

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

(Mark One)

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

For the quarterly period ended March 31, 2003

OR

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

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

Commission file number 1-13883  
 -----

CALIFORNIA WATER SERVICE GROUP

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

Delaware 77-0448994

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

1720 North First Street, San Jose, CA. 95112

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

1-408-367-8200

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

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

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

Indicate by checkmark whether the Registrant is an accelerated filer (as defined  
 in rule 12b-2 of the Act) Yes X No  
 --- ---

Indicate the number of shares outstanding of each of the issuer's classes of  
 common stock, as of the latest practicable date. Common shares outstanding as of  
 May 5, 2003 - 15,182,046.

<TABLE>  
 <CAPTION>

TABLE OF CONTENTS

<S>	<C>	<C>	Page <C>
	PART I	Financial Review - Management's Discussion and Analysis and Condensed Consolidated Financial Statements.....	3
	Item 1	Condensed Consolidated Balance Sheet March 31, 2003 and December 31, 2002.....	4
		Condensed Consolidated Statement of Income (loss) For the Three Months Ended March 31, 2003 and 2002.....	5
		Condensed Consolidated Statement of Cash Flows For the Three Months Ended March 31, 2003 and 2002.....	6
		Notes to Condensed Consolidated Financial Statements.....	7
	Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations.....	11
	Item 3	Quantitative and Qualitative Disclosure about Market Risk.....	21
	Item 4	Controls and Procedures.....	21

PART II	Other Information	
Item 1	Legal Proceedings.....	22
Item 4	Submission of Matters to a Vote of Security Holders.....	22
Item 6	Exhibits and Reports on Form 8-K.....	23
	Signatures.....	24
	Certifications.....	25
	Index to Exhibits.....	27

</TABLE>

2

PART I FINANCIAL INFORMATION

Item 1.

Financial Statements

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

3

CALIFORNIA WATER SERVICE GROUP  
CONDENSED CONSOLIDATED BALANCE SHEET  
Unaudited

<TABLE>  
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(In thousands, except per share data)	March 31, 2003	December 31, 2002
	-----	-----
<S>	<C>	<C>
ASSETS		
Utility plant:		
Utility plant	\$ 1,024,914	\$ 1,001,310
Less accumulated depreciation and amortization	310,257	304,322
	-----	-----
Net utility plant	714,657	696,988
	-----	-----
Current assets:		
Cash and cash equivalents	1,718	1,063
Receivables	20,648	23,961
Unbilled revenue	6,946	7,969
Materials and supplies at average cost	2,626	2,760
Taxes and other prepaid expenses	6,406	7,234
	-----	-----
Total current assets	38,344	42,987
	-----	-----
Other assets:		
Regulatory assets	46,314	46,089
Other assets	16,009	14,518
	-----	-----
Total other assets	62,323	60,607
	-----	-----
	\$ 815,324	\$ 800,582
	=====	=====
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stock, \$0.01 par value	\$ 152	\$ 152
Additional paid-in capital	49,984	49,984
Retained earnings	144,139	149,215
Accumulated other comprehensive loss	(134)	(134)
	-----	-----
Total common stockholders' equity	194,141	199,217
Preferred stock	3,475	3,475
Long-term debt, less current maturities	270,075	250,365
	-----	-----
Total capitalization	467,691	453,057
	-----	-----
Current liabilities:		
Current maturities of long-term debt	1,000	1,000
Short-term borrowings	31,577	36,379
Accounts payable	23,026	23,706
Accrued expenses and other liabilities	33,188	30,456

Total current liabilities	88,791	91,541
Unamortized investment tax credits	2,774	2,774
Deferred income taxes	31,252	31,371
Regulatory and other liabilities	28,804	28,804
Advances for construction	116,739	115,459
Contributions in aid of construction	79,273	77,576
Commitments and contingencies	--	--
	-----	-----
	\$ 815,324	\$ 800,582
	=====	=====

</TABLE>

See Notes to Unaudited Condensed Consolidated Financial Statements

4

CALIFORNIA WATER SERVICE GROUP  
CONDENSED CONSOLIDATED STATEMENT OF INCOME (LOSS)  
Unaudited

(In thousands, except per share data)

For the three months ended:	March 31, 2003	March 31, 2002
	-----	-----
Operating revenue	\$ 51,310	\$51,611
	-----	-----
Operating expenses:		
Operations	37,855	34,774
Maintenance	3,253	2,420
Depreciation and amortization	5,760	5,394
Income taxes	(553)	1,279
Property and other taxes	2,465	2,463
	-----	-----
Total operating expenses	48,780	46,330
	-----	-----
Net operating income	2,530	5,281
	-----	-----
Other income and expenses:		
Non-regulated income, net	706	455
Gain on sale of non-utility property	552	50
	-----	-----
Total other income and expense	1,258	505
	-----	-----
Interest expense:		
Long-term debt interest	4,178	3,532
Other interest	378	326
	-----	-----
Total interest expense	4,556	3,858
	-----	-----
Net income (loss)	\$ (768)	\$ 1,928
	=====	=====
Earnings (loss) per share		
Basic	\$ (0.05)	\$ 0.12
	=====	=====
Diluted	\$ (0.05)	\$ 0.12
	=====	=====
Weighted average shares outstanding		
Basic	15,182	15,182
	=====	=====
Diluted	15,182	15,185
	=====	=====
Dividends per share of common stock	\$0.28125	\$0.28000
	=====	=====

See Notes to Unaudited Condensed Consolidated Financial Statements

5

CALIFORNIA WATER SERVICE GROUP  
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
Unaudited

(In thousands)

For the Three Months Ended:

	March 31, 2003	March 31, 2002
	-----	-----
Operating activities		
Net income (loss)	\$ (768)	\$ 1,928
	-----	-----
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,760	5,394
Deferred income taxes, investment tax credits		
regulatory assets and liabilities, net	(342)	(34)
Gain on sale of non-utility property	(552)	(50)

Changes in operating assets and liabilities:		
Receivables	3,288	97
Unbilled revenue	1,023	(136)
Accounts payable	(680)	(2,574)
Other current assets and liabilities	3,693	3,279
Other changes, net	(1,527)	(1,159)
	-----	-----
Net adjustments	10,663	4,817
	-----	-----
Net cash provided by operating activities	9,895	6,745
	-----	-----
Investing activities:		
Utility plant expenditures	(24,070)	(10,733)
Proceeds from sale of non-utility property	588	50
	-----	-----
Net cash used by investing activities	(23,482)	(10,683)
	-----	-----
Financing activities:		
Net short-term borrowings	(4,802)	7,500
Net long-term debt	19,710	(465)
Advances for construction	2,610	1,597
Refunds of advances for construction	(1,259)	(1,055)
Contributions in aid of construction	2,291	892
Dividends paid	(4,308)	(4,289)
	-----	-----
Net cash provided by financing activities	14,242	4,180
	-----	-----
Change in cash and cash equivalents	655	242
Cash and cash equivalents at beginning of period	1,063	953
	-----	-----
Cash and cash equivalents at end of period	\$ 1,718	\$ 1,195
	=====	=====
Supplemental Disclosures of cash flow Information:		
Cash paid during the period for:		
Interest expense (net of amounts capitalized)	216	(160)
Income taxes	1	--

See Notes to Unaudited Condensed Consolidated Financial Statements

6

CALIFORNIA WATER SERVICE GROUP  
Notes to Condensed Consolidated Financial Statements  
March 31, 2003

Note 1. Organization and Operations

California Water Service Group (the Company) is a holding company that provides water utility and other related services in California, Washington, New Mexico and Hawaii through its wholly owned subsidiaries. California Water Service Company (Cal Water), Washington Water Service Company (Washington Water), New Mexico Water Service Company (New Mexico Water) and Hawaii Water Service Company (Hawaii Water) provide regulated utility services under the rules and regulations of their respective State's regulatory commissions. In addition, these entities and CWS Utility Services provide non-regulated water utility and utility-related services.

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

Note 2. Summary of Significant Accounting Policies

The interim financial information is unaudited. In the opinion of management, the accompanying condensed consolidated financial statements reflect all adjustments that are necessary to provide a fair presentation of the results for the periods covered. The adjustments consist only of normal recurring adjustments. The results for interim periods are not necessarily indicative of the results of the entire year. The condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2002 included in its Form 10-K as filed with the Securities and Exchange Commission on March 25, 2003.

Note 3. 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 of 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 outstanding options have an exercise price equal to the market price on the date they were granted. No compensation expense was recorded for the three months ended March 31, 2003 and 2002 related to stock options. No options were granted during the three months ended March 31, 2003. The table below illustrates the effect on net income and earnings per share as if the company had applied the fair value recognition provision of SFAS No. 123 to employee compensation.

7

In thousands except per share data	Quarters Ended March 31	
	2003	2002
Net income/(loss), as reported	(\$ 768)	\$ 1,928
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	21	21
Pro forma net income /(loss)	(\$ 789)	\$ 1,907
Earnings/(Loss) per share		
Basic - as reported	(\$ 0.05)	\$ 0.12
Basic - pro forma	(\$ 0.05)	\$ 0.12
Diluted - as reported	(\$ 0.05)	\$ 0.12
Diluted - pro forma	(\$ 0.05)	\$ 0.12

#### Note 4. Seasonal Business

Due to the seasonal nature of the water business, the results for interim periods are not indicative of the results for a twelve-month period. Revenue and income are generally higher in the warm, dry summer months when water usage and sales are greater. Revenue and income are lower in the winter months when cooler temperatures and rainfall curtail water usage and sales.

#### Note 5. Earnings Per Share Calculations

The computations of basic and diluted earnings per share are noted below.

Common stock options to purchase 154,500 shares and 107,000 shares for the three months ended March 31, 2003 and 2002, respectively, were excluded from the diluted per share calculation due to their anti-dilutive effect.

In thousands, except per share data

	Quarters Ended	
	March 31	
	2003	2002
Net income/(loss)	(\$ 768)	\$ 1,928
Less preferred dividends	38	38
Net income/(loss) available for common	(\$ 806)	\$ 1,890
Weighted average common shares	15,182	15,182
Dilutive common stock options (treasury method)	--	3
Shares used for dilutive computation	15,182	15,185
Net income/(loss) per share - basic	(\$ 0.05)	\$ 0.12
Net income/(loss) per share - diluted	(\$ 0.05)	\$ 0.12

8

#### Note 6. New Accounting Standards

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 adoption of the accounting requirements of this statement did not have a material impact to the Company's financial position, results of operations or cash flows.

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 adoption of the accounting requirements of this statement did not impact 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. Interpretation No. 45 is effective for guarantees issued or modified after December 31, 2002. The disclosure requirements effective for the year ending December 31, 2002 expand the disclosures required by a guarantor about its obligations under a guarantee. The adoption of the accounting requirements of this statement did not impact the Company's financial position, results of operations or cash flows.

In January, 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities." The interpretation provides guidance for determining when a primary beneficiary should consolidate a variable interest entity or equivalent structure that functions to support the activities of the primary beneficiary. Interpretation No. 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of Interpretation No. 46 must be applied for the first interim or annual period beginning after June 15, 2003. The adoption of the accounting requirements of this statement did not impact the Company's financial position, results of operations or cash flows.

9

#### Note 7. Subsequent Events

##### Financing

On May 1, 2003, the Company issued \$10 million, 5.54%, 20 year Series I Senior Notes and \$10 million, 5.44%, 15 year Series J Senior Notes. The proceeds from these borrowings were used to early terminate EE First Mortgage bonds that have an interest rate of 7.9%. The principal, call premium and transaction costs associated with the early termination of the EE First Mortgage bonds was approximately \$20 million.

##### Acquisitions

On April 30, 2003, the Company acquired the Kaanapali Water Corporation for an initial payment of \$7.5 million in cash. After completing the acquisition, the entity's name was changed to Hawaii Water Service Company ("HWSC"). The acquisition was approved by the Hawaii Public Utilities Commission ("HPUC") in March 2003. The final purchase price will be determined after certain events have occurred, principally the determination of rate base after filing for a general rate case with the HPUC. At that time, the purchase price could be adjusted. Preliminary estimates of the amount of adjustment are between 0 and 30% of the purchase price.

10

#### Item 2

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

##### FORWARD LOOKING STATEMENTS

This quarterly 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. We assume no obligation to provide public updates of forward-looking statements.

#### CRITICAL ACCOUNTING POLICIES

We maintain our accounting records in accordance with accounting principles generally accepted in the United States of America and as directed by the regulatory commissions to which we 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 historical experience and an understanding of current facts and circumstances. Management believes that the following accounting policies are

11

critical because they involve a higher degree of complexity and judgement and can have a material impact on our 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 water used between the customer's last meter reading 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 March 31, 2003, the unbilled revenue amount was \$6.9 million and at December 31, 2002 the amount was \$8.0 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 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 \$1.8 million at March 31, 2003 and \$1.7 million at December 31, 2002. This liability is included in "accrued expenses and other liabilities" on the balance sheet.

#### Expense Balancing and Memorandum Accounts

Expense-balancing accounts and memorandum accounts represent costs incurred, but not billed to our customers. The amounts included in these accounts relate to rate increases charged to us by suppliers of purchased water and purchased power, and increases in pump taxes. We do not record expense-balancing or memorandum accounts in our financial statements as revenue, nor record a receivable until the California Public Utilities Commission ("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 our control, are referred to as "offsetable expenses" because under certain circumstances they are recoverable from customers in future offset rate increases.

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. In December 2002, the CPUC issued a decision that will allow us to recover offsetable expenses that were labeled as frozen. These

were offsetable expenses incurred prior to November 29, 2001. The CPUC is expected to adopt permanent rules regarding the recovery of offsetable expenses incurred after November 29, 2001, which are included in our memorandum accounts. We are unable to predict when the permanent rules will be issued, their composition or their financial impact. Therefore, because of the uncertainty of collection, our accounting policy is to not record offsetable expenses in our financial statements until such amounts are included in customer

12

billings. We filed for recovery in rates the offsetable expenses labeled as frozen and will file for the additional offsetable expenses immediately after the permanent rules have been issued.

At March 31, 2003, the amount included in the offsetable expense accounts was \$12.7 million, of which \$6.1 million was labeled frozen. At December 31, 2002, the amount was \$12.9 million, of which \$6.1 million was labeled frozen. No monies were collected during the quarter ended March 31, 2003. The changes were due to refinements in determining amounts deemed recoverable. The amounts in offsetable expenses are primarily driven by higher electrical costs incurred from 2001 through March 31, 2003.

On May 8, 2003, the CPUC approved resolutions allowing offsetable expense recovery in eight districts totally \$5.4 million, which will be recovered over the next 12-24 months. The CPUC decision deferred recovery for four districts to the General Rate Case process. Also, other offsetable expenses filings currently in process are expected to result in a net ratepayer refund in the range of \$200,000 to \$300,000. The actual net effect will be determined by future CPUC action.

#### Regulated Utility Accounting

Because we operate extensively in a regulated business, we are 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 our operations were no longer subject to the provisions of SFAS No. 71, we 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 our assets were not recoverable in customer rates, we would be required to determine if we had suffered an asset impairment that would require a write-down in the assets' valuation. There have been no such asset impairments as of March 31, 2003.

#### 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. We must also assess the likelihood that deferred tax assets will be recovered in future taxable income, and 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 is not required at March 31, 2003.

13

#### Pension Benefits

We incur costs associated with our 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. We use an investment advisor to provide expert advice in managing the plan's investments. We anticipate any increase in funding for the pension and postretirement health care benefits plans will be recovered in future customer rates.

#### RESULTS OF FIRST QUARTER 2003 OPERATIONS

First quarter net loss was (\$768,000), equivalent to (\$0.05) per common share on a diluted basis compared to the \$1,928,000 or \$0.12 per share on a diluted basis earned in the first quarter of 2002.



## Operating Revenue

Operating revenue decreased \$301,000 or 1% to \$51,310,000. Weather can have a significant influence on customer water usage. Temperatures were slightly warmer than the prior year. Precipitation was much higher compared to the prior year, which had a negative influence on usage. A 3% decrease in water production was reflected in decreased water usage by existing customers and was partially offset by sales to new customers and increases in rates. The factors that impacted the operating revenue decrease for the first quarter of 2003 are presented in the following table:

Decreased usage by existing customers	(\$1,887,000)
Rate increases	846,000
Usage by new customers	740,000
	-----
Net operating revenue decrease	(\$301,000)
	=====

Operating revenue from rate increases includes step rate increases effective January 2003, increases from advice letters for the Bakersfield plant and increases for Washington Water that were effective for January 2003. Usage by new customers includes \$333,000 for New Mexico Water as these operations were acquired in July 2002.

## Total Operating Expenses

Total operating expenses were \$48,780,000 for the three months ended March 31, 2003 versus \$46,330,000 for the same period in 2002, a 5% increase.

Water production expense consists of purchased water, purchased power and pump taxes. It represents the largest component of total operating expenses. During the current quarter, these costs accounted for 40% of total operating expenses. Water costs increased 3% compared to last year. Well production provided 46% of the

14

water supply, 53% was purchased from wholesale suppliers and 1% was developed through our surface water treatment plants. The components of water production costs and the changes from the first quarter of last year are shown in the table below:

	First Quarter 2003 Cost	Change
	-----	-----
Purchased water	\$14,402,000	\$512,000
Purchased power	3,632,000	24,000
Pump taxes	928,000	(24,000)
	-----	-----
Total	\$18,962,000	\$512,000
	=====	=====

Purchased water cost increased due to a refund of approximately \$750,000 received in the first quarter of 2002. Excluding the refund, purchased water costs were down from the prior year due to lower usage. Price increases had an immaterial effect for the quarter.

Purchased power, which is used mainly to operate pumping equipment, was essentially unchanged with lower volumes being offset by higher electric costs. Where available, we shift to lower cost electric tariffs offered by the power companies, which can result in lower purchased power costs.

Wages for union employees increased 1% effective January 1, 2003. Overall labor costs increased 6% due to replacing personnel at higher salaries and adding labor related to the acquisition of New Mexico Water. Payroll costs charged to operating expense increased by \$700,000. This was driven by higher labor rates and changes to labor assigned to capital projects. Pension and benefit costs increased \$1,000,000 for pension plan changes and higher medical claim costs. Part of the agreement with union employees included a change in the pension plan. Factors applied against employees' earnings were increased, which will result in increased amounts paid upon retirement. This change increased cost substantially. At March 31, 2003 there were 793 employees and at March 2002 there were 784 employees.

Other items driving the increase were insurance (\$150,000), supply/water quality expenses (\$300,000), customer service expenses (\$100,000), legal/accounting (\$100,000), recruiting (\$100,000) and the New Mexico acquisition (\$150,000).

Maintenance expense was \$833,000 higher in the quarter ended March 31, 2003 due to additional maintenance required at mains and for service line repairs. Depreciation expense increased \$366,000 because of a larger investment in depreciable utility plant and an increase in the recovery of plant investments recognized in prior General Rate Case (GRC) proceedings.

Federal and state income taxes decreased \$1,832,000 due to the decrease in taxable income. The effective tax rate was 42% in the current quarter and 40% for the prior year's quarter.

15

#### Other Income and Expense

Other income and expense was \$1,258,000 net income compared to \$505,000 net income in 2002, an increase in net income of \$753,000. The increase in other income resulted from improved results in third party operations and maintenance arrangements (work done for third parties) and an increase in rental income from additional antenna site leases. Gains from surplus real property sales recorded in the first quarter of 2003 were \$502,000 greater than amounts in the first quarter of 2002.

#### Interest Expense

Total interest expense increased \$698,000. Long-term debt interest expense increased \$496,000 because of the additional \$60 million in senior notes issued plus amortization of debt premium incurred for the refinancing program. Interest capitalized for the quarter decreased \$150,000 as the amount of construction in progress is expected to be lower for the year 2003 with completion of several large projects such as the Bakersfield treatment plant.

Borrowings under our short-term bank credit agreement were higher during the first quarter of this year compared to the same quarter in 2002. Average interest rates on short-term debt was approximately 3.4% in 2003 compared to a 3.5% rate during the first quarter in 2002. The higher borrowings caused short-term interest expense to increase by \$52,000.

#### REGULATORY MATTERS

##### Rate Case Proceedings

California Water 2001 General Rate Case (GRC) Applications - The CPUC issued a decision to establish April 3, 2003 as the effective date for the 2001 applications. This is favorable to us as revenues will not continue to be permanently lost due to the delays in GRC decisions by the CPUC. A Draft of Proposed Decision (DPD) was issued in January 2003 authorizing a \$12.8 million annual revenue increase, which is less than the initial filing. In addition, the DPD decision authorized a return on equity of 9.7% on 51.5% equity capitalization. The 2001 GRC was filed in July 2001 and past GRC applications took approximately 10 months to receive a decision. The 2001 GRC filing is currently 23 months old. We are unable to predict when the final decisions and rulings will be issued, their composition or their financial impact.

Washington Water 2002 GRC Applications - Washington Water received approval on its application effective April 2002 for \$1 million of increased rates annually to cover higher operating costs and capital expenditures.

California Water 2002 GRC Applications - In November 2002, applications were filed for rate increases of \$1.3 million on an annual basis relating to three districts. Due to the delays by the CPUC decision-making process in 2002 and 2003, we are unable to predict when the final decisions and rulings will be issued, their composition or their financial impact.

16

California Water 2003 GRC Applications - In January 2003, applications were filed for rate increases of \$8.2 million on an annual basis relating to four districts. We expect to make additional GRC applications in July 2003. Due to the delays by the CPUC in the decision making process in 2002 and 2003, we are unable to predict when the final decisions and rulings will be issued, their composition or their financial impact.

California Water Advice Letters - Advice letters are used to request rate increases for specific capital expenditures. The process for receiving decisions on advice letters is less involved than for GRC applications. Decisions by the CPUC on advice letters have been timely and much faster compared to GRC applications. In June, 2002, the CPUC authorized increased rates for our Bakersfield district of \$800,000 on an annual basis. In April, 2003, the CPUC authorized increased rates of an additional \$1.8 million for our Bakersfield district. We expect to make an additional advice letter application in the second half of 2003 for Bakersfield. These rate increases reflect additional expenditures related to the new treatment plant with a total project cost of approximately \$49 million.

Other rate increases - We will be requesting from the City of Hawthorne an increase of \$200,000 effective July, 2003. This increase is not governed by

the CPUC and is expected to be granted.

#### Legislative Initiative

Regulatory delays in obtaining GRC decisions have been costly to California regulated water utilities. In recent years, we have experienced significant revenue losses due to regulatory delays. We normally file our general rate case applications in July. The CPUC's stated rate case processing plan provides for a decision within ten months. In the past, when decisions were not issued in a timely manner, we lost revenue and did not recover costs during the period the decisions were delayed. We estimate that \$3 million of revenue was lost for the quarter due to decision delays by the CPUC.

Assembly Bill 2838 became effective on January 1, 2003. It is designed to preserve the cash flow of regulated water utilities by providing interim rate relief if the CPUC has not issued a decision for a requested GRC rate increase within its established ten month processing period. The interim rate relief is subject to adjustments based on the CPUC's final decision in the GRC proceeding. For the three months ended March 31, 2003, Assembly Bill 2838 did not have an impact on us in granting interim rate relief. The CPUC interpreted the provisions of the bill to apply only to GRC applications subsequent to January 1, 2003 and the CPUC is reviewing their internal processing period.

#### LIQUIDITY

##### Short-term and Long-term Debt

Short-term bank borrowings were \$31,577,000 at March 31, 2003 and \$36,379,000 at December 31, 2002. New credit agreements were obtained during the quarter ended

17

March 31, 2003. A \$55 million agreement was contracted for California Water Service Company in February 2003 and expires in April 2005. The amount is reduced to \$45 million after June 30, 2003. The agreement has a 30-day out-of-debt compliance period that must be met by December 31, 2003. A \$10 million credit facility was contracted for California Water Service Group, CWS Utility Services and New Mexico Water Service Company in February 2003. The agreement has a 30-day out-of-debt compliance period that must be met by December 31, 2003. New Mexico Water Service Company has a \$2.9 million facility that was renewed in January 2003 and expires May 2004 and does not have an out-of-debt compliance period. Washington Water Service Company has a \$0.1 million loan commitment that is currently unused.

In February 2003, we completed the issuance of \$10 million, 4.58%, 7 year Series K Senior Notes and \$10 million, 5.48%, 15 year Series L Senior Notes. Both notes were unsecured. The funds were used to pay down debt on the credit facility and to fund capital expenditures.

We initiated a program in 2002 to refinance a portion of our outstanding first mortgage bonds. This program has been continued in 2003. On May 1, 2003, we issued \$10 million, 5.54%, 20-year series I Senior Notes and \$10 million, 5.44%, 15 year series J Senior Notes. Both notes were unsecured. The proceeds from these borrowings were used to early terminate EE First Mortgage bonds that have an interest rate of 7.9%. The principal, call premiums and transaction costs were approximately \$20 million. We will continue to pursue refinancing opportunities when economic conditions are favorable. The refinancing program is expected to save approximately \$1.8 million on an annual basis.

##### Debt Credit Ratings

California Water Service Company is rated by Moody's Investors Service ("Moody's") and Standard & Poor's ("S&P"). The rating by Moody's is A1 and S&P is A+. The ratings were unchanged from the revised ratings issued in the fourth quarter of 2002.

##### Dividends, Book Value and Share Holders

The first quarter common dividend was paid on February 21, 2003, at \$0.28125 per share compared to a quarterly dividend in 2002 of \$0.28. This was our 233rd consecutive quarterly dividend. Annualized, the 2003 dividend rate is \$1.125 per common share compared to \$1.12 in 2002. Based on the 12-month earnings per share at March 31, 2003, the dividend payout ratio is 105% of net income. For the full year 2002, the payout ratio was 90% of net income. On a long-term basis, our goal is to achieve a dividend payout ratio of about 60% of net income.

At their April 23, 2003 meeting, the Board declared the second quarter dividend of \$0.28125 payable May 16, 2003 to stockholders of record on May 2, 2003. This will be the 234th consecutive quarterly dividend.

About 4% of the outstanding shares participate in the reinvestment program under the Company's Dividend Reinvestment and Stock Purchase Plan ("Plan").  
Shares

18

required for the dividend reinvestment and stock purchase option of the Plan were purchased on the open market. Shares are also purchased on the open market to fulfill the requirements of our sponsored Employee Savings Plan (401K). Purchases for this plan are made on a biweekly basis.

Book value per common share was \$12.79 at March 31, 2003 compared to \$13.12 at December 31, 2002.

We estimate there are approximately 16,000 stockholders of our common stock.

#### Utility Plant

During the first quarter, utility plant expenditures totaled \$24.1 million, including \$6.2 million of third party funded projects. The 2003 Company funded construction budget is \$51.7 million.

At March 31, 2003, construction work in progress was \$64.1 million compared to \$48.6 million at December 31, 2002. Work in progress includes projects that are under construction, but not yet complete and in service. A main reason for the increase in work in progress is the \$43.7 million expended to date on the Northeast Bakersfield Treatment Plant. This amount is included in work in progress at March 31, 2003. The \$49 million project is the largest construction project ever undertaken by the Company. It is proceeding on schedule and on budget, and is expected to be in service before June 30, 2003.

#### WATER SUPPLY

Based on information from water management agencies and internally developed data, we believe that our various sources of water supply are sufficient to meet customer demand for the remainder of the year. Historically, about half of the water source is purchased from wholesale suppliers with the other half pumped from underground wells. A small portion is developed through three local surface treatment plants.

To safeguard our water supply and facilities, we have heightened security at our facilities and taken added safety precautions for our employees and the water we deliver to our customers. While we do not make public comments on 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 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 district operations.

#### ACQUISITIONS

##### Rio Grande Utility Corporation

On July 1, 2002, after receiving state regulatory commission approval, we acquired certain assets of Rio Grande Utility Corporation (Rio Grande) through New Mexico

19

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 \$2.3 million in cash, plus assumption of \$3.1 million in outstanding debt. Rate base for the system is approximately \$5.4 million. Revenues for 2002 were \$1.6 million.

The Rio Grande purchase price was allocated to the fair value of net assets acquired, including utility plant, water rights and assumed liabilities. 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. Our results of operations for the three-month period ending March 31, 2003 include the operating results of New Mexico Water. These were not material to the company.

##### Kaanapali Water Corporation

On April 30, 2003, we acquired the Kaanapali Water Corporation for an initial payment of \$7.5 million in cash. After completing the acquisition, the entity's name was changed to Hawaii Water Service Company. Hawaii Water provides water utility services to 500 customers in Maui, Hawaii. It had

2002 revenues of \$3.0 million, and has net plant excluding contributions in aid of constructions of approximately \$7.2 million and current assets of \$0.2 million. The acquisition was approved by the Hawaii Public Utilities Commission ("HPUC") in March 2003. The final purchase price will be determined after certain events have occurred, principally the resolution of determining rate base after filing for a general rate case with the HPUC. At that time, the purchase price could be adjusted. Preliminary estimates of the amount of adjustment are between 0 and 30% of the purchase price.

#### National Utilities Corporation

In June 2002, NMWSC 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 900 water customers located 150 miles south of Albuquerque, New Mexico. The purchase will entitle NMWSC 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 second quarter of 2003.

National Utilities had 2001 revenue of \$575,000 and total assets of \$1,425,000. Its net utility plant in service at December 31, 2001 was \$1,143,000.

#### ACCOUNTING PRONOUNCEMENTS

See Note 6 of the Condensed Consolidated Financial Statements

20

#### Item 3.

#### QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We do not hold, trade in or issue derivative financial instruments and therefore are not exposed to risks these instruments present. Our market risk to interest rate exposure is limited because the cost of long-term financing and short-term bank borrowings, including interest costs, is covered in consumer water rates as approved by the commissions. We do not have foreign operations; therefore, we do not have a foreign currency exchange risk. Our business is sensitive to commodity prices and is most affected by changes in purchased water and purchased power costs.

Historically, the commission's balancing account or offsetable expense procedures allowed for increases in purchased water and purchased power costs to be passed on to consumers. Over 95% of our net income and cash flows come from California operations, therefore the CPUC actions have a significant impact on our business. The CPUC has yet to issue final rules on offsetable expenses. We are unable to predict when the permanent rules will be issued, their composition or their financial impact on us. See Item 2, Expense Balancing and Memorandum Accounts.

#### Item 4.

#### CONTROLS AND PROCEDURES

##### (a) Evaluation of Disclosure Controls and Procedures

Under the supervision of our Chief Executive Officer and Chief Financial Officer, and with the participation of other senior management, we 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 quarterly 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 our 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 quarterly report on Form 10-Q was being prepared.

##### (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.

## PART II OTHER INFORMATION

## Item 1.

## Legal Proceedings

- (a) In March 2003, we were served with a lawsuit in state court, as one of several defendants, for damages and injuries related from alleged contamination in our drinking water supply in the Marysville district. The suit did not specify a dollar amount. We do not believe that the complaint alleges any facts under which it may be held liable. We have filed a responsive motion on various grounds. The Court has not ruled on our motion. We intend to vigorously defend the suit. In 2000 and 2002, the same plaintiffs in this action brought suits against us in federal court with similar allegations concerning drinking water supply contamination. All federal claims were dismissed with prejudice however, the Federal Court refused to hear the state claims. Our insurance carrier is paying for legal defense costs, and we believe that our insurance policy will cover all costs related to this matter.

## Item 4.

## Submission of Matters to a Vote of Security Holders

- (a) The annual meeting of stockholders of California Water Service Group was held on April 23, 2003 at the Company's executive office in San Jose, California. As proposed in the 2003 Proxy, the election of directors and confirmation of KPMG LLP to serve as independent auditors for 2003 were approved by stockholders at the meeting.
- (b) At the annual stockholders meeting, a Board of Directors to serve for the ensuing year was elected. The following directors were elected as nominated:
- |                            |                     |
|----------------------------|---------------------|
| Douglas M. Brown           | Robert W. Foy       |
| Edward D. Harris, Jr. M.D. | Richard P. Magnuson |
| Linda R. Meier             | Peter C. Nelson     |
| Langdon W. Owen            | George A. Vera      |
| Bonnie G. Hill             | David N. Kennedy    |
- (c) Two proposals were voted on at the meeting: (1) election of directors for the ensuing year, and (2) ratification of the selection of KPMG LLP as independent auditors for 2003.

## 22

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

	For	Against
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Douglas M. Brown	14,986,800	311,796
Robert W. Foy	14,975,989	322,607
Edward D. Harris, Jr. M.D.	14,990,811	307,784
Richard P. Magnuson	14,981,878	316,718
Linda R. Meier	14,941,675	356,921
Peter C. Nelson	14,984,302	314,293
Langdon W. Owen	14,974,481	324,114
George A. Vera	14,979,998	318,598
Bonnie G. Hill	14,926,417	372,179
David N. Kennedy	14,944,345	354,251

- (2) The stockholders ratified the Directors' selection of KPMG LLP to serve as independent auditors for 2003. There were 15,060,731 votes in favor, 99,039 against and 138,826 abstentions.

## Item 6.

## EXHIBITS AND REPORTS ON FORM 8-K

- (a) Exhibits required to be filed by Item 601 of Regulation S-K.
- The exhibit list required by this Item is incorporated by reference to the Exhibit Index attached to this report.
- (b) Reports on Form 8-K
- On April 25, 2003, we filed a current report on Form 8-K pursuant to Item 12, "Disclosure of Results of Operations and Financial Condition," attaching our press release dated April 23, 2003 announcing earnings results for the first quarter of 2003.

23  
SIGNATURES

Pursuant to the requirement 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  
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Registrant

May 13, 2003

By: /s/ Richard D. Nye  
Richard D. Nye  
Vice President, Chief Financial Officer  
and Treasurer

24

CERTIFICATIONS

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

1. I have reviewed this quarterly report on Form 10-Q of California Water Service Group;
2. Based on my knowledge, this quarterly 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 statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly 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 quarterly 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 quarterly report (the "Evaluation Date"); and
  - c. Presented in this quarterly 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 quarterly report whether or not 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: May 13, 2003

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

25

#### CERTIFICATIONS

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

1. I have reviewed this quarterly report on Form 10-Q of California Water Service Group;
2. Based on my knowledge, this quarterly 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 statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly 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 quarterly 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 quarterly report (the "Evaluation Date"); and
  - c. Presented in this quarterly 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 quarterly report whether or not 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: May 13, 2003

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

26

#### Exhibit Index

Exhibit	Description
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4.22	Seventh Supplement to Note Agreement dated as of May 1, 2003 pertaining to the issuance of \$10,000,000, 5.54% Series I Senior Notes due May 1, 2023.	28
4.23	Eight Supplement to Note Agreement dated as of May 1, 2003 pertaining to the issuance of \$10,000,000, 5.44% Series J Senior Notes due May 1, 2018.	54
99.1	Chief Executive Officer and Chief Financial Officer certification of financial statements pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	84

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CALIFORNIA WATER SERVICE COMPANY

SEVENTH SUPPLEMENT TO NOTE AGREEMENT

Dated as of May 1, 2003

Re: \$10,000,000 5.54% Series I Senior Notes  
Due May 1, 2023

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28

SEVENTH SUPPLEMENT TO NOTE AGREEMENT

Dated as of  
May 1, 2003

To the Purchaser named in  
Schedule A hereto

Ladies and Gentlemen:

This Seventh Supplement to Note Purchase Agreement (the "Seventh 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 5.54% Series I Senior Notes due May 1, 2023 (the "Series I Notes"). The Series I 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 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 I 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, the Series I 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 I 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

29

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 May 1, 2003 or such later date (not later than May 7, 2003) as shall mutually be agreed upon by the Company and the Purchaser of the Series I Notes (the "Closing Date").

#### 4. Prepayment of Notes.

(a) Required Prepayments. On May 1, 2013 and on May 1 of each year thereafter to and including May 1, 2022, the Company will prepay \$909,090.91 principal amount (or such lesser principal amount as shall then be outstanding) of the Series I 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 Series I 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 Series I Notes is reduced as a result of such prepayment or purchase. No other prepayments are required to be made with respect to the Series I Notes prior to the expressed maturity date thereof other than prepayments made in connection with an acceleration of the Series I 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 Seventh 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

30

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 Seventh 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 I 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 I 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 I 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 I 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 I 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

31

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 I 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 I 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 I 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 I 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 I Notes and to the following further conditions precedent:

(i) Closing Certificate. The 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 the Purchaser's obligation to purchase the Series I Notes proposed to be sold to the 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. The Purchaser shall have received a certificate dated the Closing Date, signed by the Senior Financial Officer of the Company stating that such officer

32

has reviewed the provisions of the Note Agreement and this Seventh 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. The 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 the 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 I 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 I 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) Redemption of First Mortgage Bonds. On or before the Closing Date, the Company shall have redeemed the outstanding principal amount of its 7.90% Series EE First Mortgage Bonds due November 1, 2023 issued under terms of the Mortgage Indenture, which are registered in the name of the Purchaser.

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

(vii) Satisfactory Proceedings. All proceedings taken in connection with the transactions contemplated by this Seventh Supplement, and all documents necessary to the consummation thereof, shall be satisfactory in form and substance to the Purchaser and the Purchaser's special counsel, and the 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.

(viii) Purchase Permitted by Applicable Law. On the Closing Date, the purchase of the Series I 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 of execution and delivery of this Seventh Supplement. If requested by the Purchaser, the Purchaser shall have received an Officer's Certificate certifying as to such matters of fact as the Purchaser may reasonably specify to enable the Purchaser to determine whether such purchase is so permitted.

33

(ix) 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.

(x) 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 I Notes.

(b) The obligation of the Company to deliver the Series I Notes hereunder is subject to the conditions that (i) the Commission shall have authorized the issuance and sale by the Company of the Series I 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 I Notes scheduled to be sold on the Closing Date pursuant to this Seventh 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 Seventh 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 I 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 Seventh Supplement. Without limiting the foregoing, if the conditions specified in Section 5(a) have not been fulfilled, the Purchaser may waive compliance by the Company with any such condition to such extent as the 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 of execution and acceptance of this Seventh Supplement with respect to the Series I 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 the Purchaser were an original signatory to the Note Agreement.

34

California Water Service Company  
Seventh 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

35

California Water Service Company  
Seventh Supplement

Accepted as of December 6, 2002

NEW YORK LIFE INSURANCE COMPANY

By: \_\_\_\_\_

Name:

Title:

36

INFORMATION RELATING TO THE PURCHASER

NAME AND ADDRESS OF PURCHASER	PRINCIPAL AMOUNT OF SERIES I NOTES TO BE PURCHASED
NEW YORK LIFE INSURANCE COMPANY c/o New York Life Investment Management LLC 51 Madison Avenue New York, New York 10010 Attention: Securities Investment Group, Private Finance, 2nd Floor Fax Number: (212) 447-4122	\$10,000,000

Payments

All payments on or in respect of the Notes to be by wire or intrabank transfer of immediately available funds to:

Chase Manhattan Bank  
New York, New York 10019  
ABA #021-000-021  
Credit: New York Life Insurance Company  
General Account Number 008-9-00687

With sufficient information (including issuer, PPN number, interest rate, maturity and whether payment is of principal, premium, or interest) to identify the source and application of such funds.

Notices

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

New York Life Insurance Company  
c/o New York Investment Management LLC  
51 Madison Avenue  
New York, New York 10010-1603  
Attention: Financial Management and Operations Group  
Securities Operations, 2nd Floor  
Fax Number: (212) 447-4160

All other notices and communications to be addressed as first provided above, with a copy of any notices regarding defaults or Events of Default under the operative documents to: Office of the General Counsel, Investment Section, Room 1104, Fax Number (212) 576-8340

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

Taxpayer I.D. Number: 13-5582869

SCHEDULE A  
(to Supplement)

[FORM OF SERIES I 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

5.54% Series I Senior Note  
Due May 1, 2023

PPN: \_\_\_\_\_

No. \_\_\_\_\_ May \_\_\_\_, 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 May, 2023,  
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 5.54% 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 7.54% 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 Seventh Supplement (the "Seventh 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

EXHIBIT 1  
(to Supplement)

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 Seventh 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: \_\_\_\_\_

E-1-2

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 I Notes. The issuance and sale of the Series I Notes and the execution and delivery of the Seventh 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 September 30, 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 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.

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,

EXHIBIT 2  
(to Supplement)

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 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

E-2-2

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 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

E-2-3

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

E-2-4

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 Seventh Supplement or the Series I 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 I 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 I Notes or the execution, delivery or performance of the Seventh 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 I 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 Seventh Supplement, the consummation of the transactions therein provided for and compliance with the provisions

E-2-5

of the Seventh Supplement and the Series I 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 I Notes under the Seventh Supplement to refinance existing Indebtedness. None of the transactions contemplated in the Seventh Supplement (including, without limitation thereof, the use of the proceeds from the sale of the Series I 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 I 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.

E-2-6

(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 Seventh Supplement and compliance by the Company with the provisions thereof and the Series I 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 Seventh Supplement do not, nor does the Seventh 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 I 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 Seventh Supplement or the Series I Notes.

22. Private Offering. Neither the Company, directly or indirectly, nor any agent on its behalf has offered or will offer the Series I Notes or any similar Security or has solicited or will solicit an offer to acquire the Series I Notes or any similar Security from or has otherwise approached or negotiated or will approach or negotiate in respect of the Series I Notes or any similar Security with any Person other than the Purchaser and not more than 7 other institutional investors, each of whom was offered a portion of the Series I 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 I Notes or any similar Security or has solicited or will solicit an offer to acquire the Series I Notes or any similar Security from any Person so as to cause the issuance and sale of the Series I Notes not to be exempt from the provisions of Section 5 of the Securities Act of 1933, as amended.

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 Seventh 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 Seventh Supplement and the Notes, and the performance by the Company of its obligations under the Note Agreement, the Seventh 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 Seventh Supplement and the Notes.

3. Each of the Note Agreement, the Seventh 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 Seventh Supplement and the Notes would recognize and give effect to the choice of law provisions set forth in the Note Agreement, the Seventh 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 Seventh 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 Seventh 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 Seventh 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

E-3-2

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 I 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.

E-3-3

#### 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 Seventh 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 Seventh Supplement and to issue the Series I Notes.

2. The Note Agreement and the Seventh 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 I 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 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).

4. The issuance, sale and delivery of the Series I Notes under the circumstances contemplated by the Seventh Supplement does not, under existing law, require the registration of the Series I 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 I Notes.

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CALIFORNIA WATER SERVICE COMPANY

AMENDED AND RESTATED EIGHTH SUPPLEMENT TO NOTE AGREEMENT

Dated as of May 1, 2003

Re: 5.44% \$10,000,000 Series J Senior Notes  
Due May 1, 2018

=====

54

California Water Service Company  
Eighth Supplement

AMENDED AND RESTATED EIGHTH SUPPLEMENT TO NOTE AGREEMENT

Dated as of  
May 1, 2003

To the Purchasers named in  
Schedule A hereto

Ladies and Gentlemen:

Reference is hereby made to that certain original Eighth Supplement to Note Agreement dated as of May 1, 2003 (the "Original Eighth Supplement") entered into on December 6, 2002 by California Water Service Company (the "Company") and the institutional investors named on Schedule I attached thereto (the "Purchasers"). Section 4 of the Original Eighth Supplement provides that the Interest Rate for the Series J Notes will be determined by the Company five Business Days prior to the Closing Date.

For purposes of convenience and reference, the Company now desires and the Purchasers agree to amend and restate the Original Eighth Supplement to reflect the Interest Rate, as determined by the Company and certified to each of you pursuant to the Notice of Interest Rate Certificate in the form attached as Exhibit 5 to the Original Eighth Supplement. Accordingly, the Original Eighth Supplement shall be and is hereby amended in its entirety and as so amended shall read as follows (as so amended, the "Eighth Supplement"):

This Eighth Supplement to Note Purchase Agreement (the "Eighth 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 \$10,000,000 aggregate principal amount of its 5.44% Series J Senior Notes due May 1, 2018 (the "Series J Notes"). The Series J 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 I Notes issued pursuant to the Seventh Supplement to Note Agreement dated as of May 1, 2003 and each Series of Additional Notes which may from time to time be issued pursuant to the provisions of

55

California Water Service Company  
Eighth Supplement

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 J 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 the Purchasers, and the Purchasers agree to purchase from the Company, the Series J Notes in the principal amount set forth opposite the Purchasers' 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 J 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 May 1, 2003 or such later date (not later than May 7, 2003) as shall mutually be agreed upon by the Company and the Purchasers of the Series J Notes (the "Closing Date").

4. The interest rate for the Series J Notes (the "Interest Rate") has been determined by the Company on April 24, 2003 pursuant to the Interest Rate Determination Procedure, and the Company has provided written notice of the Interest Rate to each Purchaser named on Schedule A attached hereto at least three Business Days prior to the Closing Date by the Chief Financial Officer of the Company completing and executing the Notice of Interest Rate Certificate in the form attached as Exhibit 5 to the Original Eighth Supplement and faxing the same to the Purchasers, together with and attached as Annex A thereto a copy of the Bloomberg Financial Markets Services Screen PX1 (or other applicable publication used to set the Interest Rate) and the calculation of the Interest Rate for such Notes.

For purposes of this Section 4 "Interest Rate Determination Procedure" shall mean the Interest Rate determined on April 24, 2003 pursuant to the following: the Interest Rate shall be equal to the sum of 1.55% plus the yield to maturity implied by (i) the yields reported as of 9:00 a.m. (San Jose, California time) on April 24, 2003 on the display page of 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 10 years as of May 1, 2003 or if (ii) 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 April 24, 2003, 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 10 years, and such implied yield will be determined, if necessary, by (a) converting U.S. Treasury bill quotations to bond-yield equivalents 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 10 years and (2) the actively traded U.S. Treasury security with the maturity closest to and less than 10 years.

5. Prepayment of Notes.

(a) Required Prepayments. On May 1, 2008 and on May 1 of each year thereafter to and including May 1, 2017, the Company will prepay \$909,090.91 principal

California Water Service Company  
Eighth Supplement

amount (or such lesser principal amount as shall then be outstanding) of the Series J Notes at par and without payment of the Make-Whole Amount or any premium, provided that upon any partial prepayment permitted by Section 5(b) or 5(c), the principal amount of each required prepayment of the Series J Notes becoming due under this Section 5(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 Series J Notes is reduced as a result of such prepayment or purchase. No other prepayments are required to be made with respect to the Series J Notes prior to the expressed maturity date thereof other than prepayments made in connection with an acceleration of the Series J Notes pursuant to the provisions of Section 6.3 of the Note Agreement.

(b) Optional Prepayment with Premium. Upon compliance with Section 5(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 5(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 5(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 5(c) shall be without premium.

(d) Notice of Optional Prepayments. The Company will give notice of any prepayment of the Notes pursuant to Section 5(b) or 5(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 Eighth 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 5(b) or 5(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 Eighth 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

California Water Service Company  
Eighth Supplement

Company requesting that the provisions of this Section 5(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 J 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 J Note, the principal of such Note that is to be prepaid pursuant to Section 5(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 J 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 J 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 J 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

58

California Water Service Company  
Eighth Supplement

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 J 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 J 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 5(b) hereof or Section 6.3 of the Note Agreement.

"Settlement Date" means, with respect to the Called Principal of any Series J Note, the date on which such Called Principal is to be prepaid pursuant to Section 5(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.

6. Closing Conditions.

(a) Conditions. The obligation of the Purchasers to purchase the Series

J 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 J Notes and to the following further conditions precedent:

(i) Closing Certificate. The Purchasers 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 the Purchasers' obligation to purchase the Series J Notes proposed to be sold to the Purchasers 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. The Purchasers 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 Eighth 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. The Purchasers 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 the 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 J Notes shall have been duly authorized or approved by appropriate order of the Public

59

California Water Service Company  
Eighth Supplement

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 J 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) Calculation of Interest Rate. Prior to the Closing Date, the Purchasers shall have received a Notice of Interest Rate Certificate at least three Business Days prior to the Closing Date, signed by the Chief Financial Officer of the Company in accordance with Section 4 of this Eighth Supplement.

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

(vii) Satisfactory Proceedings. All proceedings taken in connection with the transactions contemplated by this Eighth Supplement, and all documents necessary to the consummation thereof, shall be satisfactory in form and substance to the Purchasers and the Purchasers' special counsel, and the Purchasers 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.

(viii) Purchase Permitted by Applicable Law. On the Closing Date, the purchase of the Series J Notes shall (a) be permitted by the laws and regulations of each jurisdiction to which the Purchasers are 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 Purchasers 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 of execution and delivery of the Eighth Supplement. If requested by the Purchasers, the Purchasers shall have received an Officer's Certificate certifying as to such matters of fact as the Purchasers may reasonably specify to enable the Purchasers to determine whether such purchase is so permitted.

(ix) 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.

(x) 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 J Notes.

(b) The obligation of the Company to deliver the Series J Notes hereunder is subject to the conditions that (i) the Commission shall have authorized the issuance and sale by the Company of the Series J Notes at the price herein provided and said authorization shall be in full force and effect and (ii) the

60

California Water Service Company  
Eighth Supplement

entire principal amount of the Series J Notes scheduled to be sold on the Closing Date pursuant to this Eighth Supplement shall have been tendered by the Purchasers. If the condition specified in this Section 6(b) shall not have been fulfilled prior to or on the Closing Date, this Eighth 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 Purchasers the Series J Notes to be issued to the Purchasers on such date or if the conditions specified in Section 6(a) have not been fulfilled, the Purchasers may thereupon elect to be relieved of all further obligations under this Eighth Supplement. Without limiting the foregoing, if the conditions specified in Section 6(a) have not been fulfilled, the Purchasers may waive compliance by the Company with any such condition to such extent as the Purchasers may in their sole discretion determine. Nothing in this Section 6(c) shall operate to relieve the Company of any of its obligations hereunder or to waive the Purchasers' rights against the Company.

7. 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 of execution and acceptance of this Eighth Supplement with respect to the Series J Notes purchased by such Purchasers.

8. 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.

61

California Water Service Company  
Eighth Supplement

The execution hereof shall constitute a contract between the Company and the Purchasers 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: Richard D. Nye  
Title: Vice President, Chief Financial  
Officer and Treasurer

62

California Water Service Company  
Eighth Supplement

Accepted as of April \_\_, 2003

NATIONWIDE LIFE INSURANCE COMPANY

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

NATIONWIDE INDEMNITY COMPANY

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

NATIONWIDE MUTUAL INSURANCE COMPANY

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

AMCO INSURANCE COMPANY

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

63

INFORMATION RELATING TO THE PURCHASERS

NAME AND ADDRESS OF PURCHASER	PRINCIPAL AMOUNT OF SERIES J NOTES TO BE PURCHASED
NATIONWIDE LIFE INSURANCE COMPANY One Nationwide Plaza (1-33-07) Columbus, Ohio 43215-2220 Attention: Corporate Fixed-Income Securities Facsimile: (614) 249-4553	\$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, Series J Senior Notes due 2018, PPN 130789 N# 3, principal, premium or interest") to:

The Bank of New York  
ABA #021-000-018  
BNF: IOC566  
F/A/O Nationwide Life Insurance Company  
Attention: P&I Department  
PPN 130789 N# 3  
Security Description: California Water Series J Senior Notes

Notices

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

Nationwide Life Insurance Company  
c/o The Bank of New York  
P. O. Box 19266  
Newark, New Jersey 07195  
Attention: P&I Department

With a copy to:

Nationwide Life Insurance Company  
One Nationwide Plaza (1-32-05)  
Columbus, Ohio 43215-2220  
Attention: Investment Accounting

All notices and communications other than those in respect to payments to be addressed as first provided above.

Name of Nominee in which Notes are to be issued: None  
Taxpayer I.D. Number: 31-4156830



Schedule A  
(to Supplement)

NAME AND ADDRESS OF PURCHASER	PRINCIPAL AMOUNT OF SERIES J NOTES TO BE PURCHASED
NATIONWIDE INDEMNITY COMPANY One Nationwide Plaza (1-33-07) Columbus, Ohio 43215-2220 Attention: Corporate Fixed-Income Securities Facsimile: (614) 249-4553	\$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, Series J Senior Notes due 2018, PPN 130789 N# 3, principal, premium or interest") to:

The Bank of New York  
ABA #021-000-018  
BNF: IOC566  
F/A/O Nationwide Indemnity Company  
Attention: P&I Department  
PPN 130789 N# 3  
Security Description: California Water Series J Senior Notes

Notices

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

Nationwide Indemnity Company  
c/o The Bank of New York  
P. O. Box 19266  
Newark, New Jersey 07195  
Attention: P&I Department

With a copy to:

Nationwide Indemnity Company  
One Nationwide Plaza (1-32-05)  
Columbus, Ohio 43215-2220  
Attention: Investment Accounting

All notices and communications other than those in respect to payments to be addressed as first provided above.

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

Taxpayer I.D. Number: 31-1399201

A-2

NAME AND ADDRESS OF PURCHASER	PRINCIPAL AMOUNT OF SERIES J NOTES TO BE PURCHASED
NATIONWIDE MUTUAL INSURANCE COMPANY One Nationwide Plaza (1-33-07) Columbus, Ohio 43215-2220 Attention: Corporate Fixed-Income Securities Facsimile: (614) 249-4553	\$2,000,000

Payments

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

WIRING INSTRUCTIONS:  
The Bank of New York  
ABA #021-000-018  
BNF: IOC566  
F/A/O Nationwide Mutual Insurance Company  
Attention: P&I Department  
PPN 130789 N# 3  
Security Description: California Water Series J Senior Notes

Notices

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

Nationwide Mutual Insurance Company  
c/o The Bank of New York  
P. O. Box 19266  
Newark, New Jersey 07195  
Attention: P&I Department

With a copy to:

Nationwide Mutual Insurance Company  
One Nationwide Plaza (1-32-05)  
Columbus, Ohio 43215-2220  
Attention: Investment Accounting

All notices and communications other than those in respect to payments to be addressed as first provided above.

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

Taxpayer I.D. Number: 31-4177100

A-3

NAME AND ADDRESS OF PURCHASER	PRINCIPAL AMOUNT OF SERIES J NOTES TO BE PURCHASED
AMCO INSURANCE COMPANY One Nationwide Plaza (1-33-07) Columbus, Ohio 43215-2220 Attention: Corporate Fixed-Income Securities	\$1,000,000

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, Series J Senior Notes due 2018, PPN 130789 N# 3, principal, premium or interest") to:

The Bank of New York  
ABA #021-000-018  
BNF: IOC566  
F/A/O AMCO Insurance Company  
Attention: P&I Department  
PPN 130789 N# 3  
Security Description: California Water Series J Senior Notes

Notices

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

AMCO Insurance Company  
c/o The Bank of New York  
P. O. Box 19266  
Newark, New Jersey 07195  
Attention: P&I Department

With a copy to:

AMCO Insurance Company  
One Nationwide Plaza (1-32-05)  
Columbus, Ohio 43215-2220  
Attention: Investment Accounting

All notices and communications other than those in respect to payments to be addressed as first provided above.

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

Taxpayer I.D. Number: 42-6054959

A-4

[FORM OF SERIES J 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

5.44% Series J Senior Note  
Due May 1, 2018

PPN: 130789 N# 3

No. \_\_\_\_\_ May \_\_\_\_, 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 May, 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 5.44% 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 7.44% 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 Amended and Restated Eighth Supplement (the "Amended and Restated Eighth 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

EXHIBIT 1  
(to Supplement)

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 5(a) of the Amended and Restated Eighth 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.

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

E-1-2

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 J Notes. The issuance and sale of the Series J Notes and the execution and delivery of the Eighth 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 Purchasers have 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 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,

EXHIBIT 2  
(to Supplement)

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 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

E-2-2

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 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

E-2-3

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

E-2-4

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 Eighth Supplement or the Series J 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 J 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 J Notes or the execution, delivery or performance of the Eighth 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 J 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 Eighth Supplement, the consummation of the transactions therein provided for and compliance with the provisions

E-2-5

of the Eighth Supplement and the Series J 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 J Notes under the Eighth Supplement to refinance existing Indebtedness. None of the transactions contemplated in the Eighth Supplement (including, without limitation thereof, the use of the proceeds from the sale of the Series J 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 J 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.

E-2-6

(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 Eighth Supplement and compliance by the Company with the provisions thereof and the Series J 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 Eighth



Supplement do not, nor does the Eighth 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 J 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 Eighth Supplement or the Series J Notes.

22. Private Offering. Neither the Company, directly or indirectly, nor any agent on its behalf has offered or will offer the Series J Notes or any similar Security or has solicited or will solicit an offer to acquire the Series J Notes or any similar Security from or has otherwise approached or negotiated or will approach or negotiate in respect of the Series J Notes or any similar Security with any Person other than the Purchasers and not more than 7 other institutional investors, each of whom was offered a portion of the Series J Notes at private sale for investment. Neither the Company, directly or indirectly, nor any agent on

E-2-7

its behalf has offered or will offer the Series J Notes or any similar Security or has solicited or will solicit an offer to acquire the Series J Notes or any similar Security from any Person so as to cause the issuance and sale of the Series J Notes not to be exempt from the provisions of Section 5 of the Securities Act of 1933, as amended.

E-2-8

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 6(a)(iii) of the Amended and Restated Eighth 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 Amended and Restated Eighth Supplement and the Notes, and the performance by the Company of its obligations under the Note Agreement, the Amended and Restated Eighth 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 Amended and Restated Eighth Supplement and the Notes.

3. Each of the Note Agreement, the Amended and Restated Eighth 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 Amended and Restated Eighth Supplement and the Notes would recognize and give effect to the choice of law provisions set forth in the Note Agreement, the Amended and Restated Eighth 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 Amended and Restated Eighth 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 Amended and Restated Eighth 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 Amended and Restated Eighth 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 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 J 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.

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

The closing opinion of Chapman and Cutler, special counsel to the Purchasers, called for by Section 6(a)(iii) of the Amended and Restated Eighth 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 Amended and Restated Eighth Supplement and to issue the Series J Notes.

2. The Note Agreement and the Amended and Restated Eighth 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 J 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 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).

4. The issuance, sale and delivery of the Series J Notes under the circumstances contemplated by the Amended and Restated Eighth Supplement does not, under existing law, require the registration of the Series J 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 J Notes.

EXHIBIT 3  
(to Supplement)

CERTIFICATION PURSUANT TO  
-----  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

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 quarterly report on Form 10-Q 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: May 13, 2003

/s/ Peter C. Nelson  
PETER C. NELSON  
Chief Executive Officer  
California Water Service Group

Date: May 13, 2003

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