series C preferred share is entitled to sixteen votes, with the right to cumulative votes at any election of directors.

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#### COMMON STOCKHOLDERS' EQUITY

The Company is authorized to issue 25,000,000 shares of \$0.01 par value common stock. As of December 31, 2002 and 2001, 15,182,046 shares of common stock were issued and outstanding.

**Dividend Reinvestment and Stock Repurchase Plan** The Company has a Dividend Reinvestment and Stock Purchase Plan (Plan), which allows stockholders to reinvest dividends to purchase additional Company common stock. The Plan also allows stockholders and other investors to purchase Company common stock through the transfer agent. The Plan provides that shares required for the Plan may be purchased on the open market or be newly issued shares. During 2002 and 2001, shares were purchased on the open market.

**Stockholder Rights Plan** The Company's Stockholder Rights Plan (Plan) is designed to provide stockholders protection and to maximize stockholder value by encouraging a prospective acquirer to negotiate with the Board. The Plan was adopted in 1998 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 in certain circumstances. The Rights are for a ten-year period that expires in February 2008.

Each Right represents a right to purchase 1/100th share of Series D Preferred Stock at the price of \$120, subject to adjustment (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 would cause 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 would

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thereafter be void), would 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 \$0.001 per Right.

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#### SHORT-TERM BORROWINGS

At December 31, 2002, the Company maintained a bank line of credit providing unsecured borrowings of up to \$10,000,000 at the prime lending rate or lower rates as quoted by the bank. Cal Water maintained a separate bank line of credit for an additional \$50,000,000 on the same terms as the Company's line of credit. The agreements require a 30-day out-of-debt period for borrowings under the agreements in calendar year 2002. However, on September 23, 2002, the agreements were amended to extend the out-of-debt compliance period to between January 1, 2002, and April 30, 2003. As explained in Note 16 Subsequent Events, the lines of credit, which were scheduled to expire on April 30, 2003, were renegotiated on February 28, 2003. At December 31, 2002, \$34,000,000 was outstanding.

Washington Water has a loan commitment for \$100,000 from a bank to meet its operating and capital equipment purchase requirements at interest rates negotiated with the bank. At December 31, 2002, nothing was outstanding under the short-term commitment.

New Mexico Water has a \$2.9 million credit agreement with a New Mexico bank that was renewed in January 2003 for a 16-month period. The interest rate for the agreement is based on prime rate plus 75 basis points. At December 31, 2002, the amount borrowed was \$2,379,000.

The following table represents borrowings under the bank lines of credit:

Dollars in thousands	2002	2001	2000
Maximum short-term borrowings	\$52,285	\$36,800	\$26,750
Average amount outstanding	\$25,495	\$24,453	\$16,810
Weighted average interest rate	3.44%	5.29%	7.77%
Interest rate at December 31	3.61%	3.16%	7.88%

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#### LONG-TERM DEBT

As of December 31, 2002 and 2001, long-term debt outstanding was:

<TABLE>  
<CAPTION>

In thousands	Series	Interest Rate	Maturity Date	2002	2001
<S>	<C>	<C>	<C>	<C>	<C>
First Mortgage Bonds:	J	8.86%	2023	\$ 4,000	\$ 4,000
	K	6.94%	2012	5,000	5,000
	P	7.875%	2002	--	2,565
	S	8.50%	2003	--	2,580
	BB	9.48%	2008	--	11,520
	CC	9.86%	2020	18,400	18,500
	DD	8.63%	2022	--	19,100
	EE	7.90%	2023	19,100	19,200
	FF	6.95%	2023	19,100	19,200
	GG	6.98%	2023	19,100	19,200
				84,700	120,865
Senior Notes:	A	7.28%	2025	20,000	20,000



	B	6.77%	2028	20,000	20,000
	C	8.15%	2030	20,000	20,000
	D	7.13%	2031	20,000	20,000
	E	7.11%	2032	20,000	--
	F	5.90%	2017	20,000	--
	G	5.29%	2022	20,000	--
	H	5.29%	2022	20,000	--
				160,000	80,000
California Department of Water Resources loans		3.0% to 7.4%	2003-33	2,797	2,886
Other long-term debt				3,868	4,230
Total long-term debt				251,365	207,981
Less current maturities				1,000	5,381
Long-term debt excluding current maturities				\$250,365	\$202,600

</TABLE>

The first mortgage bonds and unsecured senior notes are obligations of Cal Water. All 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 require interest-only payments until maturity, except series G and H which have an annual sinking fund requirement of \$1.8 million starting in 2012. The Department of Water Resources (DWR) loans were financed under the California Safe Drinking Water Bond Act. Repayment of principal and interest on the DWR loans is through a surcharge on customer bills. Other long-term debt is primarily equipment and system acquisition financing arrangements with financial institutions. Compensating balances of \$227,000 as of December 31, 2002, are required by these institutions. Aggregate maturities and sinking fund requirements for each of the succeeding five years (2003 through 2007) are \$1,000,000, \$932,000, \$909,000, \$928,000 and \$918,000.

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#### OTHER ACCRUED LIABILITIES

As of December 31, 2001 and 2002, other accrued liabilities were:

In thousands	2002	2001
Accrued pension and postretirement benefits	\$ 9,635	\$ 9,777
Accrued and deferred compensation	6,041	4,926
Accrued insurance	2,914	1,317
Other	5,251	5,208
	\$23,841	\$21,228

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#### INCOME TAXES

Income tax expense consists of the following:

In thousands		Federal	State	Total
2002	Current	\$8,797	\$2,406	\$11,203
	Deferred	1,039	326	1,365
	Total	\$9,836	\$2,732	\$12,568
2001	Current	\$6,472	\$2,136	\$ 8,608
	Deferred	1,456	(336)	1,120
	Total	\$7,928	\$1,800	\$ 9,728
2000	Current	\$7,961	\$2,519	\$10,480
	Deferred	1,554	(463)	1,091
	Total	\$9,515	\$2,056	\$11,571

Income tax expense computed by applying the current federal 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:

<TABLE>

<CAPTION>

In thousands	2002	2001	2000
Computed "expected" tax expense	\$ 11,074	\$ 8,643	\$ 11,037
Increase (reduction) in taxes due to:			
State income taxes net of federal tax benefit	1,818	1,170	1,336
Investment tax credits	(191)	(156)	(155)
Other	(133)	71	(647)

Total income tax	\$ 12,568	\$ 9,728	\$ 11,571
------------------	-----------	----------	-----------

The components of deferred income tax expense were:

In thousands	2002	2001	2000
Depreciation	\$ 2,405	\$ 2,337	\$ 2,031
Developer advances and contributions	(789)	(783)	(814)
Bond redemption premiums	806	(42)	(61)
Investment tax credits	(95)	(94)	(61)
Other	(962)	(298)	(4)
Total deferred income tax expense	\$ 1,365	\$ 1,120	\$ 1,091

The tax effects of differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2002 and 2001 are presented in the following table:

In thousands	2002	2001
Deferred tax assets:		
Developer deposits for extension agreements and contributions in aid of construction	\$37,923	\$41,531
Federal benefit of state tax deductions	6,325	5,744
Book plant cost reduction for future deferred ITC amortization	1,639	1,703
Insurance loss provisions	876	537
Pension plan	1,136	938
Other	4,703	868
Total deferred tax assets	52,602	51,321
Deferred tax liabilities:		
Utility plant, principally due to depreciation differences	82,130	79,348
Premium on early retirement of bonds	1,843	789
Total deferred tax liabilities	83,973	80,137
Net deferred tax liabilities	\$31,371	\$28,816

A valuation allowance was not required at December 31, 2002 and 2001. Based on historical taxable income and future taxable income projections over the period in which the deferred assets are deductible, management believes it is more likely than not that the Company will realize the benefits of the deductible differences.

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#### EMPLOYEE BENEFIT PLANS

**Pension Plan** The Company provides a qualified defined benefit, non-contributory pension plan for substantially all employees. The cost of the plan was charged to expense and utility plant. The Company makes annual contributions to fund the amounts accrued for pension cost. Plan assets are invested in mutual funds, pooled equity, bonds and short-term investment accounts. The data in the tables below includes the unfunded, non-qualified, supplemental executive retirement plan. In addition, the tables reflect a plan amendment effective January 1, 2003, that increased the annual minimum benefit, which is recognized over the working life of the employees.

Benefits earned by Dominguez employees under the Dominguez pension plan were frozen as of the merger date and future pension benefits to those employees will be provided under the Company pension plan. The Dominguez plan was curtailed. The Dominguez plan was fully funded and additional contributions to the plan could not be funded, although plan annual expense was recorded. As a result of the curtailment, accrued pension liability of \$1,218,000 that had been expensed by Dominguez in prior years was reversed by the Company in 2000. The amount was offset against other operations expense.

**Savings Plan** The Company sponsors a 401(k) qualified, defined contribution savings plan that allowed participants to contribute up to 18% of pre-tax compensation. The Company matches fifty cents for each dollar contributed by the employee up to a maximum Company match of 4.0%. Company contributions were \$1,422,000, \$1,425,000, and \$1,298,000, for the years 2002, 2001 and 2000, respectively.

**Other Postretirement Plans** The Company provides substantially all active, permanent employees with medical, dental and vision benefits through a self-insured plan. Employees retiring at or after age 58 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. Plan assets are invested in mutual funds, short-term money market instruments and commercial paper. Retired employees are also provided with a \$5,000 life insurance benefit.

The Company records the costs of postretirement benefits during the employees' years of active service. The 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.

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, 2002 and 2001:

In thousands	Pension Benefits		Other Benefits	
	2002	2001	2002	2001
<S>	<C>	<C>	<C>	<C>
Change in benefit obligation:				
Beginning of year	\$ 60,359	\$ 59,098	\$ 14,708	\$ 12,052
Service cost	2,968	2,786	815	625
Interest cost	4,404	4,333	1,037	858
Assumption change	30	1,326	699	1,943
Plan amendment	15,424	11	40	--
Experience loss	660	2,289	845	15
Benefits paid	(4,276)	(9,484)	(641)	(785)
End of year	\$ 79,569	\$ 60,359	\$ 17,503	\$ 14,708
Change in plan assets:				
Fair value of plan assets at beginning of year	\$ 57,340	\$ 63,648	\$ 2,300	\$ 2,067
Actual return on plan assets	(2,377)	1,356	(79)	237
Employer contributions	5,616	1,820	885	781
Retiree contributions	--	--	470	415
Benefits paid	(4,276)	(9,484)	(1,111)	(1,200)
Fair value of plan assets at end of year	\$ 56,303	\$ 57,340	\$ 2,465	\$ 2,300
Funded status	\$ (23,266)	\$ (3,019)	\$ (15,038)	\$ (12,408)
Unrecognized actuarial (gain) or loss	1,281	(6,191)	5,025	3,339
Unrecognized prior service cost	18,875	4,525	786	817
Unrecognized transition obligation	--	--	3,045	3,321
Unrecognized net initial asset	--	--	(276)	(276)
Net amount recognized	\$ (3,110)	\$ (4,685)	\$ (6,458)	\$ (5,207)

</TABLE>

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Amounts recognized on the balance sheet consist of:

In thousands	Pension Benefits		Other Benefits	
	2002	2001	2002	2001
<S>	<C>	<C>	<C>	<C>
Accrued benefit costs	\$ (3,110)	\$ (4,685)	\$ (6,458)	\$ (5,207)
Additional minimum liability	(4,784)	(1,396)	--	--
Intangible asset	4,650	580	--	--
Accumulated other comprehensive loss	134	816	--	--
Net amount recognized	\$ (3,110)	\$ (4,685)	\$ (6,458)	\$ (5,207)

</TABLE>

<TABLE>  
<CAPTION>

In thousands	Pension Benefits		Other Benefits	
	2002	2001	2002	2001
<S>	<C>	<C>	<C>	<C>
Weighted average assumptions as of December 31:				
Discount rate	6.70%	7.00%	6.70%	7.00%
Long-term rate of return on plan assets	8.00%	8.00%	8.00%	8.00%
Rate of compensation increases	1.00 to 4.25%	4.25%	--	--

</TABLE>

Net periodic benefit costs for the pension and other postretirement plans for the years ending December 31, 2002, 2001 and 2000 included the following components:

<TABLE>  
<CAPTION>

In thousands	Pension Plan			Other Benefits	
	2002	2001	2000	2001	2000
<S>	<C>	<C>	<C>	<C>	<C>
Service cost	\$ 2,968	\$ 2,786	\$ 2,846	\$ 625	\$ 544
Interest cost	4,404	4,333	4,079	858	790
Expected return on plan assets	(4,497)	(4,946)	(4,498)	(212)	(152)

Net amortization and deferral	1,166	855	486	500	363	357
Net periodic benefit cost	\$ 4,041	\$ 3,028	\$ 2,913	\$2,136	\$1,634	\$1,539

</TABLE>

Postretirement benefit expense recorded in 2002, 2001, and 2000 was \$1,157,000, \$885,000, and \$781,000, respectively. \$5,165,000, 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 2002 measurement purposes, the Company assumed a 7% annual rate of increase in the per capita cost of covered benefits with the rate decreasing 1% per year to a long-term annual rate of 5% per year after two years. 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 is estimated to have the following effect:

<TABLE>

<CAPTION>

In thousands	1-percentage Point Increase	1-percentage Point Decrease
	<C>	<C>
Effect on total service and interest costs	\$ 354	\$ (279)
Effect on accumulated postretirement benefit obligation	\$ 2,742	\$ (2,216)

</TABLE>

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#### STOCK-BASED COMPENSATION PLANS

The Company has a stockholder-approved Long-Term Incentive Plan that allows granting of nonqualified stock options, performance shares and dividend units. Under the plan, a total of 1,500,000 common shares are authorized for option grants. Options are granted at an exercise price that is not less than the per share common stock market price on the date of grant. The options vest at a 25% rate on their anniversary date over their first four years and are exercisable over a ten-year period. At December 31, 2002, 36,750 options were exercisable at a weighted average price of \$24.08.

Certain key Dominguez executives participated in the Dominguez 1997 Stock Incentive Plan that was terminated at the time Dominguez merged with the Company. The plan provided that in the event of a merger of Dominguez into another entity, granted but unexercised stock options issued became exercisable. Prior to the Merger, all outstanding Dominguez options were exercised and converted into Dominguez shares, and subsequently converted to 52,357 shares of Company common stock.

The fair value of stock options used to compute pro forma net income and earnings per share disclosures is the estimated fair value at grant date using the Black-Scholes option-pricing model with the following assumptions:

	2002	2001	2000
Expected dividend	4.5%	4.3%	4.3%
Expected volatility	27.7%	30.4%	22.0%
Risk-free interest rate	3.25%	4.6%	4.9%
Expected holding period in years	5.0	5.0	5.0

The following table summarizes the activity for the stock option plans:

<TABLE>

<CAPTION>

	Shares	Weighted Average Exercise Price	Contractual Life	Options Exercisable	Weighted Average Fair Value
	<C>	<C>		<C>	
Outstanding at December 31, 1999	52,357	\$23.45	-	19,092	-
Granted	53,500	23.06			\$3.74
Exercised	(52,357)	23.45			
Outstanding at December 31, 2000	53,500	23.06	9.5	-	-
Granted	58,000	25.94			5.65
Cancelled	(12,000)	24.50			
Outstanding at December 31, 2001	99,500	24.57	8.8	11,875	-
Granted	55,000	25.15			4.41
Outstanding at December 31, 2002	154,500	24.77	8.2	36,750	-

</TABLE>

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#### 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 \$306,140,000 as of December 31, 2002, and \$214,046,000 as of December 31, 2001, 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 \$34,000,000 as of December 31, 2002 and \$32,000,000 as of December 31, 2001, based on data provided by brokers.

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#### COMMITMENTS AND CONTINGENCIES

**Commitments** The Company leases office facilities in many of its operating districts. The total paid and charged to operations for such leases was \$800,000 in 2002, \$720,000 in 2001 and \$760,000 in 2000. Payments under the lease commitments over the succeeding five years 2003 through 2007 are estimated to be \$833,000, \$893,000, \$941,000, \$943,000 and \$891,000. Over the 20-year period through 2023, payments under lease commitments, assuming renewal of existing or replacement leases, is estimated to be \$21,000,000.

The Company has long-term contracts with two wholesale water suppliers that require the Company to purchase minimum annual water quantities. Purchases are priced at the suppliers' then current wholesale water rate. The Company operates to purchase sufficient water to equal or exceed the minimum quantities under both contracts. The total paid under the contracts was \$6,816,000 in 2002, \$6,208,000 in 2001 and \$5,400,000 in 2000. The estimated payments under the contracts for the five years 2003 through 2007 are \$8,000,000, \$8,300,000, \$8,600,000, \$9,000,000 and \$9,300,000.

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The water supply contract with Stockton East Water District (SEWD) requires a fixed, annual payment and does not vary during the year with the quantity of water delivered by the district. Because of the fixed price arrangement, the Company operates to receive as much water as possible from SEWD in order to minimize the cost of operating Company-owned wells used to supplement SEWD deliveries. The total paid under the contract was \$2,967,000 in 2002, \$3,496,000 in 2001 and \$3,269,000 in 2000. Pricing under the contract varies annually. For 2003, the estimated payment is \$3,779,000.

During 2001 and 2002, the Company committed up to \$7.6 million of the its bank line of credit to a contractor for construction of a customer and operation center. The tax-free exchange of seven surplus Company properties to the contractor for the new customer and operations center was completed on September 30, 2002. Because the transaction was structured as a property exchange, acquiring the new facility did not require a significant expenditure of cash. Under terms of the exchange agreement, during the construction period the Company had guaranteed the contractor's bank loan. The new facility, which is valued at over \$7 million, served as security to the Company for the guarantee. When the property exchange was completed, the contractor paid off the bank loan, and the Company was released from its guarantee.

In 2002, the Company agreed to acquire the Kaanapali Water Corporation for \$7,700,000 in cash. The acquisition is subject to approval of the Hawaii Public Utilities Commission, which is expected in mid-2003. Also in 2002, the New Mexico Water signed an agreement to purchase National Utilities Corporation for approximately \$700,000 in cash. The purchase of National Utilities is subject to the approval of the New Mexico Public Regulation Commission, which is expected in the third quarter of 2003.

**Contingencies** In 1995, the State of California's Department of Toxic Substances Control (DTSC) named the Company as a potential responsible party for cleanup of a toxic contamination plume in the Chico groundwater. 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 city's 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. While the Company intends to cooperate with the cleanup effort, it 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 has negotiated with DTSC regarding dismissal of the Company from the claim in exchange for the Company's cooperation in the cleanup effort. However, no agreement was reached with DTSC regarding dismissal of the Company from the DTSC action. In December 2002, the Company was named along with eight other defendants in a lawsuit filed by DTSC for the cleanup of the plume. The suit asserts that the defendants are jointly and severally liable for the estimated cleanup of \$8.7 million. 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 July 2002, the Company was served with a lawsuit in state court naming it as one of several defendants for damages alleged to have resulted from waste oil contamination in the Company's drinking water. The suit did not specify a dollar amount. The Company does not believe that the complaint alleges any facts under which it may be held liable. The Company has filed a motion to dismiss the suit on various grounds. The Court has not ruled on the Company's motion. If necessary, the Company intends to vigorously defend the suit. In 2000, the plaintiff in this action brought a suit against the Company in federal court with similar allegations concerning drinking water contamination. That suit was dismissed; however, the Court did not bar the plaintiff from filing an amended complaint. The Company's insurance carrier is paying for legal defense costs and the Company believes that its insurance policy will cover all costs related to this matter.

In December 2001, the Company and several other defendants were served with a lawsuit by the estate and immediate family members of a deceased employee of a pipeline construction contractor. The contractor's employee had worked on various Company projects over a number of years. The plaintiffs allege that the Company and other defendants are responsible for an asbestos-related disease that is claimed to have caused the death of the contractor's employee. The complaint seeks damages in excess of \$50,000, in addition to unspecified punitive damages. The Company denies responsibility in the case and intends to vigorously defend itself. Pursuant to an indemnity provision in the contracts between the contractor and the Company, the contractor has accepted liability for the claim against the Company and is reimbursing the Company for its defense costs.

The Company and City of Stockton (City) purchase water from Stockton East Water District (SEWD). The City has discussed with SEWD its belief that SEWD's meter, which recorded water deliveries to the City's system, malfunctioned for some period of time, and as a result the City overpaid for water deliveries from SEWD. The City has told SEWD that it believes it was overcharged between \$800,000 and \$2,300,000. If the City's assertion is correct, it could mean that the Company was undercharged. The Company cannot determine whether SEWD agrees with the City's assertion or whether and in what amount SEWD will make a refund to the City. If SEWD were to make a refund to the City, it could have a future operating fund shortfall, which might result in higher future purchased water costs for the Company's Stockton district. However, the Company believes that if purchased water costs increased, the increase would be recovered in customers' future billings.

The Company is involved in other proceedings or litigation arising in the ordinary course of operations. The Company believes the ultimate resolution of such matters will not materially affect its financial position, results of operations or cash flows.

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#### SUBSEQUENT EVENTS

Negotiations to renew separate bank credit agreements for the Company and Cal Water that were scheduled to expire on April 30, 2003, have been completed. The new agreements, which replace a combined \$60 million credit line, became effective on February 28, 2003, and expire on April 30, 2005. Under the new agreements the Company will have available a total of \$65 million. Of the total, \$55 million is designated for Cal Water and \$10 million for the Company including funding of its subsidiaries' operations. Cal Water's \$55 million portion can be used solely

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for purposes of the regulated California utility. On July 1, 2003, the credit facility available to Cal Water will be reduced to \$45 million. The reduction will lower the commitment fee paid by Cal Water on the unused portion of the credit line. Like the prior agreements, the new agreements also have a 30-day out-of-debt requirement that must be met by December 31, 2003.

On February 28, 2003, the Company issued two series of senior notes to institutional investors, each for \$10 million. The 5.48% Series L notes mature in February 2018. The 4.58% Series K notes mature in December 2010. Proceeds from the notes were used to repay outstanding short-term bank borrowings.

In February 2003, the Commission staff recommended that the Company be fined up to \$9,600,000 and refund \$470,000 in revenue for failing to report two acquisitions as required by the Commission. One acquisition was completed prior to adoption of the reporting requirement by the Commission; the other was inadvertently not reported. The Company acquired the two water systems, which serve 283 customers, for approximately \$140,000. The Company is preparing its response to the staff report. The Company does not believe that the staff's recommendation will be upheld when this matter is considered by the Commission; accordingly, no liability has been accrued.

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QUARTERLY FINANCIAL DATA (UNAUDITED)

The Company's common stock is traded on the New York Stock Exchange under the symbol "CWT." Through 2002, quarterly dividends have been paid on common stock for 232 consecutive quarters and the quarterly rate has been increased each year since 1968.

<TABLE>

<CAPTION>

	First	Second	Third	Fourth
2002 - in thousands except per share amounts				
<S>	<C>	<C>	<C>	<C>
Operating revenue	\$51,611	\$69,183	\$81,440	\$60,917
Net operating income	5,281	8,300	11,515	5,201
Net income	1,928	6,619	7,675	2,852
Diluted earnings per share	0.12	0.43	0.50	0.19
Common stock market price range:				
High	26.25	26.69	26.45	25.95
Low	23.20	23.40	21.60	23.65
Dividends paid	.2800	.2800	.2800	.2800

2001 - in thousands except per share amounts

Operating revenue	\$47,008	\$66,958	\$76,310	\$56,544
Net operating income	3,792	8,050	9,517	3,792
Net income	221	5,764	5,920	3,060
Diluted earnings per share	0.01	0.37	0.39	0.20
Common stock market price range:				
High	28.60	27.70	27.00	27.50
Low	23.38	24.10	23.77	24.00
Dividends paid	.27875	.27875	.27875	.27875

</TABLE>

Independent Auditors' Report

THE 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, 2002 and 2001, and the related consolidated statements of income, common stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2002. 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 auditing standards generally accepted in the United States of America. 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, 2002 and 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

Mountain View, California

January 29, 2003, except as to Note 16, which is as of February 28, 2003

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Corporate Information

STOCK TRANSFER, DIVIDEND DISBURSING AND REINVESTMENT AGENT

Fleet National

Bank c/o EquiServe L.P.

P.O. Box 43010 Providence, RI 02940-3010 (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 EquiServe, L. P. 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 23, 2003, 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 26, 2003.

DIVIDEND DATES FOR 2003

Quarter	Declaration	Record Date	Payment Date
First	January 29	February 7	February 21
Second	April 23	May 2	May 16
Third	July 23	August 1	August 15
Fourth	October 22	October 31	November 14

ANNUAL REPORT FOR 2002 ON FORM 10-K

A copy of the Company's report for 2002 filed with the Securities and Exchange Commission (SEC) on Form 10-K will be available in April 2003 and can be obtained by any stockholder at no charge upon written request to the address below. The Company's filings with the SEC can viewed via the link to the SEC's EDGAR system on the Company's web site.

STOCKHOLDER INFORMATION

California Water Service Group  
Attn: Stockholder Relations  
1720 North First Street  
San Jose, CA 95112-4598  
(408) 367-8200 or (800) 750-8200  
<http://www.calwater.com>

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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Paul G. Ekstrom (4) Vice President, Customer Service, and Corporate Secretary

Richard D. Nye (1,2,3) Vice President, Chief Financial Officer and Treasurer

Francis S. Ferraro (2,5) Vice President, Regulatory Matters and Corporate Development

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

Christine L. McFarlane Vice President, Human Resources

Raymond H. Taylor Vice President, Operations

Dan L. Stockton Vice President, Chief Information Officer

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

Washington Water Service Company  
Michael P. Ireland President

New Mexico Water Service Company  
Robert J. Davey President



- (1) Holds the same position with California Water Service Group
- (2) Also an officer of CWS Utility Services
- (3) Also an officer of Washington Water Service Company and New Mexico Water Service Company
- (4) Also Corporate Secretary of California Water Service Group, CWS Utility Services, Washington Water Service Company and New Mexico Water Service Company
- (5) Holds the same position with New Mexico Water Service Company

BOARD OF DIRECTORS

Peter C. Nelson\*  
President and Chief Executive Officer

Robert W. Foy\*  
Chairman of the Board

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

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

Langdon W. Owen+  
President, Don Owen & Associates; Member of the Board of Directors, Metropolitan Water District of Southern California

Richard P. Magnuson+++ss.  
Private Venture Capital Investor

Edward D. Harris, Jr., M.D.++\*ss.  
Professor of Medicine, Emeritus, Stanford University Medical Center

Douglas M. Brown+++ss.  
President and Chief Executive Officer of Tuition Plan Consortium

Linda R. Meier+++ss.  
Member, National Advisory Board, Haas Public Service Center; Member of the Board of Directors, Greater Bay Bancorp; Chair of the Western Regional Advisory Board of International Education; Member of the National Board of the Institute of International Education; and Member of the Board of Directors, Stanford Alumni Association

+Member of the Audit Committee

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++Member of the Compensation Committee  
\*Member of the Executive Committee  
ss.Member of the Nominating/Corporate Governance Committee

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Exhibit 21

Subsidiaries of the Registrant

<TABLE> <CAPTION> Subsidiary Name -----	State of Incorporation -----	Business Name -----
<S> California Water Service Company CWS Utility Services New Mexico Water Service Company Washington Water Service Company	<C> California California New Mexico Washington	<C> California Water Service Company CWS Utility Services New Mexico Water Service Company Washington Water Service Company

The Company and each of its subsidiaries operate in one business segment, the supply and distribution of water, and providing water related services.

CONSENT OF INDEPENDENT AUDITORS

The Board of Directors  
California Water Service Group

We consent to incorporation by reference in the registration statements (Nos. 333-46447 and 333-103721 on Form S-3 and No. 333-60810 on Form S-8) of California Water Service Group of our reports dated January 29, 2003, except as to Note 16, which is as of February 28, 2003, with respect to the consolidated balance sheet of California Water Service Group and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of income, common stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2002, and the related schedule, which reports appear in or are incorporated by reference in the December 31, 2002, annual report on Form 10-K of California Water Service Group.

/s/ KPMG LLP

Mountain View, California  
March 20, 2003

CERTIFICATION  
PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned certifies that this periodic report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in this annual report on Form 10K fairly presents, in all material respects, the financial condition and results of operations of California Water Service Group.

A signed original of this written statement required by Section 906 has been provided to California Water Service Group and will be retained by California Water Service Group and furnished to the Securities and Exchange Commission or its staff upon request.

Date: March 24, 2003

/s/ Peter C. Nelson  
PETER C. NELSON  
Chief Executive Officer  
California Water Service Group

Date: March 24, 2003

By: /s/ Richard D. Nye  
RICHARD D. NYE  
Chief Financial Officer  
California Water Service Group