

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

(Mark One)

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

For the quarterly period ended September 30, 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 No

Indicate by checkmark whether the Registrant is an accelerated filer (as defined in rule 12b-2 of the Act) Yes 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 November 11, 2003 - 16,932,046.

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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.

CALIFORNIA WATER SERVICE GROUP
 CONDENSED CONSOLIDATED BALANCE SHEETS
 Unaudited
 (In thousands, except per share data)

<TABLE>
 <CAPTION>

December 31,	September 30,
2002	2003
-----	-----
<S>	<C>
<C>	
ASSETS	
Utility plant:	
Utility plant	\$ 1,063,323
\$ 1,001,310	
Less accumulated depreciation and amortization	320,594
304,322	-----

Net utility plant	742,729
696,988	-----

Current assets:	
Cash and cash equivalents	12,396
1,063	
Receivables	26,438
23,961	
Unbilled revenue	12,684
7,969	
Materials and supplies at average cost	2,934
2,760	
Taxes and other prepaid expenses	8,086
7,234	-----

Total current assets	62,538
42,987	-----

Other assets:	
Regulatory assets	53,017
46,089	
Other assets	16,907
14,518	-----

Total other assets	69,924
60,607	-----

\$ 800,582	\$ 875,191
	=====

=====

CAPITALIZATION AND LIABILITIES

Capitalization:

\$	Common stock, \$.01 par value	\$	169
	152		
	Additional paid-in capital		93,773
49,984	Retained earnings		148,695
149,215	Accumulated other comprehensive loss		(134)
(134)			

	Total common stockholders' equity		242,503
199,217	Preferred stock		3,475
3,475	Long-term debt, less current maturities		270,909
250,365			

	Total capitalization		516,887
453,057			

Current liabilities:

	Current maturities of long-term debt		900
1,000	Short-term borrowings		2,479
36,379	Accounts payable		29,020
23,706	Accrued expenses and other liabilities		44,070
30,456			

	Total current liabilities		76,469
91,541			

	Unamortized investment tax credits		2,875
2,774	Deferred income taxes		38,414
31,371	Regulatory and other liabilities		34,123
28,804	Advances for construction		120,919
115,459	Contributions in aid of construction		85,504
77,576	Commitments and contingencies		--
--			

		\$	875,191
\$ 800,582			

=====

</TABLE>

See accompanying Notes to Condensed Consolidated Financial Statements

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Unaudited

(In thousands, except per share data)

<TABLE>

<CAPTION>

For the three months ended:

	September 30, 2003	September 30, 2002
	-----	-----
<S>	<C>	<C>
Operating revenue	\$ 88,197	\$ 81,440
	-----	-----
Operating expenses:		
Operations	58,398	54,190
Maintenance	3,172	3,010
Depreciation and amortization	5,830	5,263
Income taxes	5,587	5,047
Property and other taxes	2,691	2,333
	-----	-----

Total operating expenses	75,678	69,843
	-----	-----
Net operating income	12,519	11,597
	-----	-----
Other income and expenses:		
Non-regulated income, net	623	527
Gain/(loss) on sale of non-utility property	24	(13)
	-----	-----
	647	514
Interest expense:		
Long-term debt interest	4,234	4,149
Other interest	345	287
	-----	-----
Total interest expense	4,579	4,436
Net income	\$ 8,587	\$ 7,675
	=====	=====
Earnings per share:		
Basic	\$ 0.53	\$ 0.50
	=====	=====
Diluted	\$ 0.53	\$ 0.50
	=====	=====
Weighted average shares outstanding:		
Basic	16,209	15,182
	=====	=====
Diluted	16,222	15,185
	=====	=====
Dividends per share of common stock	\$0.28125	\$0.28000
	=====	=====

</TABLE>

See accompanying Notes to Condensed Consolidated Financial Statements

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

For the nine months ended:	September 30, 2003	September 30, 2002
	-----	-----
Operating revenue	\$207,502	\$202,234
	-----	-----
Operating expenses:		
Operations	141,851	134,222
Maintenance	9,488	8,365
Depreciation and amortization	17,428	16,045
Income taxes	8,348	10,898
Property and other taxes	7,694	7,349
	-----	-----
Total operating expenses	184,809	176,879
	-----	-----
Net operating income	22,693	25,355
	-----	-----
Other income and expenses:		
Non-regulated income, net	1,792	1,417
Gain on sale of non-utility property	1,535	1,961
	-----	-----
	3,327	3,378
Interest expense:		
Long-term debt interest	12,451	11,518
Other interest	1,165	994
	-----	-----
Total interest expense	13,616	12,512
Net income	\$ 12,404	\$ 16,221
	=====	=====
Earnings per share:		
Basic	\$ 0.79	\$ 1.06
	=====	=====
Diluted	\$ 0.79	\$ 1.06
	=====	=====
Weighted average shares outstanding:		
Basic		

	15,528	15,182
	=====	=====
Diluted		
	15,539	15,185
	=====	=====
Dividends per share of common stock	\$0.84375	\$0.84000
	=====	=====

See accompanying Notes to Condensed Consolidated Financial Statements

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CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited
(In thousands)

For the nine months ended: September 30,	September 30, 2003
2002	-----
-----	-----
<S>	<C>
<C>	
Operating activities	
Net income	\$ 12,404
\$ 16,221	-----

Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	17,428
16,045	
Deferred income taxes, investment tax credits regulatory assets and liabilities, net	3,900
1,523	
Gain on sale of non-utility assets	(1,535)
(1,961)	
Changes in operating assets and liabilities:	
Receivables	(2,286)
(6,866)	
Unbilled revenue	(4,715)
(3,596)	
Taxes and other prepaid expenses	(764)
(1,758)	
Accounts payable	5,293
4,945	
Other current assets and liabilities	13,438
11,790	
Other changes, net	(1,425)
(2,986)	-----

Net adjustments	29,334
17,136	-----

Net cash provided by operating activities	41,738
33,357	-----

Investing activities:	
Utility plant expenditures	
Company funded	(39,845)
(47,929)	
Developer funded	(13,527)
(10,986)	
Acquisitions	(6,094)
(2,300)	
Proceeds from sale of non-utility assets	1,643
2,122	-----

Net cash used by investing activities	(57,823)
(59,093)	-----

Financing activities:	
Net change in short-term borrowings	(34,000)
(11,000)	

Net proceeds from issuance of long-term debt	19,630
39,753	
Advances for construction	9,197
9,924	
Refunds of advances for construction	(3,603)
(3,386)	
Contributions in aid of construction	5,310
5,342	
Proceeds from issuance of common stock, net	43,808
--	
Dividends paid	(12,924)
(12,868)	

Net cash provided by financing activities	27,418
27,765	

Change in cash and cash equivalents	11,333
2,029	
Cash and cash equivalents at beginning of period	1,063
953	

Cash and cash equivalents at end of period	\$ 12,396
\$ 2,982	
=====	
Supplemental disclosure of cash flow information:	
Cash paid during the nine months:	
Interest (net of amounts capitalized)	\$ 9,459
\$ 7,940	
Income taxes	\$ 550
\$ 5,005	
</TABLE>	

See accompanying Notes to Condensed Consolidated Financial Statements

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CALIFORNIA WATER SERVICE GROUP
Notes to Condensed Consolidated Financial Statements
September 30, 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, Inc. (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 presented. 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 non-qualified stock options. The Company has adopted the disclosure requirements of Statement of Financial Accounting Standards (SFAS) No. 123 "Accounting for Stock-Based Compensation," as amended by SFAS No. 148 "Accounting for Stock-Based Compensation - Transition Disclosure - An Amendment of FASB Statement No. 123," and as permitted by SFAS No. 123, applies Accounting Principles Board Opinion

No. 25, "Accounting for Stock Issued to Employees," for its plan. All outstanding options had an exercise price equal to the market price on the date they were granted. No compensation expense was recorded for the three and nine-month periods ended September 30, 2003 and 2002 related to stock options. No options were granted during the three and nine-month periods ended September 30, 2003.

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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.

<TABLE>
<CAPTION>

	Three Months Ended September 30	
	(in thousands, except per share data)	
	2003	2002
	-----	-----
<S>	<C>	<C>
Net income, as reported	\$ 8,587	\$ 7,675
Deduct: Stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	21	21
Pro forma net income	\$ 8,566	\$ 7,554
	=====	=====
Earnings per share		
Basic - as reported	\$ 0.53	\$ 0.50
Basic - pro forma	\$ 0.53	\$ 0.50
Diluted - as reported	\$ 0.53	\$ 0.50
Diluted - pro forma	\$ 0.53	\$ 0.49

</TABLE>

<TABLE>
<CAPTION>

	Nine Months Ended September 30	
	(in thousands, except per share data)	
	2003	2002
	-----	-----
<S>	<C>	<C>
Net income, as reported	\$ 12,404	\$ 16,221
Deduct: Stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	63	63
Pro forma net income	\$ 12,341	\$ 16,158
	=====	=====
Earnings per share		
Basic - as reported	\$ 0.79	\$ 1.06
Basic - pro forma	\$ 0.79	\$ 1.06
Diluted - as reported	\$ 0.79	\$ 1.06
Diluted - pro forma	\$ 0.79	\$ 1.06

</TABLE>

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 increased rainfall curtail water usage and sales.

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Note 5. Earnings Per Share Calculations

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

Options to purchase 107,000 shares of common stock for the three and nine month periods ended September 30, 2002 were excluded from the diluted per share calculation due to their anti-dilutive effect. No

exclusions from the diluted per share calculation were made for the three and nine month periods ended September 30, 2003.

	Three Months Ended September 30	
	(in thousands, except per share data)	
	2003	2002
Net income	\$ 8,587	\$ 7,675
Less preferred dividends	38	38
Net income available for common stock	\$ 8,549	\$ 7,637
Weighted average common shares	16,209	15,182
Dilutive common stock options (treasury method)	13	3
Shares used for dilutive computation	16,222	15,185
Net income per share - basic	\$ 0.53	\$ 0.50
Net income per share - diluted	\$ 0.53	\$ 0.50

	Nine Months Ended September 30	
	(in thousands, except per share data)	
	2003	2002
Net income	\$12,404	\$16,221
Less preferred dividends	115	115
Net income available for common stock	\$12,289	\$16,106
Weighted average common shares	15,528	15,182
Dilutive common stock options (treasury method)	11	3
Shares used for dilutive computation	15,539	15,185
Net income per share - basic	\$ 0.79	\$ 1.06
Net income per share - diluted	\$ 0.79	\$ 1.06

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Note 6. Allowance for Doubtful Accounts

Allowance for doubtful accounts was \$290,000 and \$180,000 at September 30, 2003 and December 31, 2002, respectively.

Note 7. Regulatory Assets and Liabilities

The following table presents the components of regulatory assets and liabilities as of September 30, 2003 and December 31, 2002.

	September 30, 2003	December 31, 2002
	(in thousands)	(in thousands)
Regulatory Assets		
Related to income taxes	\$31,341	\$31,341
Post-retirement benefits other than pensions	5,840	5,165
Asset retirement obligation	6,253	--
Accrued vacation and workers compensation insurance	9,583	9,583
Total Regulatory Assets	\$53,017	\$46,089
Regulatory Liabilities		
Related to Income taxes	\$16,263	\$17,201

(Included in Regulatory and other liabilities)

Note 8. Non-Regulated Revenue and Income

The following table presents the components of the "Non-regulated income, net" line on the Consolidated Statements of Income for the three-month and nine-month periods ended September 30 2003 and 2002.

Three Months Ended September 30

	(in thousands)			
	2003		2002	
	Revenue	Income	Revenue	Income
Operating & maintenance	\$1,017	\$ 215	\$1,006	\$ 185
Meter reading & billing	394	137	365	100
Leases	266	173	199	124
Water rights brokerage	112	112	131	131
Design & construction	251	42	2,296	65
Other	79	(56)	92	(78)
Total	\$2,119	\$ 623	\$4,089	\$ 527

Nine Months Ended September 30

	(in thousands)			
	2003		2002	
	Revenue	Income	Revenue	Income
Operating & maintenance	\$ 3,117	\$ 752	\$ 2,977	\$ 574
Meter reading & billing	1,036	395	822	234
Leases	848	561	735	385
Water rights brokerage	112	112	270	270
Design & construction	880	111	4,685	172
Other	256	(139)	191	(218)
Total	\$ 6,249	\$ 1,792	\$ 9,680	\$ 1,417

Note 9. Financing

Common Stock

On August 4, 2003, the Company issued 1,750,000 additional shares of common stock from the previously reported \$120,000,000 shelf registration statement (See "LIQUIDITY - CAPITAL RESOURCES - Shelf Registration Statement"). The shares were sold at \$26.25 per share. The net proceeds were \$43.8 million and the transaction was closed on August 7, 2003. The funds were used to pay down short-term borrowings and to invest in short-term money market instruments pending their use for general corporate purposes. After issuance of the 1,750,000 shares, there remains \$74,062,500 in securities under the shelf registration, which are available for future issuance.

Long-term Debt

In February 2003, the Company 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 proceeds from these borrowings were used to pay down short-term borrowings and to fund capital expenditures.

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. Both notes were unsecured. The proceeds from these borrowings were used to early terminate EE First Mortgage bonds that had an interest rate of 7.9%. The principal, call premiums and transaction costs were approximately \$20 million.

Note 10. Legal Proceedings

The Company is involved in various proceedings or litigation arising in the ordinary course of operations. The Company believes the ultimate resolution of such matters will not materially affect its financial position, results of operations or cash flows.

Note 11. 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 was effective for the Company in the first quarter of 2003. The adoption of SFAS No. 143 did not have a material impact to the Company's 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

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December 31, 2002. The adoption of SFAS No. 146 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 that a liability 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 of the Interpretation expand existing disclosures required by a guarantor about its obligations under a guarantee. The adoption of Interpretation No. 45 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." Interpretation No. 46 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 during the first interim or annual period beginning after June 15, 2003. The adoption of Interpretation No. 46 did not impact the Company's financial position, results of operations or cash flows.

In April 2003, the FASB issued SFAS No. 149 "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." The Statement impacts the accounting for certain derivative contracts entered into after June 30, 2003. This Statement is effective for quarters beginning after June 15, 2003. The Company currently does not enter into derivative or hedging contracts. The adoption of SFAS No. 149 did not have an impact on the Company's financial position, results of operations or cash flows.

In May 2003, the FASB issued SFAS No. 150 "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." The Statement establishes standards for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. The Statement is effective for financial instruments entered into after May 31, 2003 and is otherwise effective for quarters beginning after June 15, 2003. In November 2003, the FASB issued a staff position, which deferred the application of several provisions of SFAS 150. The Company has not issued financial instruments that have characteristics of both liabilities and equity. The adoption of SFAS No. 150 did not have nor is expected to have an impact on the Company's financial position, results of operations or cash flows.

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Note 12. Subsequent Events

Financing

On October 24, 2003, the Company completed a transaction to refinance a portion of its long-term debt. Senior Note Series N for \$20 million was issued by California Water Service Company in a private placement transaction. The note is unsecured, accrues interest at a rate of 5.55% per annum and matures on December 1, 2013. Payment of principal is due at maturity. Funds received were used to prepay first mortgage bonds

Series FF, which accrued interest at a rate of 6.95% and had a principal balance of \$19.1 million. In addition to the pre-payment of the principal balance, funds were used to pay a call premium related to Series FF, transaction costs and general corporate purposes. This transaction was a component of the Company's refinancing program disclosed in prior filings.

On November 3, 2003, the Company completed an additional transaction to refinance a portion of its long-term debt. Senior Note Series M for \$20 million was issued by California Water Service Company in a private placement transaction. The note is unsecured, accrues interest at a rate of 5.52% per annum and matures on November 1, 2013. Payment of principal is due at maturity. Funds received were used to prepay first mortgage bonds Series GG, which accrued interest at a rate of 6.98% and had a principal balance of \$19.1 million. In addition to the pre-payment of the principal balance, funds were used to pay a call premium related to Series GG, transaction costs and general corporate purposes. This transaction was a component of the Company's refinancing program disclosed in prior filings. The refinancing program is now complete.

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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, may contain forward-looking statements. The forward-looking statements are intended to qualify for "safe-harbor" treatment established by the Private Securities Reform Act of 1995. 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. Words like "expects," "intends," "plans," "believes," "estimates," "assumes," "anticipates," "projects," "predicts," "forecasts" or variations of these words or similar expressions are intended to identify forward-looking statements. The forward-looking statements are not guarantees of future performance. They are based on numerous assumptions that we believe are reasonable, but they are open to a wide range of uncertainties and business risks. Consequently, actual results may vary materially from what is contained in a forward-looking statement. Factors which may cause actual results to be 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; 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 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 critical because they involve a higher

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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 September 30, 2003, the unbilled revenue amount was \$12.7 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 was \$2.0 million at September 30, 2003 and \$1.7 million at December 31, 2002. This unearned revenue is included in "Accrued expenses and other liabilities" on the balance sheet.

Revenues from non-regulated activities are recognized when services have been rendered, when title has transferred to the buyer, or ratably over the term of agreement for lease contracts. For construction and design services, revenue is generally recognized on the completed contract method, as most projects are completed in less than three months. One construction and design project spanned multiple years and revenue is recognized using the percentage-of-completion method based on a zero profit margin until project completion.

Expense Balancing and Memorandum Accounts

Expense balancing accounts and memorandum accounts (offsetable expenses) 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 as a receivable, until the California Public Utilities Commission ("CPUC") has authorized recovery of the higher costs and customers have been billed. Therefore, a timing difference occurs between when costs are recognized and the recognition of associated revenues. The balancing and memorandum accounts are only used to track the higher costs outside of the financial statements. 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 2001, the CPUC issued

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a decision that designated certain offsetable expenses as frozen. These were offsetable expenses incurred prior to November 29, 2001. In May 2003, we received approval to recover these expenses over a 24 month period.

In June 2003, the CPUC issued a decision allowing water utility companies to request recovery of "balancing-type memorandum accounts", which are primarily comprised of higher electricity cost incurred between November 29, 2001 and December 31, 2002. Unlike the recovery of such costs prior to November 29, 2001, certain limitations will apply. The primary limitation is that recovery will not be allowed if a district earned more than its authorized rate of return during that period. CPUC approval has not yet been received related to these expenses.

For 2003, we have incurred certain expenses that may be eligible for recovery in balancing-type memorandum accounts. As these costs will be subject to limitation tests, we cannot estimate the amount that will be recoverable at this time. Filings related to these expenses will be made in 2004.

At September 30, 2003, the amount included in the offsetable expense accounts not yet recovered was approximately \$9.4 million, which reflects approvals received and filings made. This amount may be adjusted depending on decisions by the CPUC related to filings being reviewed.

Because we operate extensively in a regulated business, we are subject to the provisions of 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 was 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 September 30, 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 as of September 30, 2003.

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Pension Benefits

We incur costs associated with our defined benefit pension plan and postretirement health care benefits plan. 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 these 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 plans' 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 THIRD QUARTER 2003 OPERATIONS

Third quarter net income was \$8.6 million, equivalent to \$0.53 per common share on a diluted basis compared to the \$7.7 million or \$0.50 per share on a diluted basis earned in the third quarter of 2002.

Operating Revenue

Operating revenue increased \$6.8 million or 8% to \$88.2 million. Weather had a positive influence on customer water usage for the quarter. Average temperatures for our California service areas were approximately 3% warmer than last year. Precipitation was higher compared to last year in California, but the amount was minimal. In Washington, precipitation was much lower, which had a positive effect on revenue.

The factors impacting operating revenue for the third quarter of 2003 are presented in the following table (in thousands):

Increase usage by existing customers	\$1,540
Rate increases	3,242
Usage by new customers	1,975

Net operating revenue increase	\$6,757
	=====

Following are operating revenue changes from rate increases and their estimated amounts: step rate increases (\$0.6 million); increases for the Bakersfield treatment plant (\$0.6 million); increases for balancing accounts (\$0.8 million), increases related to the 2001 General Rate Case ("GRC") (\$0.9 million) and increases related to the 2001 GRC "catch up" (\$0.3 million). (See Regulatory Matters section for complete descriptions.)

Usage by new customers includes \$0.9 million for Hawaii Water, as these operations were acquired on April 30, 2003. \$1.1 million was from usage

by new customers in existing districts.

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Total Operating Expenses

Total operating expenses were \$75.6 million for the three months ended September 30, 2003 versus \$69.8 million for the same period in 2002, an increase of \$5.8 million or 8%. This category is comprised of operations expense, maintenance, depreciation, amortization, income taxes, property taxes and other taxes.

Operations expenses were \$58.4 million and increased \$4.2 million (8%) from the prior year. A major component of this expense is water production costs. Water production costs consists of purchased water, purchased power and pump taxes. It represents the largest component of operations expense. During the current quarter, these costs accounted for 66% of total operations expense and increased 8% compared to last year. Water production quantities increased 3% due to the higher water usage by existing customers and increases from new customers. Well production provided 53% of the water supply, 45% was purchased from wholesale suppliers and 2% was developed through our surface water treatment plants. The components of water production costs and changes from the third quarter of last year are shown in the table below (in thousands):

	Third quarter 2003 Cost	Change
	-----	-----
Purchased water	\$27,412	\$ 2,248
Purchased power	9,065	611
Pump taxes	2,325	70
	-----	-----
Total	\$38,802	\$ 2,929
	=====	=====

Purchased water increased due to increased customer usage and due to increased rates for purchased water in several of our districts. Purchased power, which is used mainly for pumping equipment at wells and distribution lines, increased due to the Hawaii Water Acquisition and power costs related to distribution.

Other costs included in operations expense are wages, benefits, water treatment, water quality, customer services costs and general corporate expenses. Wages for union employees increased 1% effective January 1, 2003. Overall labor costs increased 3% due to a 2% increase in headcount and wage increases. Payroll costs charged to operations expense increased by \$0.3 million or 5%. Benefit costs increased \$0.4 million principally due to higher pension costs. Part of the agreement with union employees included a change in the pension plan for the minimum payment amounts. This change increased pension cost substantially, increasing 45% from the prior year. At September 30, 2003, there were 814 employees and at September 30, 2002, there were 799 employees.

Other major items driving the increase in operations expenses were water treatment/water quality expenses (\$0.3 million) for increased costs related to testing, chemicals and filters.

Maintenance expense was \$0.2 million (5%) higher in the quarter ended September 30, 2003 due to additional maintenance required for mains, service line, meters and tank repairs.

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Depreciation/amortization expense increased \$0.6 million because of the increases in utility plant. (See "LIQUIDITY - CAPITAL RESOURCES - Utility Plant Expenditures" below in this report).

Federal and state income taxes increased \$0.5 million due to the increase in taxable income. The effective tax rate was 39% in the current quarter and 40% for the same quarter in the prior year.

Other Income and Expense

Other income and expense was \$0.6 million income compared to \$0.5 million income in 2002, an increase of \$0.1 million. The change is due to increases in income from operating/maintenance arrangements, meter reading/billing services and rental income from cellular antenna leases (see Note 8 to the Condensed Consolidated Financial Statements). There were minimal amounts related to property sales in either period.

Interest Expense

Total interest expense increased \$0.1 million with long-term debt

interest increasing \$0.1 million and short-term interest expense increasing \$0.1 million.

Long-term debt interest was impacted by three items: additional debt outstanding caused interest expense to increase by \$0.5 million compared to the year earlier period; refinanced debt reduced interest cost by \$0.5 million; and debt amortization increased \$0.1 million due to additional and refinanced long-term debt. Capitalized interest did not change between the periods.

Average borrowings under our short-term bank credit agreement were higher during the third quarter of this year compared to the same quarter in 2002. The average interest rate on short-term debt was approximately 2.6% in 2003 compared to approximately 3.0% during the third quarter in 2002. The higher borrowings caused short-term interest expense to increase.

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003

Net income for the nine months ended September 30, 2003 was \$12.4 million, equivalent to \$0.79 per common share on a diluted basis compared to the \$16.2 million or \$1.06 per share on a diluted basis earned in 2002.

Operating Revenue

Operating revenue increased \$5.3 million or 3% to \$207.5 million. Weather had a significant influence on customer water usage in the first half of the year. Temperatures were slightly higher than the prior year for our markets, but were believed to have only a minor impact on our revenues. Precipitation was much higher, over two times the prior year comparable period and had a negative influence on usage.

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The factors impacting operating revenue for the nine months ended September 30, 2003 are presented in the following table (in thousands):

Decreased usage by existing customers	(\$4,828)
Rate increases	5,919
Usage by new customers	4,177

Net operating revenue increase	\$ 5,268
	=====

Following are operating revenue changes from rate increases and their estimated amounts: step rate increases (\$1.7 million); increases for the Bakersfield treatment plant (\$1.4 million); increases for Washington Water (\$0.3 million); increases for balancing accounts (\$1.3 million), increases related to the 2001 General Rate Case ("GRC") (\$0.9 million) and increases related to the 2001 GRC "catch up" (\$0.3 million). (See Regulatory Matters section for complete descriptions).

Usage by new customers includes \$0.8 million for New Mexico Water, acquired in July 2002, and \$1.4 million for Hawaii Water, acquired in April 2003. \$2.0 million was from usage by new customers in existing districts.

Total Operating Expenses

Total operating expenses were \$184.8 million for the nine months ended September 30, 2003 versus \$176.9 million for the same period in 2002, a 4% increase. This category is comprised of operations expense, maintenance, depreciation, amortization, income taxes, property taxes, and other taxes.

Operations expenses were \$141.9 million, increasing \$7.6 million or 6% from the prior year. A major component of this expense is water production costs. Water production costs consists of purchased water, purchased power and pump taxes. It represents the largest component of operations expense. For the nine months, these costs accounted for 59% of total operations expense. Water production costs increased 3% compared to last year principally due to rate increases for purchased water, which was partially offset by lower production. Water production decreased 2% due to the lower water usage by existing customers and was partially offset by sales to new customers. Well production provided 51% of the water supply, 47% was purchased from wholesale suppliers and 2% was developed through our surface water treatment plants. The components of water production costs and changes from the nine-month period of last year are shown in the table below (in thousands):

Nine Months	
2003 Cost	Change

Purchased water	----- \$61,110	----- \$ 1,996
Purchased power	18,056	661
Pump taxes	4,830	(223)
	-----	-----
Total	===== \$83,996	===== \$ 2,434

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Purchased water costs increased due to rate increases in several districts. Purchased power, which is used mainly for pumping equipment at wells and distribution lines increased due to the Hawaii Water acquisition and due to power costs related to distribution. Pump taxes were lower due to the decreased production at wells.

Other costs included in operations expense are wages, benefits, water treatment, water quality, customer services costs and general corporate expenses. Wages for union employees increased 1% effective January 1, 2003. Overall labor costs increased 4% due to increases in wages, increased headcount and increases related to acquisitions. Payroll costs charged to operations expense increased by \$0.9 million or 5%. Benefit costs increased \$2.5 million mainly due to higher pension costs and partially due to higher medical claim costs. Part of the agreement with union employees included a change in the pension plan for the minimum payment amounts. This change increased pension cost substantially, increasing 63% from the prior year. At September 30, 2003, there were 814 employees and at December 31, 2002, there were 802 employees.

Other major items driving the increase in operations expenses were water treatment/water quality expenses (\$0.8 million) for costs related to increased testing, chemicals and filters. Customer service expenses increased \$0.3 million caused by increases in bad debts.

Maintenance expense was \$1.1 million (13%) higher in the nine-month period ended September 30, 2003 due to additional maintenance required for mains, service line, meters and tank repairs. Leaks incurring on mains have increased over the prior year.

Depreciation/amortization expense increased \$1.4 million (9%) because of the increase in utility plant (see "LIQUIDITY - CAPITAL RESOURCES - Utility Plant Expenditures" below in this report).

Federal and state income taxes decreased \$2.6 million due to the decrease in taxable income. The effective tax rate was 40% for the nine-month period and 40% for the same period in the prior year.

Other Income and Expense

Other income and expense was \$3.3 million income compared to \$3.4 million income in 2002, a decrease of \$0.1 million. The decrease was driven by lower sales of surplus real estate, partially offset by increases in income from operating/maintenance arrangements, meter reading/billing services and rental income from cellular antenna leases (See Note 8 to the Condensed Consolidated Financial Statements).

Interest Expense

Total interest expense increased \$1.1 million with long-term debt interest increasing \$0.9 million and short-term interest expense increasing \$0.2 million.

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Long-term debt interest was impacted by four items: additional debt outstanding caused interest expense to increase by \$2.0 million compared to the year earlier period; refinanced debt reduced interest cost by \$1.1 million; debt amortization increased \$0.1 million due to additional and refinanced debt; and additional capitalized interest impacted interest expense by \$0.2 million due to increased construction activity.

Average borrowings under our short-term bank credit agreement were higher during the first nine months of this year compared to the same period in 2002. Average interest rates on short-term debt was approximately 2.6%. The higher borrowings caused short-term interest expense to increase.

REGULATORY MATTERS

Rate Case Proceedings

Cal Water 2001 General Rate Case (GRC) Applications - This filing was

submitted in July 2001 and was approved by the CPUC in September 2003 for 14 of our 24 California districts. This GRC has an 8.9% return on rate base and will add an estimated \$12.8 million to annual revenues. In addition, we received approval to collect an additional \$5.0 million in revenues over 12 months to reflect an effective date of April 3, 2003. The 2001 GRC also authorized the filing of step rate increases for \$2.2 million annually for 2004 and 2005 and, if approved, will become effective January 1 of each year.

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

Cal Water 2002 GRC Applications - Applications have been filed for rate increases of approximately \$8 million on an annual basis relating to seven districts. The amount of the filing may or may not be adjusted when final decisions are issued by the CPUC. At this time, we are unable to predict when the final decisions and rulings will be issued, their composition or their financial impact on revenues for future periods.

Cal Water 2003 GRC Applications - Applications have been filed for rate increases of approximately \$15 million on an annual basis relating to five districts. The amount of the filing may or may not be adjusted when final decisions are issued by the CPUC. At this time, we are unable to predict when the final decisions and rulings will be issued, their composition or their financial impact on revenues for future periods.

Cal Water Advice Letters - Typically, advice letters are used to request rate increases for substantial capital expenditures or increases in costs outside of our control, such as purchased water. The process for approving advice letter increases is less involved and faster than for GRC applications.

Bakersfield advice letter filings - In June 2002, the CPUC authorized an increase in rates for our Bakersfield district of \$0.8 million on an annual basis. In April 2003, the CPUC

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authorized an additional increase in rates of \$1.8 million on an annual basis. In October 2003, we received approval for additional increase of approximately \$0.3 million in the 4th quarter of 2003 and approximately \$4.2 million annually effective January 2004. These increases are for the new Bakersfield treatment plant that became operational in the second quarter of 2003 and had a total project cost of approximately \$50 million.

Other Cal Water advice letter filings - Approval for advice letter filings in two districts to cover higher purchased water costs were received in September 2003 and is estimated to impact revenues approximately \$2 million annually. There are other pending advice letter filings related to increased purchased water costs, which, if approved, is estimated to increase revenues approximately \$4 million annually. Approval of these filings is expected by the first quarter of 2004.

Expense Balancing and Memorandum Accounts - approved. In May 2003, the CPUC authorized the recovery of \$5.4 million in offsetable expenses, of which approximately \$3.6 million will be collected from May 2003 through May 2004 and approximately \$1.8 million will be collected from May 2004 through May 2005. Partially offsetting this increase is a \$0.8 million decrease for one district that will be in effect from June 2003 through June 2004.

Expense Balancing and Memorandum Accounts - pending. In the third quarter of 2003, advice letters were filed for recovery of approximately \$6 million related to balancing-type memorandum accounts. At this time, we cannot predict if adjustments will be made during the CPUC review process nor can we predict the timing of the decision on the filing.

Other rate increases - The City of Hawthorne granted an increase of \$0.2 million effective July 2003. This arrangement is not governed by the CPUC.

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 these delays. We believe the enactment of Assembly Bill 2838 will decrease the financial exposure related to GRC decision delays.

Assembly Bill 2838 became effective on January 1, 2003 and will apply for filings made in 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 in a timely manner. While the CPUC has not established formal procedures for implementing the provisions of this bill, we believe interim rate increases will be authorized if the CPUC does not issue a final rate decision in a timely manner.

LIQUIDITY - CAPITAL RESOURCES

Short-term and Long-term Debt

Short-term bank borrowings were \$2.5 million at September 30, 2003 and \$36.4 million at December 31, 2002. Cash and cash equivalents were \$12.4 million at September 30, 2003.

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California Water Service Company has a \$55 million credit facility. The term of the agreement expires in April 2005. The amount is reduced to \$45 million after December 31, 2003. The agreement has a 30-day out of debt compliance period that must be met by December 31, 2004. We met this out of debt requirement in September 2003. Additionally, the agreement requires the balance to be below \$10 million for 30 consecutive days in 2004.

A \$10 million credit facility exists for California Water Service Group, CWS Utility Services and New Mexico Water Service Company. The term of the agreement expires in April 2005. The agreement has a 30-day out of debt compliance period that must be met annually. We have met this requirement for 2003.

New Mexico Water Service Company has a \$2.9 million facility that expires May 2004 and does not have an out-of-debt compliance period. \$2.5 million was borrowed against this facility on September 30, 2003. Washington Water Service Company has a \$0.1 million credit facility that is currently unused. Hawaii Water Service Company does not have a credit facility at this time.

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 proceeds were used to pay down short-term borrowings and to fund capital expenditures.

In 2002, we initiated a program to refinance portions of our outstanding first mortgage bonds when economic conditions were favorable. Transactions related to this program during and after the period covered by this report are noted below:

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 had an interest rate of 7.9%. The principal, call premiums and transaction costs were approximately \$20 million.

On October 24, 2003, Senior Note Series N for \$20 million was issued by California Water Service Company in a private placement transaction. The note is unsecured, accrues interest at a rate of 5.55% per annum and matures on December 1, 2013. Payment of principal is due at maturity. Funds received were used to prepay first mortgage bonds Series FF, which accrued interest at a rate of 6.95% and had a principal balance of \$19.1 million. In addition to the pre-payment of the principal balance, funds were used to pay a call premium related to Series FF, transaction costs and general corporate purposes.

On November 3, 2003, Senior Note Series M for \$20 million was issued by California Water Service Company in a private placement transaction. The note is unsecured, accrues interest at a rate of 5.52% per annum and matures on November 1, 2013. Payment of principal is due at maturity. Funds received were used to prepay first mortgage bonds Series GG, which accrued interest at a rate of 6.98% and had a principal balance of \$19.1 million. In addition

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to the pre-payment of the principal balance, funds were used to pay a call premium related to Series GG, transaction costs and general corporate purposes.

These transactions listed above will conclude our refinancing program. Based on terms currently available in the marketplace, we have

concluded that additional refinancing at this time would be cost prohibitive. The refinancing program impacted approximately \$100 million of long-term debt and we estimate it will save approximately \$2.0 million in interest expense on an annual basis through the year 2013.

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 Moodys is A1 and S&P is A+. The ratings were unchanged from the revised ratings issued in the fourth quarter of 2002.

Shelf Registration Statement

On July 11, 2003, a shelf registration became effective which provides for the issuance from time to time of up to \$120,000,000 in common stock, preferred stock and/or debt securities. We may issue any of these types of securities until the amount registered is exhausted, and will add the net proceeds from the sale of the securities to our general funds to be used for general corporate purposes, which may include investment in subsidiaries, working capital, capital expenditures, repayment of short-term borrowings, refinancing of existing long-term debt, acquisitions and other business opportunities.

On August 4, 2003, we announced the issuance of 1,750,000 additional shares of common stock from the shelf registration statement. A prospectus supplement and prospectus were filed with the SEC under rule 424 (b) (2) on August 5, 2003. The shares were sold at \$26.25 per share. The net proceeds to us were \$43.8 million and the transaction was closed on August 7, 2003. The funds were used to pay down short-term borrowings and to invest in short-term money market instruments pending their use for general corporate purposes. After issuance of the 1,750,000 shares, there remains \$74,062,500 in securities under the shelf registration, which are available for future issuance.

Dividends, Book Value and Stockholders

The quarterly common dividend was paid on August 14, 2003, at \$0.28125 per common share compared to a quarterly dividend in 2002 of \$0.28 per common share. Annualized, the 2003 dividend rate is \$1.125 per common share compared to \$1.12 per common share in 2002. Based on the 12-month earnings per share at September 30, 2003, the dividend payout ratio is 115% 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. The regular dividend on Series C preferred stock was also paid.

At their October 22, 2003 meeting, the Board declared a quarterly dividend of \$0.28125 payable November 14, 2003 to stockholders of record on October 31, 2003. The regular dividend on Series C preferred stock was also declared. This will be our 236th consecutive quarterly dividend.

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About 4% of the outstanding shares participate in a reinvestment program under the Company's Dividend Reinvestment and Stock Purchase Plan ("Plan"). Shares under 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 \$14.32 at September 30, 2003 compared to \$13.12 at December 31, 2002.

We have approximately 4,200 stockholders of record of our common stock.

Utility Plant Expenditures

During the nine months ended September 30, 2003, capital expenditures totaled \$53.3 million. \$39.8 million was from company-funded projects and \$13.5 was from third party funded projects. The 2003 company-funded capital expenditure budget is \$51.7 million, but the actual amount may vary from the budget number due to timing of actual payments related to current year projects and prior year projects. We do not control third-party funded capital expenditures, therefore we are unable to estimate the amount of such projects for 2003.

At September 30, 2003, construction work in progress was \$23.3 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. The principal cause of the decrease in work in progress is due to the capitalization of expenditures related to the Northeast

Bakersfield Treatment Plant, which became operational in the 2nd quarter of 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 (EPA) requirements concerning security of water facilities. We have completed vulnerability assessments for our four largest districts. Vulnerability assessments for medium size districts are expected to be completed by December 31, 2003 and all districts are expected to be completed by June 30, 2004, which complies with the EPA requirements.

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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 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.

The Rio Grande purchase price was allocated to the fair value of net assets acquired, including utility plant, water rights and assumed liabilities. Our results of operations for the three-month and nine-month periods ended September 30, 2003 and the three-month period ended September 30, 2002 include the operating results of New Mexico Water from the acquisition date. 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. In July 2003, the purchase price was adjusted due to adjustments in rate base for deferred taxes and approximately \$1.5 million was refunded to us, resulting in a net purchase price of \$6.0 million. The purchase price was initially allocated to the fair value of net assets acquired, including utility plant, water rights, receivables and assumed liabilities, and is subject to adjustments as new information is available up to one year after the acquisition date. After completing the acquisition, the entity's name was changed to Hawaii Water Service Company, Inc. ("Hawaii Water"). Hawaii Water provides water utility services to 500 customers in Maui, Hawaii. Hawaii Water had 2002 revenues of \$3.0 million, and had net plant excluding contributions in aid of constructions of approximately \$5.7 million and current assets of \$0.3 million. The Hawaii Public Utilities Commission ("HPUC") approved the acquisition 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, which could result in additional refunds estimated between 0% and 5% of the purchase price. Our results of operations for the three-month and nine-month periods ended September 30, 2003 include the operating results of Hawaii Water from the acquisition date. They were not material to the Company.

National Utilities Corporation

In June 2002, New Mexico Water signed an agreement to purchase National Utilities Corporation and related parties for approximately \$1.1 million. 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 has not been received. At this time, we are unable to predict when, or if, regulatory approval will be received.

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National Utilities had 2002 revenue of \$0.6 million and total assets of \$1.4 million. Its net utility plant in service at December 31, 2001 was \$1.2 million.

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. Traditionally, over 90% of our net income and cash flows come from California regulated operations; therefore the CPUC actions have a significant impact on our business. See Item 2, Expense Balancing and Memorandum Accounts and Regulatory Matters.

Item 4.

CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

We carried out an evaluation, under the supervision of and with the participation of our management, including our principal executive and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report, pursuant to Rule 13a-15(e) under the Securities Exchange Act of 1934. Based on their review of our disclosure controls and procedures, the principal executive officer and principal financial officer have concluded that our disclosure controls and procedures are effective in timely alerting us to material information that is required to be included in periodic SEC filings.

(b) Changes to Internal controls

There were no changes in our internal controls over financial reporting that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, such controls.

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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 from alleged contamination in our drinking water supply in the Marysville district. The suit did not specify a dollar amount. In June 2003, all other defendants, who were governmental entities, were dismissed, and the plaintiff was granted leave to amend his complaint against us. In September 2003, the judge ruled in our favor that the plaintiff's first complaint failed to state facts sufficient to support an actionable claim, but again granted plaintiff leave to amend the complaint. Based on plaintiff's previously filed complaints, we doubt the amended complaint will allege any facts under which we may be held liable. 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 including any damages

related to this matter.

(b) Cal Water is required to report each water system acquisition to the CPUC and obtain CPUC authorization before charging rates. In February 2003, the CPUC's Office of Ratepayer Advocates (ORA) recommended that the Company be fined up to \$9,600,000 and refund \$470,000 for failure to report and obtain CPUC authorizations on two acquisitions. One acquisition was completed on March 12, 1997, prior to adoption of the reporting requirement by the CPUC; the other was inadvertently not reported. Cal Water purchased the two water systems (Indian Springs and Country Meadows), which serve 283 customers, for approximately \$140,000. The staff's recommendation does not challenge the level of service provided or amounts charged for water service to the customers, but our failure to obtain authorization to charge rates set forth in the purchase agreements and our failure to report the acquisitions to the CPUC in accordance with a previously executed memorandum of understanding. Cal Water and the ORA have filed their briefs in the matter and are awaiting the Administrative Law Judge's issuance of a proposed ruling. We believe that ORA's recommendation is extraordinarily harsh given the nature of the infractions and that any penalty will be substantially reduced when this matter is considered by the full CPUC.

On May 7, 2002, Cal Water filed Advice Letters 1514 and 1515 notifying the CPUC of its acquisition of the water systems and requesting authorization to charge the rates filed and include the Indian Springs and Country Meadows water systems in its Salinas District. Additionally, on June 26, 2002, Cal Water filed Advice Letter 1517 notifying the CPUC of its acquisition of the Olcese Water District water system and to include this system in its Salinas district. On July 10, 2003, the CPUC issued Resolution W-4390. In this resolution, the Commission staff raised the issue of the legality of the contracts entered into by Cal Water to acquire the Indian Springs and Country Meadows water systems and whether Cal

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Water complied with legal requirements prior to charging rates to the Olcese Water District customers. The resolution grants Cal Water's request to consult with the CPUC Water Division to resolve these issues. The CPUC will then consider if additional action is warranted. We are working with Water Division to reconstruct the contracts. At this time, we cannot estimate the amount of the penalty or the timing of the resolution of these issues.

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

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 August 6, 2003, we filed a current report on Form 8-K pursuant to item 5, "Other Events," attaching the Underwriting Agreement, the terms Agreement and the legality opinion of counsel relating to the sale of 1,750,000 shares of common stock, par value \$.01 per share.

On October 23, 2003, we furnished to the SEC a current report on Form 8-K pursuant to Item 12, "Disclosure of Results of Operations and Financial Condition," attaching our press release dated October 22, 2003 announcing earnings results for the third quarter of 2003.

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SIGNATURES

Pursuant to the requirements 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.

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

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Exhibit Index

Exhibit	Description
4.24	Twelve Supplement to Note Agreement dated as of October 24, 2003 pertaining to the issuance of \$20,000,000, 5.55%, Series N Senior Notes due December 1, 2013
4.25	Eleventh Supplement to Note Agreement dated as of November 3, 2003 pertaining to the issuance of \$20,000,000, 5.52%, Series M Senior Notes due November 1, 2013
10.25	Water Supply Contract 99-73 between the City of Bakersfield and California Water Service Company, dated March 31, 1999
10.26	Amendment No. 1 to Water Supply Contract between the City of Bakersfield and California Water Service Company, dated October 3, 2001
31.1	Chief Executive Officer certification of financial statements pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Chief Financial Officer certification of financial statements pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Chief Executive Officer and Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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CALIFORNIA WATER SERVICE COMPANY

TWELFTH SUPPLEMENT TO NOTE AGREEMENT

Dated as of October 24, 2003

Re: \$20,000,000 5.55% Series N Senior Notes
Due December 1, 2013

TWELFTH SUPPLEMENT TO NOTE AGREEMENT

Dated as of
October 24, 2003

To the Purchaser named in
Schedule A hereto

Ladies and Gentlemen:

This Twelfth Supplement to Note Purchase Agreement (the "Twelfth 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 \$20,000,000 aggregate principal amount of its 5.55% Series N Senior Notes due December 1, 2013 (the "Series N Notes"). The Series N 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, the Series J Notes issued pursuant to the Amended and Restated Eighth Supplement to Note Agreement dated as of May 1, 2003, the Series K Notes issued pursuant to the Ninth Supplement to Note Agreement dated as of February 15, 2003, the Series L Notes issued pursuant to the Tenth Supplement to Note Agreement dated as of February 15, 2003, the Series M Notes to be issued pursuant to the Eleventh Supplement to Note Agreement dated as of November 3, 2003 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 N Notes shall

be substantially in the form set out in Exhibit 1 hereto with such changes therefrom, if any, as may be approved by the Purchaser and the Company.

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

and the Purchaser agrees to purchase from the Company, Series N 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 \$20,000,000 in aggregate principal amount of the Series N Notes will be made at the offices of Chapman and Cutler LLP, 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 October 24, 2003 or such later date (not later than October 31, 2003) as shall mutually be agreed upon by the Company and the Purchaser of the Series N Notes (the "Closing Date").

4. Prepayment of Notes.

(a) Required Prepayments. No prepayments are required to be made with respect to the Series N Notes prior to the expressed maturity date thereof other than prepayments made in connection with an acceleration of the Series N 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 Twelfth Supplement under which the prepayment is to be

made, (c) the principal amount of the Holder's Notes to be prepaid on such date, (d) whether a premium may be payable, (e) the date when the premium, if any, will be calculated, (f) the estimated premium, together with a reasonably detailed computation of such estimated premium, and (g) the accrued interest applicable to the prepayment. Such notice of prepayment shall also certify all facts, if any, which are conditions precedent to any such prepayment. Notice of prepayment having been so given, the aggregate principal amount of the Notes to be prepaid specified in such notice, together with accrued interest thereon and the premium, if any, payable with respect thereto shall become due and payable on the prepayment date specified in said notice. Not later than two Business Days prior to the prepayment date specified in such notice, the Company shall provide each Holder of a Note to be prepaid written notice of the premium, if any, payable in connection with such prepayment and, whether or not any premium is payable, a reasonably detailed computation of the Make-Whole Amount.

(e) Application of Prepayments. In the case of each partial prepayment of the Notes pursuant to the provisions of Section 4(b) or 4(c), the principal amount of the Notes of the Series to be prepaid shall be allocated among all of the Notes of such Series at the time outstanding in proportion, as nearly as practicable, to the respective unpaid principal amounts thereof.

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

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

"Remaining Scheduled Payments" means, with respect to the Called Principal of any Series N 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 N 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 N 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

N 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 N Notes and to the following further conditions precedent:

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

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

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

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

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

(vi) Satisfactory Proceedings. All proceedings taken in connection with the transactions contemplated by this Twelfth Supplement, and all documents necessary to the consummation thereof, shall be satisfactory in form and substance to such Purchaser and such Purchaser's special counsel, and such Purchaser shall have received a copy

(executed or certified as may be appropriate) of all legal documents or proceedings taken in connection with the consummation of said transactions.

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

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

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

(b) The obligation of the Company to deliver the Series N Notes hereunder is subject to the conditions that (i) the Commission shall have authorized the issuance and sale by the Company of the Series N 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 N Notes scheduled to be sold on the Closing Date pursuant to this Twelfth 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 Twelfth 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 N 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 Twelfth Supplement. Without limiting the foregoing, if the conditions specified in Section 5(a) have not been fulfilled, such Purchaser may waive compliance by the Company with any such condition to such extent as such Purchaser may in its sole discretion determine. Nothing in this Section 5(c) shall operate to relieve the Company of any of its obligations hereunder or to waive the Purchaser's rights against the Company.

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

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

California Water Service Company
Twelfth 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: Richard D. Nye
Title: Vice President, Chief Financial
Officer and Treasurer

California Water Service Company
Twelfth Supplement

Accepted as of October 24, 2003

TEACHERS INSURANCE AND ANNUITY
ASSOCIATION OF AMERICA

By: _____
Name:
Title:

INFORMATION RELATING TO THE PURCHASER

NAME AND ADDRESS OF PURCHASER	PRINCIPAL AMOUNT OF SERIES N NOTES TO BE PURCHASED
TEACHERS INSURANCE AND ANNUITY ASSOCIATION OF AMERICA 730 Third Avenue New York, New York 10017 Attention: John Goodreds, Securities Division, Domestic Private Placements Telephone Number: (212) 916-6578 Facsimile No. (212) 907-6582	\$20,000,000

Payments

All payments on or in respect of the certificate shall be made in immediately available funds at the opening of business on the due date by electronic funds transfer (identifying as CALIFORNIA WATER SERVICE COMPANY, SERIES 2003-N) through the Automated Clearing House System to:

Chase Manhattan Bank
ABA No. 021000021
New York, NY
For deposit to the account of:
Teachers Insurance and Annuity Association of America
Account No. 900-9000200
For Further Credit to TIAA Account # G07040
On order of: CALIFORNIA WATER SERVICE COMPANY, SERIES 2003-N
Reference: PPN: 130789 Q* 4, California Water Service Company,
Series 2003-N/Due December 1, 2013/5.55%/P&I Breakdown

Notices

Address for all notices in respect of payment:

Contemporaneous with the above electronic funds transfer, mail or fax the following information setting forth: (1) the full name, private placement number, interest rate and maturity date of the Notes; (2) the allocation of payment between principal, interest, premium and any special payment; and (3) the name and address of Bank (or trustee) from which such transfer was sent to:

Teachers Insurance and Annuity Association of America
730 Third Avenue
New York, New York 10017
Attn: Securities Accounting Division
Telephone: (212) 916-6004
Facsimile No. (212) 916-6955

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

Schedule A
(to Supplement)

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

Taxpayer I.D. Number: 13-1624203

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[FORM OF SERIES N 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

5.55% Series N Senior Note
Due December 1, 2013

PPN 130789 Q* 4

No. _____, October __, 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 December, 2013,
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 5.55% per annum from the date hereof until maturity, payable semiannually on the first day of each June and December in each year (commencing on the first of such dates after the date hereof) and at maturity. The Company agrees to pay interest on overdue principal (including any overdue required or optional prepayment of principal) and premium, if any, and (to the extent

legally enforceable) on any overdue installment of interest, at the rate of 7.55% 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 Twelfth Supplement (the "Twelfth 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,

EXHIBIT 1
(to Supplement)

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

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

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

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

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

CALIFORNIA WATER SERVICE COMPANY

By _____
Name: _____
Title: _____

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 N Notes. The issuance and sale of the Series N Notes and the execution and delivery of the Twelfth 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, 2003.

5. Financial Statements and Reports. The Company has furnished the Purchaser with a copy of its audited financial reports for 2000, 2001 and 2002 hereinafter called the "Company Reports," and a copy of Form 10-K filed by California Water Service Group ("CWSG") hereinafter called the "CWSG 10-K" with the Securities and Exchange Commission for 2002, 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 June 30, 2003, and Forms 10-Q for CWSG for the fiscal quarter ended June 30, 2003 (the "Quarterly Reports"). The financial statements contained in the foregoing Company Reports, the CWSG 10-K, the Quarterly Reports and such other reports and documents were prepared in accordance with generally accepted accounting principles upon a consistent basis and are complete and correct and the balance sheets included therein fairly present the financial condition of the Company or CWSG, as the case may be, as at the respective dates thereof and the Statements of Income, Common Shareholders' Equity and Cash Flows included therein fairly present the results of the operations of the Company for the periods covered thereby, subject in the case of unaudited statements to normal year-end adjustments.

6. Material Contracts. The Company has no contracts or commitments, whether contingent or other, which are material to the Company and which were not made in the ordinary

EXHIBIT 2
(to Supplement)

course of business. Certain material contracts related to water supply are listed in Annex B hereto. The Company has no contracts or commitments, contingent or other, which materially and adversely affect or in the future may (so far as the Company can foresee) materially and adversely affect the Company or its business, property, assets, operations or condition, financial or other. As of December 31, 2002, 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, 2002, 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 2002 Company Report and paragraph 9 hereof. The Company has good and merchantable title, subject only to the lien of the Mortgage Indenture and to current tax and assessment liens, rights-of-way, easements and certain minor liens, encumbrances, clouds or defects in title which do not materially affect the use thereof, to all the material water distribution facilities (including, without limitation, transmission and distribution mains, pump stations, wells, storage tanks and reservoirs) and other material units of property used in its business except as follows:

(a) some of the offices, but not its principal office, are in leased premises and some wells, well sites and other minor distribution facilities are rented; and

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

and except as to easements and rights-of-way and certain parcels of land (not exceeding for said parcels of land an aggregate book value of \$1,000,000) with respect to which there is a possibility of reverter if the property ceases to be used for public utility purposes, and, except that the greater portion of its

transmission and distribution systems is located in public highways and streets and in rights-of-way owned by the Company over lands of others, the Company's title thereto is fee simple. Except for parcels of land having an aggregate book value of not more than \$1,000,000, the Company has good and merchantable title to all its other property and assets

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subject only to the lien of the Mortgage Indenture and the lien of the Dominguez Mortgage Indenture and to current tax and assessment liens and minor liens and encumbrances which do not materially affect the use thereof. All of the properties of the Company are located in the State of California and substantially all of the properties of the Company used or useful in its public utility business are subject to the Mortgage Indenture. As used herein, the term "Dominguez Mortgage Indenture" means the Trust Indenture dated as of August 1, 1954, as supplemented from time to time, between the Company, as successor to Dominguez Water Company ("Dominguez") and U.S. Bank, as Trustee, which provides a lien on properties owned by Dominguez immediately prior to the merger described in paragraph 9 hereof which lien secures \$9,000,000 in aggregate principal amount of Dominguez bonds which were assumed by the Company upon the merger.

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

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

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

(b) franchises granted pursuant to statutory authority.

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

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

that water distribution systems were constructed and service furnished to the inhabitants of each by various predecessors of the Company prior to 1911, and that there were no public water works owned or controlled by the municipality in any of them prior to 1911), that the Company has a "constitutional" franchise in each of the above cities and under such constitutional franchise has a perpetual right which was not repealed by the repeal of Article XI, Section 19, of the California Constitution to continue to occupy public streets of each of said cities with its pipes and mains and to lay down additional pipes and mains in said streets for the supplying of water, subject to reasonable regulation by the respective municipalities. The Company also believes, based on the advice of counsel, that this right is not limited to streets in which pipes or mains were laid prior to 1911 but extends at least to all streets in the said municipalities as they existed at the date of repeal of the constitutional provision in 1911 and probably also extends to territory incorporated

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into each respective city after such repeal, although this latter question remains somewhat in doubt in the absence of a final decision of the courts thereon. The Company holds either by assignment or as original grantee franchises granted under statutory authority by the Counties of Kern, Los Angeles, San Joaquin, Santa Clara and Monterey, the Cities of Montebello, Torrance, Cupertino, Sunnyvale, Los Altos, Mountain View, Bakersfield, Commerce, San Carlos, Rolling Hills Estates and Thousand Oaks, and the Towns of Los Altos Hills and Atherton. Following incorporation of the City of Rancho Palos Verdes in 1973, the Company made franchise payments to the City and the City accepted the same as successor in interest to the grantor's rights under the Company's former franchise from the County of Los Angeles; the City has agreed that the Company may exercise its rights in the City under its current County franchise until the expiration of that franchise in 2012. The Company's franchises from the Cities of Palos Verdes Estates, Menlo Park and Woodside terminated in 1977, 1993 and 1994, respectively. While none of the Cities and the Company have executed a new franchise agreement, the Company has made and will continue to make franchise payments to each of the Cities in accordance with the provisions of the prior franchise. In other areas where the Company has no franchise, the Company or its predecessors have distributed water for many years and, to the Company's knowledge, no question has ever been raised as to the right to make

such distribution and to maintain all pipes and mains necessary therefor.

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

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

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

As to the remaining localities, Dominguez has received written franchise agreements which are in full force and effect and has paid all franchise fees to date, with the exception of Compton, as to which the franchise expired without renewal in 1994. Dominguez continued to provide water services to Compton subsequent to the expiration of the franchise, and to pay franchise fees, and to the Company's knowledge no question has ever been raised as to the right

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to make such distribution and to maintain all pipes and mains necessary therefor. However, as of May 2003, the County of Los Angeles cancelled its Dominguez franchise and incorporated the franchise territory into the Company's Los Angeles County franchise.

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

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

13. No Burdensome Restrictions. The Company is not subject to any burdensome corporate restrictions in its Articles of Incorporation, By-Laws or

otherwise, which materially and adversely affect or in the future may (so far as the Company can foresee) materially and

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adversely affect the Company or its business, property, assets, operations or condition, financial or other.

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

(b) No consent of, approval or authorization by, filing or registration with, or notice to any governmental or public authority or agency is required for the issuance, sale or delivery of the Series N Notes or the execution, delivery or performance of the Twelfth 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 N 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 Twelfth Supplement, the consummation of the transactions therein provided for and compliance with the provisions of the Twelfth Supplement and the Series N 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 N Notes under the Twelfth Supplement to refinance existing Indebtedness and for general corporate purposes. None of the transactions contemplated in the Twelfth Supplement (including, without limitation thereof, the use of the proceeds from the sale of the Series N 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

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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 N 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, as of December 31, 2002, the last annual valuation date, was exceeded by the actuarial present value of all benefits vested under the Plans by \$7,050,000.

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

a prohibited transaction with or by any of such persons nor enabled any of them to commit a prohibited transaction.

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

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

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

19. Taxes. All Federal, state and local taxes and assessments due from the Company have been (a) fully paid or adequately provided for on the books of the Company in accordance with generally accepted accounting principles or (b) are being contested in good faith by the Company. There has been no examination of the Federal income tax returns of the Company by the Internal Revenue Service subsequent to the examinations of the returns for tax years 1984-1991.

20. Compliance with Laws. To the best of the Company's knowledge, after due inquiry, the Company is in compliance with all applicable Federal, state, or local laws, statutes, rules, regulations or ordinances relating to public health, safety or the environment, including, without

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limitation, relating to releases, discharges, emissions or disposals to air, water, land or ground water, to the withdrawal or use of ground water, to the use, handling or disposal of polychlorinated biphenyls (PCB's), asbestos or urea formaldehyde, to the treatment, storage, disposal or management of hazardous substances (including, without limitation, petroleum, its derivatives, by-products or other hydrocarbons), and to exposure to hazardous substances, the failure to comply with which could reasonably be expected to have a material adverse effect on the Company or its properties. Except as disclosed in the "Environmental Matters" section of Item 1 of the CWSG 10-K, the "Environmental Matters" section of CWSG's 2002 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 Twelfth Supplement do not, nor does the Twelfth Supplement, the Company Information or any written statement (including without limitation the 2002 Company Report and the 2002 CWSG Report) furnished by the Company to you in connection with the negotiation of the sale of the Series N 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 Twelfth Supplement or the Series N Notes.

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

23. Foreign Assets Control Regulations, Etc. Neither the sale of the Series N Notes by the Company hereunder nor its use of the proceeds thereof will violate the Trading with the Enemy Act, as amended, or any of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) or any enabling legislation or executive order relating thereto. Without limiting the foregoing, the Company (a) is not and will not become a person whose property or interests in property are blocked

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With Persons Who Commit, Threaten to Commit, or Support Terrorism (66 Fed. Reg. 49079 (2001)) or (b) does not and will not engage in any Material dealings or transactions, or is otherwise associated, with any such person.

The Company is in compliance in all material respects with the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA Patriot Act of 2001). No part of the proceeds from the sale of the Series N Notes hereunder will be used, directly or indirectly, for any payment to any governmental official or employee, political party, official of a political party, candidate for political office or anyone else acting in an official capacity, in order to obtain, retain or direct business, in violation of the United States Foreign Corrupt Practices Act of 1977, as amended.

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CURRENT DEBT, FUNDED DEBT AND CAPITALIZED LEASES
AS OF SEPTEMBER 30, 2003

1. Current Debt

None.

2. Funded Debt

\$56,600,000 outstanding under the Company's various series of First Mortgage Bonds with due dates ranging from 2020 to 2023.

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

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

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

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

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

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

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

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

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

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

\$10,000,000 Series I Senior Notes due May 1, 2023.

\$10,000,000 Series J Senior Notes due May 1, 2018.

\$10,000,000 Series K Senior Notes due June 30, 2010.

\$10,000,000 Series L Senior Notes due March 1, 2018.

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

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

3. Capitalized Leases

None.

ANNEX A
(to Exhibit 2)

MATERIAL WATER SUPPLY CONTRACTS

1. Water Supply Contract between the Company and the County of Butte relating to the Company's Oroville District.

2. Water Supply Contract between the Company and Kern County Water Agency relating to the Company's Bakersfield District.

3. Water Supply Contract between the Company and Stockton East Water

District relating to the Company's Stockton District.

4. Amended Contract between the Company and Stockton East Water District relating to the Company's Stockton District.
5. Settlement Agreement and Master Water Sales Contract between the City and County of San Francisco and Certain Suburban Purchasers.
6. Supplement to Settlement Agreement and Master Water Sales Contract between the Company and the City and County of San Francisco relating to the Company's Bear Gulch District.
7. Supplement to Settlement Agreement and Master Water Sales Contract between the Company and the City and County of San Francisco relating to the Company's San Carlos District.
8. Supplement to Settlement Agreement and Master Water Sales Contract between the Company and the City and County of San Francisco relating to the Company's San Mateo District.
9. Supplement to Settlement Agreement and Master Water Sales Contract between the Company and the City and County of San Francisco relating to the Company's South San Francisco District.
10. Water Supply Contract between the Company and Santa Clara Valley Water District relating to the Company's Los Altos District.
11. Water Supply Contract between the Company and Pacific Gas and Electric Company related to the Company's Oroville District.
12. Water Supply Contract between the Company and Alameda County Flood Control and Water Conservation District related to the Company's Livermore District.
13. Water Supply Contract between the Company, ARCO Products Company and West Basin Municipal Water District relating to recycled water.
14. Northeast Bakersfield Water Supply Agreement between the City of Bakersfield and the Company.

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

3. Each of the Note Agreement, the Twelfth 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 Twelfth Supplement and the Notes would recognize and give effect to the choice of law provisions set forth in the Note Agreement, the Twelfth 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 Business Loan Agreement dated as of February 28, 2003, between the Company and Bank of America as amended by Amendment No. 1 thereto dated as of June 25, 2003, the Business Loan Agreement dated as of February 28, 2003, among CWSG, CWS Utility Services, New Mexico Water Service Company and Bank of America, or any other agreement or instrument that is listed as a material contract in CWSG's Annual Report on Form 10-K for the year ended December 31, 2002, 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, 2002. 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.

EXHIBIT 3
(to Supplement)

5. Based upon the representations set forth in Section 6 of the Twelfth 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 Twelfth 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 Twelfth Supplement or an indenture under the Trust Indenture Act of 1939, as amended.

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

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

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

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

in our opinion,

(i) the Company has a "constitutional" franchise in each of the above cities and under such "constitutional" franchise has a perpetual right which was not repealed by the repeal of Article XI, Section 19, of the California Constitution to continue to occupy public streets of each of said cities with pipes and mains and to lay down additional pipes and mains in said streets for the supplying of water, subject to reasonable regulation by the respective municipalities;

(ii) this right is not limited to streets in which pipes or mains were laid prior to 1911 but extends at least to all streets in the said municipalities as they existed at the date of repeal of the constitutional provision in 1911; and

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

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

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

8. We note that the Officers' Certificates state that: (a) to the Company's knowledge, water distribution systems were constructed and service furnished to the inhabitants of the localities currently known as Carson, Compton, Harbor City, Long Beach and Torrance by various predecessors of the Company prior to 1911; (b) the Company believes that it has a prior right to operate in these locations which

right was not extinguished by the incorporation of these cities subsequent to 1911; (c) except as noted below, to the Company's knowledge Dominguez has no franchises from these cities and has made no franchise payments to them; and (d) to the Company's knowledge, no question has ever been raised as to the right to make water distribution and to maintain all pipes and mains necessary therefor.

9. We note that the Officers' Certificates state that: (a) as to the remaining localities listed in paragraph 7, to the Company's knowledge, Dominguez has received written franchise agreements which are in full force and effect and has paid all franchise fees to date, with the exception of Compton, as to which the franchise expired without renewal in 1994; (b) to the Company's knowledge, Dominguez continued to provide water services to Compton subsequent to the expiration of the franchise, and to pay franchise fees; and (c) to the Company's knowledge, no question has ever been raised as to the right to make such distribution and to maintain all pipes and mains necessary therefor. However, as of May 2003, the County of Los Angeles cancelled its Dominguez franchise and incorporated the franchise territory into the Company's Los Angeles County franchise.

The opinion of Bingham McCutchen LLP shall cover such other matters relating to the sale of the Series N Notes as the Purchaser may reasonably request and shall provide that Chapman and Cutler LLP in delivering its opinion under the Note Agreement may rely on the opinion of Bingham McCutchen LLP as to matters of California law. With respect to matters of fact on which such opinion is based, such counsel shall be entitled to rely on appropriate certificates of public officials and officers of the Company.

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DESCRIPTION OF SPECIAL COUNSEL'S CLOSING OPINION

The closing opinion of Chapman and Cutler LLP, special counsel to the Purchaser, called for by Section 5(a)(iii) of the Twelfth 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 Twelfth Supplement and to issue the Series N Notes.

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

4. The issuance, sale and delivery of the Series N Notes under the circumstances contemplated by the Twelfth Supplement do not, under existing law, require the registration of the Series N 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 LLP may rely upon the opinion of Bingham McCutchen LLP as to matters of California law. The opinion of Chapman and Cutler LLP shall also state that the opinion of Bingham McCutchen LLP is satisfactory in scope and form to Chapman and Cutler LLP 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 LLP 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 LLP 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 N

CALIFORNIA WATER SERVICE COMPANY

ELEVENTH SUPPLEMENT TO NOTE AGREEMENT

Dated as of November 3, 2003

Re: \$20,000,000 5.52% Series M Senior Notes
Due November 1, 2013

ELEVENTH SUPPLEMENT TO NOTE AGREEMENT

Dated as of
November 3, 2003

To the Purchasers named in
Schedule A hereto

Ladies and Gentlemen:

This Eleventh Supplement to Note Purchase Agreement (the "Eleventh 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 each Purchaser named on Schedule A hereto as follows:

1. The Company has authorized the issue and sale of \$20,000,000 aggregate principal amount of its 5.52% Series M Senior Notes due November 1, 2013 (the "Series M Notes"). The Series M 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, the Series J Notes issued pursuant to the Amended and Restated Eighth Supplement to Note Agreement dated as of May 1, 2003, the Series K Notes issued pursuant to the Ninth Supplement to Note Agreement dated as of February 15, 2003, the Series L Notes issued pursuant to the Tenth Supplement to Note Agreement dated as of February 15, 2003, the Series N Notes issued pursuant to the Twelfth Supplement to Note Agreement dated as of October 24, 2003 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 M 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 each Purchaser agrees to purchase from the Company, Series M Notes in the principal amount set forth opposite such Purchaser's name on Schedule A hereto at a price of 100% of the principal amount thereof on the closing date hereafter mentioned.

3. Delivery of the \$20,000,000 in aggregate principal amount of the Series M Notes will be made at the offices of Chapman and Cutler LLP, 111 West Monroe Street, Chicago, Illinois 60603-4080 against payment therefor in Federal Reserve or other funds current and immediately available at the principal office of Bank of America, ABA No. 121000358, Account No. 14879-00161, Account Name: California Water Service Company Security Sales, in the amount of the purchase price at 11:00 A.M., San Francisco, California time, on November 3, 2003 or such later date (not later than November 10, 2003) as shall mutually be agreed upon by the Company and the Purchasers of the Series M Notes (the "Closing Date").

4. Prepayment of Notes.

(a) Required Prepayments. No prepayments are required to be made with respect to the Series M Notes prior to the expressed maturity date thereof other than prepayments made in connection with an acceleration of the Series M 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 Eleventh Supplement under which the prepayment is to be made, (c) the principal amount of the Holder's Notes to be prepaid on such date, (d) whether a premium may be payable, (e) the date when the premium, if any, will be calculated, (f) the estimated premium, together with a reasonably detailed computation of such estimated premium, and (g) the accrued interest applicable to the prepayment. Such notice of prepayment shall also certify all facts, if any, which are conditions precedent to any such prepayment. Notice of prepayment having been so given, the aggregate principal amount of the Notes to be prepaid specified in such notice, together with accrued interest thereon and the premium, if any, payable with respect thereto shall become due and payable on the prepayment date specified in said notice. Not later than two Business Days prior to the prepayment date specified in such notice, the Company shall provide each Holder of a Note to be prepaid written notice of the premium, if any, payable in connection with such prepayment and, whether or not any premium is payable, a reasonably detailed computation of the Make-Whole Amount.

(e) Application of Prepayments. In the case of each partial prepayment of the Notes pursuant to the provisions of Section 4(b) or 4(c), the principal amount of the Notes of the Series to be prepaid shall be allocated among all of the Notes of such Series at the time outstanding in proportion, as nearly as practicable, to the respective unpaid principal amounts thereof.

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

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

"Remaining Scheduled Payments" means, with respect to the Called Principal of any Series M 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 M 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 M Note, the date on which such Called Principal is to be prepaid pursuant to Section 4(b)

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

5. Closing Conditions.

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

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

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

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

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

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

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

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

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

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

Notes.

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

(c) If on the Closing Date the Company fails to tender to any Purchaser the Series M Notes to be issued to any Purchaser on such date or if the conditions specified in Section 5(a) have not been fulfilled, such Purchaser may thereupon elect to be relieved of all further obligations under this Eleventh Supplement. Without limiting the foregoing, if the conditions specified in Section 5(a) have not been fulfilled, such Purchaser may waive compliance by the Company with any such condition to such extent as such Purchaser may in its sole discretion

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

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

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

California Water Service Company
Eleventh Supplement

The execution hereof shall constitute a contract between the Company and the Purchaser(s) for the uses and purposes hereinabove set forth, and this agreement may be executed in any number of counterparts, each executed counterpart constituting an original but all together only one agreement.

CALIFORNIA WATER SERVICE COMPANY

By _____
Name: Richard D. Nye
Title: Vice President, Chief Financial
Officer and Treasurer

California Water Service Company
Eleventh Supplement

Accepted as of November 3, 2003

ALLSTATE LIFE INSURANCE COMPANY

By _____
Name:

By _____
Name:
Authorized Signatories

California Water Service Company
Eleventh Supplement

Accepted as of November 3, 2003

NATIONWIDE LIFE INSURANCE COMPANY
NATIONWIDE LIFE AND ANNUITY INSURANCE

COMPANY
NATIONWIDE MUTUAL INSURANCE COMPANY

By _____
Name:
Title: Authorized Signatory

INFORMATION RELATING TO THE PURCHASERS

NAME AND ADDRESS OF PURCHASER	PRINCIPAL AMOUNT OF SERIES M NOTES TO BE PURCHASED
ALLSTATE LIFE INSURANCE COMPANY 3075 Sanders Road, STE G5D Northbrook, Illinois 60062-7127 Attention: Private Placements Department Telephone Number: (847) 402-7117 Telecopier Number: (847) 402-3092	\$10,000,000 to be issued in two Notes as follows: one Note for \$7,500,000, and one Note for \$2,500,000

Payments

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

BBK = Harris Trust and Savings Bank
ABA #071000288
BNF = Allstate Life Insurance Company
Collection Account #168-117-0
ORG = California Water Service Company
OBI = DPP - PPN: 130789 P# 1
Payment Due Date (MM/DD/YY) - P _____ (Enter "P" and the
amount of principal being remitted, for example,
P5000000.00) - I _____ (Enter "I" and the amount of
interest being remitted, for example, I225000.00)

Notices

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

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

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

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

Taxpayer I.D. Number: 36-2554642

Schedule A
(to Supplement)

NAME AND ADDRESS OF PURCHASER	PRINCIPAL AMOUNT OF SERIES M 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	\$4,000,000

Payments

All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds (identifying each payment as "California Water Service Company, 5.52% Series M Senior Notes due November 1, 2013, PPN: 130789 P# 1, 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 P# 1
Security Description: California Water Service Company Series M 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

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NAME AND ADDRESS OF PURCHASER	PRINCIPAL AMOUNT OF SERIES M NOTES TO BE PURCHASED
NATIONWIDE LIFE AND ANNUITY INSURANCE COMPANY One Nationwide Plaza (1-33-07) Columbus, Ohio 43215-2220 Attention: Corporate Fixed-Income Securities Facsimile: (614) 249-4553	\$3,000,000

Payments

All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds (identifying each payment as "California Water Service Company, 5.52% Series M Senior Notes due November 1, 2013, PPN: 130789 P# 1, principal, premium or interest") to:

The Bank of New York
ABA #021-000-018
BNF: IOC566
F/A/O Nationwide Life and Annuity Insurance Company
Attention: P&I Department
PPN: 130789 P# 1
Security Description: California Water Service Company Series M Notes

Notices

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

Nationwide Life and Annuity 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 and Annuity 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: 31-1000740

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NAME AND ADDRESS OF PURCHASER

PRINCIPAL AMOUNT OF
SERIES M 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

\$3,000,000

Payments

All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds (identifying each payment as "California Water Service Company, 5.52% Series M Senior Notes due November 1, 2013, PPN: 130789 P# 1, principal, premium or interest") to:

The Bank of New York
ABA #021-000-018
BNF: IOC566
F/A/O Nationwide Mutual Insurance Company
Attention: P&I Department
PPN: 130789 P# 1
Security Description: California Water Service Company Series M 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

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[FORM OF SERIES M 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

5.52% Series M Senior Note
Due November 1, 2013

PPN 130789 P# 1

No. November __, 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 November, 2013,
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 5.52% 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 7.52% 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 Eleventh Supplement (the "Eleventh 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,

EXHIBIT 1
(to Supplement)

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

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

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

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

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

CALIFORNIA WATER SERVICE COMPANY

By _____
Name: _____
Title: _____

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REPRESENTATIONS AND WARRANTIES

The Company represents and warrants to the Purchasers 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 M Notes. The issuance and sale of the Series M Notes and the execution and delivery of the Eleventh Supplement will have been duly authorized by the Board of Directors of the Company and by the Public Utilities Commission of the State of California (the "Commission") prior to the Closing Date, and no other action is required to be taken by, and no consents or approvals are required to be obtained from, the shareholders of the Company or any public body or bodies, and no other corporate action of the Company is requisite to such issue and sale.

3. Business and Property. Each Purchaser has heretofore been furnished

with a copy of the Company Information which generally sets forth the principal properties of the Company and the business conducted and proposed to be conducted by the Company.

4. Indebtedness. Annex A attached hereto correctly describes all Current Debt, Funded Debt and Capitalized Leases of the Company outstanding on September 30, 2003.

5. Financial Statements and Reports. The Company has furnished each Purchaser with a copy of its audited financial reports for 2000, 2001 and 2002 hereinafter called the "Company Reports," and a copy of Form 10-K filed by California Water Service Group ("CWSG") hereinafter called the "CWSG 10-K" with the Securities and Exchange Commission for 2002, together with all reports or documents required to be filed by CWSG pursuant to Sections 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, since the filing of the CWSG 10-K. The Company has also furnished each Purchaser with an unaudited quarterly financial statement for the Company for the fiscal quarter ended June 30, 2003, and Forms 10-Q for CWSG for the fiscal quarter ended June 30, 2003 (the "Quarterly Reports"). The financial statements contained in the foregoing Company Reports, the CWSG 10-K, the Quarterly Reports and such other reports and documents were prepared in accordance with generally accepted accounting principles upon a consistent basis and are complete and correct and the balance sheets included therein fairly present the financial condition of the Company or CWSG, as the case may be, as at the respective dates thereof and the Statements of Income, Common Shareholders' Equity and Cash Flows included therein fairly present the results of the operations of the Company for the periods covered thereby, subject in the case of unaudited statements to normal year-end adjustments.

6. Material Contracts. The Company has no contracts or commitments, whether contingent or other, which are material to the Company and which were not made in the ordinary

EXHIBIT 2
(to Supplement)

course of business. Certain material contracts related to water supply are listed in Annex B hereto. The Company has no contracts or commitments, contingent or other, which materially and adversely affect or in the future may (so far as the Company can foresee) materially and adversely affect the Company or its business, property, assets, operations or condition, financial or other. As of December 31, 2002, 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, 2002, 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 2002 Company Report and paragraph 9 hereof. The Company has good and merchantable title, subject only to the lien of the Mortgage Indenture and to current tax and assessment liens, rights-of-way, easements and certain minor liens, encumbrances, clouds or defects in title which do not materially affect the use thereof, to all the material water distribution facilities (including, without limitation, transmission and distribution mains, pump stations, wells, storage tanks and reservoirs) and other material units of property used in its business except as follows:

(a) some of the offices, but not its principal office, are in leased premises and some wells, well sites and other minor distribution facilities are rented; and

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

and except as to easements and rights-of-way and certain parcels of land (not

exceeding for said parcels of land an aggregate book value of \$1,000,000) with respect to which there is a possibility of reverter if the property ceases to be used for public utility purposes, and, except that the greater portion of its transmission and distribution systems is located in public highways and streets and in rights-of-way owned by the Company over lands of others, the Company's title thereto is fee simple. Except for parcels of land having an aggregate book value of not more than \$1,000,000, the Company has good and merchantable title to all its other property and assets

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subject only to the lien of the Mortgage Indenture and the lien of the Dominguez Mortgage Indenture and to current tax and assessment liens and minor liens and encumbrances which do not materially affect the use thereof. All of the properties of the Company are located in the State of California and substantially all of the properties of the Company used or useful in its public utility business are subject to the Mortgage Indenture. As used herein, the term "Dominguez Mortgage Indenture" means the Trust Indenture dated as of August 1, 1954, as supplemented from time to time, between the Company, as successor to Dominguez Water Company ("Dominguez") and U.S. Bank, as Trustee, which provides a lien on properties owned by Dominguez immediately prior to the merger described in paragraph 9 hereof which lien secures \$9,000,000 in aggregate principal amount of Dominguez bonds which were assumed by the Company upon the merger.

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

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

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

(b) franchises granted pursuant to statutory authority.

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

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

that water distribution systems were constructed and service furnished to the inhabitants of each by various predecessors of the Company prior to 1911, and that there were no public water works owned or controlled by the municipality in any of them prior to 1911), that the Company has a "constitutional" franchise in each of the above cities and under such constitutional franchise has a perpetual right which was not repealed by the repeal of Article XI, Section 19, of the California Constitution to continue to occupy public streets of each of said cities with its pipes and mains and to lay down additional pipes and mains in said streets for the supplying of water, subject to reasonable regulation by the respective municipalities. The Company also believes, based on the advice of counsel, that this right is not limited to streets in which pipes or mains were laid prior to 1911 but extends at least to all streets in the said municipalities as they existed at the date of repeal of the constitutional provision in 1911 and probably also extends to territory incorporated

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into each respective city after such repeal, although this latter question remains somewhat in doubt in the absence of a final decision of the courts thereon. The Company holds either by assignment or as original grantee franchises granted under statutory authority by the Counties of Kern, Los Angeles, San Joaquin, Santa Clara and Monterey, the Cities of Montebello, Torrance, Cupertino, Sunnyvale, Los Altos, Mountain View, Bakersfield, Commerce, San Carlos, Rolling Hills Estates and Thousand Oaks, and the Towns of Los Altos Hills and Atherton. Following incorporation of the City of Rancho Palos Verdes in 1973, the Company made franchise payments to the City and the City accepted the same as successor in interest to the grantor's rights under the Company's former franchise from the County of Los Angeles; the City has agreed that the Company may exercise its rights in the City under its current County franchise until the expiration of that franchise in 2012. The Company's franchises from the Cities of Palos Verdes Estates, Menlo Park and Woodside terminated in 1977, 1993 and 1994, respectively. While none of the Cities and the Company have executed a new franchise agreement, the Company has made and will continue to make franchise payments to each of the Cities in accordance with the provisions

of the prior franchise. In other areas where the Company has no franchise, the Company or its predecessors have distributed water for many years and, to the Company's knowledge, no question has ever been raised as to the right to make such distribution and to maintain all pipes and mains necessary therefor.

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

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

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

As to the remaining localities, Dominguez has received written franchise agreements which are in full force and effect and has paid all franchise fees to date, with the exception of Compton, as to which the franchise expired without renewal in 1994. Dominguez continued to provide water services to Compton subsequent to the expiration of the franchise, and to pay franchise fees, and to the Company's knowledge no question has ever been raised as to the right

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to make such distribution and to maintain all pipes and mains necessary therefor. However, as of May 2003, the County of Los Angeles cancelled its Dominguez franchise and incorporated the franchise territory into the Company's Los Angeles County franchise.

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

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

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

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adversely affect the Company or its business, property, assets, operations or condition, financial or other.

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

(b) No consent of, approval or authorization by, filing or registration with, or notice to any governmental or public authority or agency is required for the issuance, sale or delivery of the Series M Notes or the execution, delivery or performance of the Eleventh 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 M 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 Eleventh Supplement, the consummation of the transactions therein provided for and compliance with the provisions of the Eleventh Supplement and the Series M 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 M Notes under the Eleventh Supplement to refinance existing Indebtedness and for general corporate purposes. None of the transactions contemplated in the Eleventh Supplement (including, without limitation thereof, the use of the proceeds from the sale of the Series M 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

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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 M 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, as of December 31, 2002, the last annual valuation date, was exceeded by the actuarial present value of all benefits vested under the Plans by \$7,050,000.

(b) Neither any of the Plans nor any of the trusts created thereunder, nor any trustee or administrator thereof, has engaged in a "prohibited transaction," as such term is defined in Section 4975 of the Code which could subject the Plans or any of them, any such trust, or any trustee or administrator thereof, or any disqualified person with respect to the Plans to the tax or penalty on prohibited transactions imposed by said Section 4975, except that, with respect to any actions or omissions of administrators, trustees, other fiduciaries, parties in interest or disqualified persons of or

in respect to the Plans (other than employees of the Company), the Company has no knowledge that any of such persons has committed a prohibited transaction, nor has the Company participated knowingly in or knowingly undertaken to conceal a prohibited transaction with or by any of such persons nor enabled any of them to commit a prohibited transaction.

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

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

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

19. Taxes. All Federal, state and local taxes and assessments due from the Company have been (a) fully paid or adequately provided for on the books of the Company in accordance with generally accepted accounting principles or (b) are being contested in good faith by the Company. There has been no examination of the Federal income tax returns of the Company by the Internal Revenue Service subsequent to the examinations of the returns for tax years 1984-1991.

20. Compliance with Laws. To the best of the Company's knowledge, after due inquiry, the Company is in compliance with all applicable Federal, state, or local laws, statutes, rules, regulations or ordinances relating to public health, safety or the environment, including, without

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limitation, relating to releases, discharges, emissions or disposals to air, water, land or ground water, to the withdrawal or use of ground water, to the use, handling or disposal of polychlorinated biphenyls (PCB's), asbestos or urea formaldehyde, to the treatment, storage, disposal or management of hazardous substances (including, without limitation, petroleum, its derivatives, by-products or other hydrocarbons), and to exposure to hazardous substances, the failure to comply with which could reasonably be expected to have a material adverse effect on the Company or its properties. Except as disclosed in the "Environmental Matters" section of Item 1 of the CWSG 10-K, the "Environmental Matters" section of CWSG's 2002 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 Eleventh Supplement do not, nor does the Eleventh Supplement, the Company Information or any written statement (including without limitation the 2002 Company Report and the 2002 CWSG Report) furnished by the Company to you in connection with the negotiation of the sale of the Series M 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 Eleventh Supplement or the Series M Notes.

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

23. Foreign Assets Control Regulations, Etc. Neither the sale of the Series M Notes by the Company hereunder nor its use of the proceeds thereof will violate the Trading with the Enemy Act, as amended, or any of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle

B, Chapter V, as amended) or any enabling legislation or executive order relating thereto. Without limiting the foregoing, the Company (a) is not and will not become a person whose property or interests in property are blocked pursuant to Section 1 of Executive Order 13224 of September 23, 2001 Blocking Property and Prohibiting Transactions

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With Persons Who Commit, Threaten to Commit, or Support Terrorism (66 Fed. Reg. 49079 (2001)) or (b) does not and will not engage in any Material dealings or transactions, or is otherwise associated, with any such person.

The Company is in compliance in all material respects with the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA Patriot Act of 2001). No part of the proceeds from the sale of the Series M Notes hereunder will be used, directly or indirectly, for any payment to any governmental official or employee, political party, official of a political party, candidate for political office or anyone else acting in an official capacity, in order to obtain, retain or direct business, in violation of the United States Foreign Corrupt Practices Act of 1977, as amended.

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CURRENT DEBT, FUNDED DEBT AND CAPITALIZED LEASES
AS OF SEPTEMBER 30, 2003

1. Current Debt

None.

2. Funded Debt

\$56,600,000 outstanding under the Company's various series of First Mortgage Bonds with due dates ranging from 2020 to 2023.

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

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

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

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

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

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

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

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

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

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

\$10,000,000 Series I Senior Notes due May 1, 2023.

\$10,000,000 Series J Senior Notes due May 1, 2018.

\$10,000,000 Series K Senior Notes due June 30, 2010.

\$10,000,000 Series L Senior Notes due March 1, 2018.

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

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

3. Capitalized Leases

None.

ANNEX A
(to Exhibit 2)

MATERIAL WATER SUPPLY CONTRACTS

1. Water Supply Contract between the Company and the County of Butte relating to the Company's Oroville District.

2. Water Supply Contract between the Company and Kern County Water Agency

relating to the Company's Bakersfield District.

3. Water Supply Contract between the Company and Stockton East Water District relating to the Company's Stockton District.
4. Amended Contract between the Company and Stockton East Water District relating to the Company's Stockton District.
5. Settlement Agreement and Master Water Sales Contract between the City and County of San Francisco and Certain Suburban Purchasers.
6. Supplement to Settlement Agreement and Master Water Sales Contract between the Company and the City and County of San Francisco relating to the Company's Bear Gulch District.
7. Supplement to Settlement Agreement and Master Water Sales Contract between the Company and the City and County of San Francisco relating to the Company's San Carlos District.
8. Supplement to Settlement Agreement and Master Water Sales Contract between the Company and the City and County of San Francisco relating to the Company's San Mateo District.
9. Supplement to Settlement Agreement and Master Water Sales Contract between the Company and the City and County of San Francisco relating to the Company's South San Francisco District.
10. Water Supply Contract between the Company and Santa Clara Valley Water District relating to the Company's Los Altos District.
11. Water Supply Contract between the Company and Pacific Gas and Electric Company related to the Company's Oroville District.
12. Water Supply Contract between the Company and Alameda County Flood Control and Water Conservation District related to the Company's Livermore District.
13. Water Supply Contract between the Company, ARCO Products Company and West Basin Municipal Water District relating to recycled water.
14. Northeast Bakersfield Water Supply Agreement between the City of Bakersfield and the Company.

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

3. Each of the Note Agreement, the Eleventh 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 Eleventh Supplement and the Notes would recognize and give effect to the choice of law provisions set forth in the Note Agreement, the Eleventh 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 Business Loan Agreement dated as of February 28, 2003, between the Company and Bank of America as amended by Amendment No. 1 thereto dated as of June 25, 2003, the Business Loan Agreement dated as of February 28, 2003, among CWSG, CWS Utility Services, New Mexico Water Service Company and Bank of America,

or any other agreement or instrument that is listed as a material contract in CWSG's Annual Report on Form 10-K for the year ended December 31, 2002 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, 2002. 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.

EXHIBIT 3
(to Supplement)

5. Based upon the representations set forth in Section 6 of the Eleventh 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 Eleventh 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 Eleventh Supplement or an indenture under the Trust Indenture Act of 1939, as amended.

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

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

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

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

in our opinion,

(i) the Company has a "constitutional" franchise in each of the above cities and under such "constitutional" franchise has a perpetual right which was not repealed by the repeal of Article XI, Section 19, of the California Constitution to continue to occupy public streets of each of said cities with pipes and mains and to lay down additional pipes and mains in said streets for the supplying of water, subject to reasonable regulation by the respective municipalities;

(ii) this right is not limited to streets in which pipes or mains were laid prior to 1911 but extends at least to all streets in the said municipalities as they existed at the date of repeal of the constitutional provision in 1911; and

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

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

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

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

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

9. We note that the Officers' Certificates state that: (a) as to the remaining localities listed in paragraph 7, to the Company's knowledge, Dominguez has received written franchise agreements which are in full force and effect and has paid all franchise fees to date, with the exception of Compton, as to which the franchise expired without renewal in 1994; (b) to the Company's knowledge, Dominguez continued to provide water services to Compton subsequent to the expiration of the franchise, and to pay franchise fees; and (c) to the Company's knowledge, no question has ever been raised as to the right to make such distribution and to maintain all pipes and mains necessary therefor. However, as of May 2003, the County of Los Angeles cancelled its Dominguez franchise and incorporated the franchise territory into the Company's Los Angeles County franchise.

The opinion of Bingham McCutchen LLP shall cover such other matters relating to the sale of the Series M Notes as the Purchasers may reasonably request and shall provide that Chapman and Cutler LLP in delivering its opinion under the Note Agreement may rely on the opinion of Bingham McCutchen LLP as to matters of California law. With respect to matters of fact on which such opinion is based, such counsel shall be entitled to rely on appropriate certificates of public officials and officers of the Company.

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DESCRIPTION OF SPECIAL COUNSEL'S CLOSING OPINION

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

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

4. The issuance, sale and delivery of the Series M Notes under the circumstances contemplated by the Eleventh Supplement do not, under existing law, require the registration of the Series M 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 LLP may rely upon the opinion of Bingham McCutchen LLP as to matters of California law. The opinion of Chapman and Cutler LLP shall also state that the opinion of Bingham McCutchen LLP is satisfactory in scope and form to Chapman and Cutler LLP 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 LLP 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.

E-3-4

With respect to matters of fact upon which such opinion is based, Chapman and Cutler LLP 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 M Notes.

AGREEMENT NO. 99-73

99 - 03 W.B.

NORTHEAST BAKERSFIELD
WATER SUPPLY AGREEMENT

THIS AGREEMENT is made and entered into on MAR 31 1999 by and between the CITY OF BAKERSFIELD, a Charter CITY and municipal corporation, ("CITY" herein) and CALIFORNIA WATER SERVICE COMPANY, a California public utility water corporation ("CAL WATER" herein).

RECITALS

WHEREAS, CITY and CAL WATER have each been investigating the feasibility of providing water to areas in northeast Bakersfield that are not represented by organized water districts or purveyors; and

WHEREAS, CAL WATER is currently engaged in purveying domestic water to, among others, residents and citizens within the CITY and desires to expand its service and augment its existing water service in the incorporated northeast Bakersfield system; and

WHEREAS, It is currently CAL WATER and CITY's desire that CAL WATER provide high quality domestic water service using Kern River water to CITY residents in the Northeast Bakersfield area; and

WHEREAS, on December 22, 1976, CITY acquired water rights to the Kern River in order to meet the present and future needs of the citizens of Bakersfield; and

WHEREAS, CITY and CAL WATER will cooperate and effect a project to achieve water service to the incorporated northeast Bakersfield area, termed the Northeast Water Supply Project (NEWSP), that will include a Kern River intake structure, settling/storage reservoirs, high and low lift pump stations, filtration plant and transmission and distribution pipelines all to be located within the area described as NEWSP; and

WHEREAS, CITY has received bicycle path funding to extend the path from Alfred Harrell Highway to Paladino Drive along the alignment of the future Morning Drive and thus creating an opportunity to install water facilities coincidental with bicycle path construction; and

-- Page 1 of 10 Pages --

WHEREAS, the County of Kern (COUNTY) owns the Kern River Regional Park, consisting of the Hart Memorial Park (HMP) unit, the California Living Museum (CALM), and Kern County Soccer Park (KSP) and COUNTY desires to improve water delivery services from the Kern River to these lands; and

WHEREAS, CITY and COUNTY have entered into Operational Agreement No. 98-224 and a Non-exclusive Easement for Water Facilities that are incorporated by reference and attached as Exhibit "A", that grants right-of-ways and use of portions of the Kern River Regional Park to construct, operate and maintain facilities required for the NEWSP.

NOW, THEREFORE, incorporating the foregoing recitals herein, it is mutually agreed as follows:

1. WATER SUPPLY. CITY will make available to CAL WATER a Kern River surface water supply to serve the needs of present and future CITY residents located in the area described as Northeast Bakersfield to include those lands within the area described herein as the NEWSP. The parties anticipate CITY will make available to CAL WATER up to 12,000 (Twelve Thousand) acre-feet per year to meet the initial needs of a newly constructed filtration plant. CITY is to provide additional water to meet future demands of the NEWSP filtration plant as projected on schedules provided in Exhibit "B".

2. AREA OF SERVICE. The NEWSP area of service for the supplying of high quality domestic water service shall be bounded on the north by the Kern River, on the east by Olcese Water District's boundary, on the south by East Niles Community Service District boundary, and to the west by the franchise service territory of CAL WATER that lies within the CITY limits. These boundaries may be changed by the mutual consent of both parties and may be adjusted for CITY annexations; however, CAL WATER understands the CITY will require water supplied hereunder will only be delivered to CITY residences within the incorporated boundaries of the CITY no matter what the specified boundaries described in this Agreement. Both parties acknowledge the water acquired hereunder by CAL WATER may be commingled with other waters at any time with the resulting goal that the water quality at all times shall meet or exceed all Federal, State, and local statutory and regulatory water quality standards, including, but not limited to,

California Department of Health Services standards. A map showing the NEWSP area is attached hereto as Exhibit "C", and incorporated by reference as though fully set forth.

3. POINT OF DELIVERY AND MEASUREMENT. CITY shall make available to CAL WATER a Kern River water supply at the southerly end of the proposed settling basins, near CALM and KSP in Section 5 of T.29S./R.29E. Measuring devices shall be installed and maintained by CAL WATER, with approval of CITY, in accordance to industry standards as set by the American Water Works Association.

-- Page 2 of 10 Pages --

4. WATER FACILITIES.

4.1 The CITY will design, finance, construct, own and operate the Kern River diversion and intake works to meet normal seasonal demand of the Northeast Filtration Plant, including but not limited to:

- 4.1.1 Acquisition of land, right-of-ways or easements needed for diversion works and settling basins;
- 4.1.2 Kern River intake and low-lift pump station;
- 4.1.3 Canal from diversion works to raw water storage and settling reservoirs;
- 4.1.4 Settling reservoirs or pools; and
- 4.1.5 Turn-outs to HMP, KSP and CALM.

4.2 CAL WATER will design, finance, construct, own and operate the facilities that are needed to transport, purify and deliver water to NEWSP, including, but not limited to:

- 4.2.1 Acquisition of all land, easements or right-of-ways needed for construction and locating pipelines, filtration plants, pump stations and all works CAL WATER may need for this project;
- 4.2.2 High lift pump station and facility for metering supply delivered by CITY at southerly end of settling basins;
- 4.2.3 Intake pipeline from high lift pump station to filtration plant;
- 4.2.4 Filtration plant;
- 4.2.5 Transmission pipelines and facilities to provide retail delivery within NEWSP. Said transmission facilities may be funded under California Public Utilities Commission extension agreement rules.

4.3 Each party agrees to construct all the listed water facilities and put said facilities into operation within six (6) years from the date this Agreement is executed.

5. FAILURE TO CONSTRUCT. Each party to this Agreement will bear the cost and risk of constructing the water facilities listed for which each party is responsible as set forth in Section 4 of this Agreement. Under no circumstances shall either party pay for the construction of facilities which are to be constructed by the other.

6. PLACE OF USE. The water supplied by CITY to CAL WATER under this agreement shall be used by CAL WATER for the sole purpose of purification and distribution to residents of the CITY of Bakersfield in the NEWSP area.

-- Page 3 of 10 Pages --

7. WATER QUALITY. CITY does not represent or guarantee the quality of the raw water which is subject of this Agreement. CAL WATER understands the water specified for delivery under this Agreement, as supplied from the Kern River, is untreated and not fit for human consumption as delivered. CAL WATER shall be solely responsible for testing said water and for any and all treatment which may be necessary to bring the water into conformity with all Federal, State and local domestic water quality requirements prior to its delivery for domestic use. CITY shall not be responsible for the quality of water delivered by CAL WATER in any way or at any time and CAL WATER's failure to test or properly treat the water is not the responsibility of CITY. By execution of this Agreement CAL WATER expressly waives any and all legal remedies against CITY, from the CITY's delivery of non-potable water to CAL WATER. CAL WATER shall indemnify, defend and hold CITY harmless from and against any and all claims from or against CAL WATER for failure to delivery water to domestic users pursuant to this Agreement in conformance with Federal, State and local domestic

water quality requirements. CITY will provide timely notice to CAL WATER of contamination to the water delivered of which the CITY has actual knowledge.

8. COMPENSATION TO CITY. To compensate CITY for CITY Kern River water delivered hereunder (except as otherwise provided herein), CAL WATER shall pay CITY Fifty-five Dollars (\$55.00) per acre foot. The price is subject to annual adjustment on the basis of the January 1999 Producer Price Index for "All Commodities" published by the Bureau of Labor Statistics of the U. S. Department of Labor and first adjustment shall occur in January of the year following execution of this Agreement. The price as stated shall include all costs CITY may incur in pumping, exchange and storage fees in delivering Kern River water to CAL WATER high lift pump station metering point. Payment in full shall be made to CITY within thirty (30) days after mailing of an itemized invoice to CAL WATER. The due date on the invoice shall be clearly set forth and shall be thirty (30) days beyond the billing date. CITY shall bill CAL WATER for quantities delivered only after the water is actually delivered by CITY through the high lift pump station metering facility. CAL WATER shall not assess or levy any charge of any kind or type to CITY for the delivery of said water. Failure to pay CITY in full within thirty (30) days of the due date shall subject CAL WATER to late fees. Reasonable late fee amounts (not to exceed 6% on unpaid balance) may be assessed by CITY and shall be paid by CAL WATER upon demand. At CITY's sole discretion, CITY may terminate this Agreement after notice and a sixty (60) day cure period for failure to pay all charges assessed for water delivery and collect all past due sums and late fees.

9. CONSUMER WATER RATES. CAL WATER intends and will use its best efforts to continue with a single tariff water rate schedule for domestic water service to all its Bakersfield district customers. The single rate tariff would apply to customers in the existing system and in the NEWSP project area. CITY and CAL WATER understand and agree that CAL WATER's rates are currently subject to the jurisdiction and control of the California Public Utilities Commission (CPUC) and CAL WATER's rates will comply with decisions issued by the CPUC.

-- Page 4 of 10 Pages --

10. SPECIAL FACILITY FEE. CAL WATER special facility fees may be necessary to supplement the financing of the construction of facilities as listed in Section 4.2 of this Agreement. CAL WATER shall petition the CPUC to allow the imposition of special facility fees to new water service connections within the service territory of CAL WATER in its Bakersfield District and a differential fee structure to those properties connecting in the NEWSP.

11. ENVIRONMENTAL STUDIES OR REVIEW. CITY shall be responsible at its sole cost for preparation of any environmental impact reviews or reports required under State and Federal law for the NEWSP. The environmental review will be provided for the project that includes, but is not necessarily limited to the Kern River intake structure, canal to settling basins, pipeline and conveyance facilities to Hart Park the settling basins or lagoons, pumping stations, raw water transmission pipes, filtration plant site and major trunk distribution mains. If available, CAL WATER may obtain copies of CITY treated water data otherwise available to the public.

12. ACCOUNTING RECORDS. CITY and CAL WATER shall maintain accurate accounting records and other written documentation pertaining to all costs incurred in performance of this Agreement. Such records and documentation shall be kept at each party's office during the term of this Agreement and said records shall be made available to CITY or CAL WATER representatives upon proper request.

13. ASSIGNMENT. This Agreement shall not be assigned by any party, or any party substituted, without prior written consent of all the parties.

14. BINDING EFFECT. The rights and obligations of this Agreement shall inure to the benefit of, and be binding upon, the parties to this Agreement and their heirs, administrators, executors, personal representatives, successors and assigns.

15. CITY INSURANCE. CITY represents it is self-insured and will, throughout the term of the this Agreement, maintain its self-insurance program. Currently the CITY is self-insured for One Million Dollars (\$1,000,000) and carries additional coverage through an insurance pooling arrangement termed ACCELL. The amounts of this additional coverage may vary. CITY warrants that, at all times during the term of this Agreement, it shall have and maintain workers' compensation insurance in compliance with the Labor Code of the State of California. CITY shall supply documentation of its self-insurance program to CAL WATER upon request.

16. COMPLIANCE WITH ALL LAWS. In connection with the performance of its obligation under this Agreement, CAL WATER shall, at CAL WATER's sole cost, comply with all of the requirements of Municipal, State, and Federal authorities now in force, or which may hereafter be in force, pertaining to this Agreement, and shall faithfully observe in all activities relating to or growing out of this Agreement all Municipal ordinances and State and Federal statutes, rules or regulations now in force or which may hereafter be in force.

17. CONFIDENTIALITY. During the term of this Agreement, CAL WATER will be dealing with information of a legal and confidential nature, and such information could severely damage CITY if disclosed to outside parties. CAL WATER will not disclose to any person, directly or indirectly, either during the term of this Agreement or at any time thereafter, any such information or use such information other than as necessary in the course of this Agreement. Confidential information given to CAL WATER under this Agreement is the exclusive property of the CITY. Under no circumstances shall any such information or documents be removed from the CITY's offices without the CITY's prior written consent. CITY is subject to the Public Records Act and cannot maintain confidential records unless allowed by said Act. CITY understands CAL WATER may, through the California Public Utilities Commission, be required to release documents. It shall not be a violation of this Agreement to release documents or information which are required by law to be public.

18. CORPORATE AUTHORITY. Each individual executing this Agreement represents and warrants they are duly authorized to execute and deliver this Agreement on behalf of the corporation or organization, if any, named herein and this Agreement is binding upon said corporation or organization in accordance with its terms.

19. EXECUTION. This Agreement is effective upon execution. It is the product of negotiation and all parties are equally responsible for authorship of this Agreement. Section 1654 of the California Civil Code shall not apply to the interpretation of this Agreement.

20. EXHIBITS. In the event of a conflict between the terms, conditions or specifications set forth in this Agreement and those in exhibits attached hereto, the terms, conditions, or specifications set forth in this Agreement shall prevail. All exhibits to which reference is made in this Agreement are deemed incorporated in this Agreement, whether or not actually attached.

21. FORUM. Any lawsuit pertaining to any matter arising under, or growing out of, this Agreement shall be instituted in Kern County, California.

22. JOINT LIMITATION ON LIABILITIES AND INDEMNIFICATION.

22.1 Neither party shall be liable to the other party for any loss, damage, liability, claim or cause of action for damage to or destruction of property or for injury to or death of persons arising solely from any act or omission of the other party's officers, council, directors, agents or employees.

22.2 CITY and CAL WATER agree to indemnify and hold each other harmless from any and all claims, demands, liabilities, losses or causes of action which arise by virtue of its own acts or omissions

(either directly or through or by its agents, council, directors, officers, or employees) to such extent and in such part as the respective parties are found by reason of law to have proximately caused the injury or damage.

22.3 The party against whom any claim arising from any subject matter of this Agreement is filed shall give prompt notice of the filing of the claim to the other party.

23. INDEPENDENT CONTRACTOR. CAL WATER shall not become or be deemed a partner or joint venturer with CITY or associate in any relationship with CAL WATER by reason of the provisions of this Agreement other than specified herein. CAL WATER shall not, for any purpose, be considered an agent, officer or employee of CITY in regard to this Agreement.

24. INSURANCE. CAL WATER shall procure and maintain for the duration of this Agreement the following types and limits of insurance ("basic insurance requirements" herein):

24.1 Automobile liability insurance, providing coverage on an occurrence basis for bodily injury, including death, of one or more persons, property damage and personal injury, with limits of not less than One Million Dollars (\$1,000,000) per occurrence; and the policy shall:

24.1.1 Provide coverage for owned, non-owned and hired autos.

24.1.2 Contain an additional insured endorsement in favor of the CITY, its mayor, council, officers, agents, employees and designated volunteers.

24.2 Broad form commercial general liability insurance, providing coverage on an occurrence basis for bodily injury, including death, of one or more persons, property damage and personal injury, with limits of not less than One Million Dollars (\$1,000,000) per occurrence; and the policy shall:

24.2.1 Provide contractual liability coverage for the terms of this Agreement.

24.2.2 Contain an additional insured endorsement in favor of the CITY, its mayor, council, officers, agents, employees and designated volunteers.

-- Page 7 of 10 Pages --

24.3 Workers' compensation insurance, as required or permitted by California state law.

All policies required of CAL WATER shall be primary insurance as to the CITY, its mayor, council, officers, agents, employees, or designated volunteers and any insurance or self-insurance maintained by the CITY, its mayor, council, officers, agents, employees, and designated volunteers shall be excess of the CAL WATER's insurance and shall not contribute with it.

Insurance is to be placed with insurers with a Bests' rating of no less than A:VII. Any deductibles, self-insured retentions or insurance in lesser amounts, or lack of certain types of insurance otherwise required by this Agreement, or insurance rated below Bests' A:VII, must be declared prior to execution of this Agreement and approved by the CITY in writing.

All policies shall contain an endorsement providing the CITY with thirty (30) days written notice of cancellation or material change in policy language or terms. All policies shall provide that there shall be continuing liability thereon, notwithstanding any recovery on any policy.

The insurance required hereunder shall be maintained until all work required to be performed by this Agreement is satisfactorily completed as evidenced by written acceptance by the CITY.

CAL WATER shall furnish the City Risk Manager with a certificate of insurance and required endorsements evidencing the insurance required. CAL WATER shall provide CITY with certificates of insurance and endorsements required prior to the execution of this Agreement.

Unless otherwise approved by the CITY, if any part of the work under this Agreement is subcontracted, the "basic insurance requirements" set forth above shall be provided by, or on behalf of, all subcontractors even if the CITY has approved lesser insurance requirements for CAL WATER.

25. MERGER AND MODIFICATION. This Agreement sets forth the entire Agreement between the parties and supersedes all other oral or written representations. Its terms are intended by the parties as a final expression of their agreement with respect to such terms as are included herein and may not be contradicted by evidence of any prior agreement or contemporaneous oral agreement. The parties further intend this Agreement constitutes the complete and exclusive statement of its terms and no extrinsic evidence whatsoever may be introduced in any judicial or arbitration proceeding involving this Agreement. This Agreement may be modified only in a writing approved by the CITY Council and signed by all the parties.

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26. NON-INTEREST. No officer or employee of the CITY shall hold any interest in this Agreement (California Government Code section 1090).

27. NOTICES. All notices relative to this Agreement shall be given in writing and shall be personally served or sent by certified or registered mail and be effective upon actual personal service or depositing in the United States mail. The parties shall be addressed as follows, or at any other address designated by notice:

CITY: CITY OF BAKERSFIELD
CITY Hall
1501 Truxtun Avenue
Bakersfield, California, 93301

CAL WATER: CALIFORNIA WATER SERVICE COMPANY
1720 North First Street
San Jose, CA 95112-4598

28. POSSESSORY INTEREST TAXES. CAL WATER's interest hereunder may be subject to property taxation and CAL WATER, as a party in whom a possessing

interest is vested, may be subject to the payment of property taxes levied on such interest, and shall pay all such possessory interest taxes.

29. PRE-JUDGEMENT INTEREST. In the event of a default by any party to this Agreement, the non-defaulting party shall be allowed to recover interest on all damages at the legal rate from the date of the breach.

30. TAX NUMBERS.

CAL WATER's Federal Tax Identification No. 94-0362795.
CAL WATER is a corporation? Yes X No __.
(Please check one.)

31. TERM. This Agreement shall commence upon date of execution and terminate on December 31, 2022 unless sooner terminated as herein provided. This Agreement will automatically renew for an additional term of ten (10) years unless either party provides written notice within 180 days of termination date.

32. TIME. Time is of the essence in this Agreement.

33. WAIVER OF DEFAULT. The failure of any party to enforce against another a provision of this Agreement shall not constitute a waiver of that party's right to enforce such a provision at a later time, and shall not serve to vary the terms of this Agreement.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed, the day and year first-above written.

"CITY"

"CAL WATER"

CITY OF BAKERSFIELD

CALIFORNIA WATER SERVICE
COMPANY

By: /s/ Bob Price

BOB PRICE, Mayor

By: /s/ Peter C. Nelson

Title: President

APPROVED AS TO CONTENT:
WATER RESOURCES DEPARTMENT

By: /s/ [ILLEGIBLE]

Title: Corporate Secretary

By: /s/ Gene Bogart

GENE BOGART
Water Resources Manager

APPROVED AS TO FORM:
OFFICE OF THE CITY ATTORNEY

By: /s/ Bart J. Thiltgen

BART J. THILTGEN
City Attorney

COUNTERSIGNED:

By: /s/ Gregory J. Klimko

GREGORY J. KLIMKO
Finance Director

Attachments:

Exhibit "A", Exhibit "B", Exhibit "C"

ADD:dlr
T:\Water\CalWaterNWSP 2 wpd
December 14, 1998

-- Page 10 of 10 Pages --

Kern County EXHIBIT A
Agt # 734-98

AGREEMENT NO. 98-224
Approved 9/23/1998

OPERATIONAL AGREEMENT
NORTHEAST WATER SUPPLY PROJECT

THIS OPERATIONAL AGREEMENT, is made and entered into this 15th day of September, 1998, by and between the CITY OF BAKERSFIELD, a municipal corporation and charter city ("CITY" herein), and the COUNTY OF KERN, a political subdivision of the State of California ("COUNTY" herein),

RECITALS

WHEREAS, CITY and CALIFORNIA WATER SERVICE COMPANY ("CAL WATER" herein) are cooperating to develop water service to CITY residents in the northeast Bakersfield area, and

WHEREAS, COUNTY leases property to the COUNTY BOARD OF EDUCATION for the benefit of CALIFORNIA LIVING MUSEUM ("CALM" herein) for non-profit purposes; and

WHEREAS, COUNTY AND CALM see benefits to both parties in developing the northeast water supply as set forth in this Agreement and in cooperating with the CITY and CAL WATER in granting easements for its development; and

WHEREAS, the water facilities to be constructed include, but are not limited to, access, diversion works, headworks, headgates, pump stations, canals, water storage facilities, settling reservoirs or ponds, turnouts, pipelines, filtration plants, and other related facilities ("Water Facilities" herein); and

WHEREAS, CAL WATER is currently engaged in purveying domestic water to, among others, residents and citizens within the CITY's incorporated area; and

WHEREAS, that portion of the Kern River County Park, owned by the COUNTY consisting of CALM, Kern County Soccer Park, and Hart Memorial Park would benefit from an improved water delivery service from the Kern River; and

WHEREAS, CITY and CAL WATER desire to cooperate and effect a project to provide high quality domestic water service using Kern River water to residents and citizens of the CITY in the northeast Bakersfield area.

NOW, THEREFORE, incorporating the foregoing recitals herein, CITY and COUNTY mutually agree as follows:

Page 1 of 5

1. OWNERSHIP OF WATER. CITY shall own all water diverted into the Transfer Facilities which shall start with the Kern River intake or headworks, except for water diverted for COUNTY use under the existing March 17, 1934 agreement. CITY may sell or otherwise put its water to beneficial use Notwithstanding the foregoing, the existing March 17, 1934 agreement for supplying water to Hart Memorial Park shall remain in full force and effect and shall not be modified by this Agreement. In addition, CITY agrees to provide to County (at no cost) up to a maximum of 648 acre feet of City water annually for use on County property which is currently under lease to CALM and the Kern County Soccer Foundation, in addition to water diverted under the March 17, 1934 agreement.

2. OPERATION AND MAINTENANCE. CITY shall be responsible for the design, construction, operation and maintenance of the new Kern River intake structure, low-lift pump station, pipelines connecting CITY's facilities, canal and raw water storage reservoirs and settling ponds, including the turnouts (head gates) to Hart Memorial Park, the Kern County Soccer Park and CALM, and the required service roads and security fencing. CITY shall maintain a minimum of 150 feet of unobstructed public access paralleling the south shoreline of the Kern River (as measured from the mean high water mark) to allow public access to and along the Kern River Notwithstanding the foregoing, CITY may preclude public access to the Kern River along the length of the intake structure (for public safety reasons). Portions of the intake structure may encroach south of the mean high water mark, however, unobstructed public access along the south side of the intake structure shall be at least 150 feet in width. CITY shall provide suitable screening of the Kern River intake structure, including but not limited to, native vegetation, trees, berms and other landscapes that compliment the natural surrounding. Under CITY's direction and control, CAL WATER shall be responsible for the design, construction, operation and maintenance of the high-lift pump station and metering facility, pipelines connecting to CAL WATER's facilities located at the south end of the future reservoir sites. Neither COUNTY, the Kern County Soccer Foundation or CALM will have maintenance, repair; or operation responsibility of any kind or nature concerning the Water Facilities, including without limitation, all electrical costs associated with the operations of the low and high-lift pump stations.

3. RECORDS AND SCHEDULING. CITY shall maintain records of all water diverted via Water Facilities head works. All water to be diverted shall be scheduled Twenty-four (24) hours in advance through the CITY Water Dispatcher. CITY, as owner and operator of the head works, shall have sole control of same. Notwithstanding the foregoing, CITY will provide such water as COUNTY is entitled to in Section 1 hereof, on an uninterrupted basis (except for circumstances beyond CITY's control) unless notified to the contrary by COUNTY.

4. TERM. The term of this Agreement shall commence the day and year first-above written and the same shall continue thereafter in full force and effect unless terminated. This Agreement terminates if the easement reverts to the COUNTY for failure to engage in the uses specified therein.

5. ASSIGNMENT. This Agreement shall not be assigned by any party, or any party substituted, without prior written consent of all the parties.

Page 2 of 5

6. BINDING EFFECT. The rights and obligations of this Agreement shall inure to the benefit of, and be binding upon, the parties to the Agreement and their heirs, administrators, executors, personal representative, successors and assigns.

7. CITY INSURANCE. CITY, in order to protect COUNTY, its governing board, commissions, officers, agents and employees against all claims and expense for death, injury, loss, or damage as a result of CITY's use of and activities on the premises or in connection therewith, shall secure and maintain in force during the life of the Agreement and covering all of CITY's operations and activities on the premises, the following insurance:

CITY represents it is self insured with certain excess coverage and will, throughout the term of this Agreement, maintain self-insurance limits of One Million Dollars (\$1,000,000) with a minimum of excess insurance coverage to Ten Million Dollars (\$10,000,000). CITY warrants that, at all times during the term of this Agreement, it shall have and maintain worker's compensation insurance in compliance with the Labor Code of the State of California.

8. JOINT LIMITATION ON LIABILITIES AND INDEMNIFICATION.

8.1 No party shall be liable to any other party for any loss, damage, liability, claim or cause of action for damage to or destruction of property or for injury to or death of persons arising solely from any act or omission of any other party's officers agents or employees.

8.2 CITY and COUNTY agree to indemnify, defend and hold each other harmless from any and all claims, demands liabilities, losses or causes of action which result from its own acts or omissions (either directly or through or by its agents, officers, or employees) to such extent and in such part as the respective parties are found by reason of law to have proximately caused the injury or damage.

8.3 The party against whom any claim arising from any subject matter of this Agreement is filed shall give prompt notice of the filing of the claim to all other parties.

9. CORPORATE AUTHORITY. Each individual executing this Agreement represents and warrants they are duly authorized to execute and deliver this Agreement on behalf of the corporation or organization, if any, named herein and this Agreement is binding upon said corporation or organization in accordance with its terms.

10. EXECUTION. This Agreement is effective upon execution. It is the product of negotiation and all parties are equally responsible for authorship of this Agreement. Section 1654 of the California Civil Code shall not apply to the interpretation of this Agreement.

11. EXHIBITS. In the event of a conflict between the terms, conditions or specifications set forth in this Agreement and those in exhibits attached hereto, the terms, conditions, or specifications set

Page 3 of 5

forth in this Agreement shall prevail. All exhibits to which reference is made in this Agreement are deemed incorporated in this Agreement, whether or not actually attached.

12. FORUM. Any lawsuit pertaining to any matter arising under, or growing out of this Agreement shall be instituted in Kern County, California.

13. MERGER AND MODIFICATION. This Agreement sets forth the entire Agreement between the parties and supersedes all other oral or written representations. This Agreement may be modified only in a writing approved by the Kern County Board of Supervisors and the CITY Council.

14. NON-INTEREST. No officer or employee of the CITY shall hold any interest in this Agreement (California Government Code section 1090).

15. NOTICES. All notices relative to this Agreement shall be given in writing and shall be personally served or sent by certified or registered mail and be effective upon actual personal service or depositing in the United States mail. The parties shall be addressed as follows, or at any other address designated by

notice:

CITY: CITY OF BAKERSFIELD
Water Resources Dept.
1000 Buena Vista Road
Bakersfield, CA 93311

COUNTY: County of Kern
Parks and Recreation Dept.
1110 Golden State Ave.
Bakersfield, CA 93301

16. WAIVER OF DEFAULT. The failure of any party to enforce against another a provision of this Agreement shall not constitute a waiver of that party's right to enforce such a provision at a later time, and shall not serve to vary the terms of this Agreement.

///
///
///

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed, the day and year first-above written.

<p>"CITY"</p> <p>CITY OF BAKERSFIELD</p> <p>By: /s/ Bob Price ----- BOB PRICE, Mayor</p> <p>APPROVED AS TO CONTENT: WATER RESOURCES DEPARTMENT</p> <p>By: /s/ Gene Bogart ----- GENE BOGART Water Resources Manager</p> <p>APPROVED AS TO FORM: OFFICE OF THE CITY ATTORNEY</p> <p>By: /s/ Alan D. Daniel ----- ALAN D. DANIEL Assistant City Attorney</p> <p>COUNTERSIGNED:</p> <p>By: /s/ Gregory J. Klimko ----- GREGORY J. KLIMKO Finance Director</p>	<p>"COUNTY"</p> <p>COUNTY OF KERN</p> <p>By: /s/ Pete H. Parra ----- PETE H. PARRA, Chairman, Board of Supervisors</p> <p>APPROVED AS TO CONTENT: PARKS & RECREATION DEPT.</p> <p>By: /s/ Robert D. Addison ----- ROBERT D. ADDISON, Director</p> <p>APPROVED AS TO CONTENT: COUNTY ADMINISTRATIVE OFFICE</p> <p>By: /s/ William A. Wilbanks ----- WILLIAM A. WILBANKS, Assistant County Administrative Officer for General Services</p> <p>APPROVED AS TO FORM: OFFICE OF THE COUNTY COUNSEL</p> <p>By: /s/ Bruce Divelbliss ----- BRUCE DIVELBLISS, Deputy</p>
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James Maples Assessor-Recorder Kern County Official Records	JASON Pages: 6
DOCUMENT #: 0198134283	9/29/1998 8:00:00

RECORDING REQUESTED BY AND
WHEN RECORDED MAIL TO:

CITY OF BAKERSFIELD PROPERTY MANAGEMENT DEPT 1501 TRUXTLJN AVENUE BAKERSFIELD, CA 93301	[BAR CODE OMITTED] 0198132483	Fees Taxes Other TOTAL PAID
--------------------------------------------------------------------------------------------------	----------------------------------	-----------------------------------------

Stat Types: I

Portion of Assessor's Parcel No 386-030-17 Space above for Recorder's use

NON-EXCLUSIVE EASEMENT FOR WATER FACILITIES AND ACCESS

FOR VALUABLE CONSIDERATION, receipt of which is hereby acknowledged, the COUNTY OF KERN, a political subdivision of the State of California ("County") hereby grants to the CITY OF BAKERSFIELD, a municipal corporation and charter city ("City"), upon condition that the City engages in the described uses of the property, a non-exclusive easement to lay, remove, construct, operate, maintain, repair, reconstruct, or change the size of electrical facilities, diversion works, head works, head gates, sealing reservoirs or ponds, pump stations, canals, water storage facilities and the pertinent and necessary surface and subsurface structures, fittings, and other equipment, with the right of ingress and egress thereto, in, under, across, over and upon those parcels of land described in Exhibit "A" as Parcel No. 1, Parcel No. 2 and Parcel No. 3 and shown on the drawing entitled "Figure 1", all of which are attached hereto and incorporated herein by this reference City shall maintain 150 feet of unobstructed public access paralleling the Kern River as measured from the mean high water mark or the south side of any intake structure on the southern side of the Kern River. City may prevent access to any intake structure built by City. The design, construction and maintenance of the water facilities shall compliment the natural park setting of Kern River County Park. All construction plans must be approved in advance by County. County shall have a 60 day period in which to review and comment on the plans. The plans shall be deemed approved if County does not respond within 60 days of County's receipt of the plans. The rights conveyed hereunder are subject to the provisions of the 1974 Quitclaim Deed recorded in the County of Kern at Book 4847 Page 1882, whereby the State of California transferred title to the property described in Exhibit "A" to the County of Kern, including the restriction therein that the property be used "...only for park and recreation purposes..."

In the event the City fails to use the easement for any of the stated purposes for a period of two (2) years, all rights conveyed hereunder shall automatically revert to the County, who shall be immediately entitled to exclusive possession of the premises. In the event of such reversion, City shall restore the property encumbered by the easement to its original condition, or as near thereto as is reasonably possible, unless directed otherwise by County.

IN WITNESS WHEREOF, COUNTY executes this easement on:

September 15, 1998

/s/ Pete H. Parra

Chairman, Board of Supervisors

"County"

4951

CITY OF BAKERSFIELD
RESERVOIR EASEMENT

PARCEL NO. 1

All that portion of Section 5, Township 29 South, Range 29 East, MDB&M, County of Kern, State of California, being a parcel of land described as:

Commencing at the Northwest corner of the Southwest quarter of said Section;

THENCE (1) South 0(degrees) 39' 47" East, along the West line of said Southwest quarter, a distance of 433.02 feet to the centerline of County Road No. 2239 as shown on Map 9P1KRPlam5, on file in the Kern County Surveyors office;

THENCE (2) South 65(degrees) 07' 49" East, along said centerline, a distance of 414.81 feet, to the centerline of the future extension of Morning Drive;

THENCE (3) North 42(degrees) 19' 44" East, along said extension, a distance of 800.00 feet;

THENCE (4) South 47(degrees) 40' 16" East, a distance of 55.00 feet to the easterly right-of-way of the future extension of Morning Drive;

THENCE (5) North 42(degrees) 19' 44" East, a distance of 886.31 feet, to Lease Corner No. 7 as identified on said Map 9P1KRPlam5;

THENCE (6) South 70(degrees) 28' 33" East, a distance of 37.97 feet, to the true point of beginning;

THENCE (7) South 70(degrees) 28' 33" East, a distance of 1265.89 feet, to Lease Corner No 6;

THENCE (8) From a tangent which bears North 83(degrees) 02' 16" East, easterly along a curve, concave southerly, having a radius of 1800 feet, through a

central angle of 7(degrees) 57' 28", an arc length of 250.00 feet;

THENCE (9) North 00(degrees) 59' 44" East, 70.00' to the beginning of a curve;

THENCE (10) From a tangent which bears South 89(degrees) 00' 16" East, easterly along a curve, concave southerly, having a radius of 1870 feet, through a central angle of 9(degrees) 11' 31", an arc length of 300 00 feet;

THENCE (11) South 10(degrees) 11' 15" West, 140.00 feet;

THENCE (12) South 78(degrees) 32' 18" West, 963.45 feet;

THENCE (13) North 70(degrees) 28' 33" West, 400.00 feet;

THENCE (14) South 72(degrees) 18' 35" West, 1096.91 feet;

THENCE (15) North 47(degrees) 40' 16" West, 125.00 feet, to a point located 35.00 feet from the easterly right-of-way of the future extension of Morning Drive;

THENCE (16) North 42(degrees) 19' 44" East, 1101.03 feet, on a line that is 35.00 feet easterly of an parallel to the easterly right-of-way of the future extension of Morning Drive, to the True Point of Beginning

Containing 20.65 acres more or less

[SEAL]
REGISTERED PROFESSIONAL ENGINEER
MORRIS W. TAYLOR
/s/ Morris W. Taylor
No 13340
Exp. Date 3-31-01
CIVIL
STATE OF CALIFORNIA

EXHIBIT "A"

4951

CITY OF BAKERSFIELD
ACCESS ROAD EASEMENT

PARCEL NO. 2

All that portion of Section 5, Township 29 South, Range 29 East, MDB&M, County of Kern, State of California, being a parcel of land, more particularly described as follows:

A 24 foot wide easement for the construction and operation of an access road commencing at the entrance to the California Living Museum at County Road No. 2239;

THENCE(1) Following existing and new road alignments northwesterly to the base of the bluff, and then continuing westerly along the base of the bluff, northerly of the Bike Path, and northerly and easterly of the Lease Line for the California Living Museum, to a point on the southwest corner of Parcel No. 1, an approximate length of 2230 feet.

Containing 1.2 acres more or less.

[SEAL]
REGISTERED PROFESSIONAL ENGINEER
MORRIS W. TAYLOR
/s/ Morris W. Taylor
No 13340
Exp. Date 3-31-01
CIVIL
STATE OF CALIFORNIA

EXHIBIT "A"

4951

CITY OF BAKERSFIELD
PIPE LINE EASEMENT

PARCEL NO.3

All that portion of Section 5, Township 29 South, Range 29 East, MDB&M, County of Kern, State of California, being a parcel of land described as:

Commencing at the Northwest corner of the Southwest quarter of said Section,

THENCE (1) South 0(degrees) 39' 47" East, along the West line of said Southwest

quarter, a distance of 433.02 feet to the centerline of County Road No. 2239 as shown on Map 9P1KRPlam5, on file in the Kern County Surveyors office;

THENCE (2) South 65(degrees) 07' 49" East, along said centerline, a distance of 414.81 feet, to the centerline of the future extension of Morning Drive;

THENCE (3) North 42(degrees) 19' 44" East, along said extension, a distance of 600.00 feet;

THENCE (4) South 47(degrees) 40' 16" East, a distance of 80.00 feet to the easterly right-of-way of the future extension of Morning Drive also being the true point of beginning;

THENCE (5) continuing South 47(degrees) 40' 16" East, a distance of 136.36 feet;

THENCE (6) South 42(degrees) 19' 44" West, a distance of 290.03 feet, to a point on the northerly right-of-way of County Road 2239 (Alfred Harrell Highway);

THENCE (7) along said right-of-way line North 47(degrees) 39' 26" West, a distance of 136.38 feet;

THENCE (8) North 42(degrees) 19' 44" East, a distance of 290.00 feet to the true point beginning.

Containing 0.91 acres more or less.

[SEAL]
REGISTERED PROFESSIONAL ENGINEER
MORRIS W. TAYLOR
/s/ Morris W. Taylor
No 13340
Exp. Date 3-31-01
CIVIL
STATE OF CALIFORNIA

EXHIBIT "A"

[MAP OMITTED]

[SEAL]
REGISTERED PROFESSIONAL ENGINEER
MORRIS W. TAYLOR
/s/ Morris W. Taylor
No 13340
Exp. Date 3-31-01
CIVIL
STATE OF CALIFORNIA

EXHIBIT "A"

Kennedy/Jenks Consultants

CITY OF BAKERSFIELD
RESERVOIR, ACCESS & PIPELINE EASEMENT

PARCEL MAP

AUGUST 6, 1998
948608.00

Figure 1

4951

CERTIFICATE OF ACCEPTANCE

THIS IS TO CERTIFY that the interest in real property conveyed by the deed or grant dated September 15, 1998 from County of Kern, to the City of Bakersfield, a political corporation and/or governmental agency is hereby accepted by order of the Council of the City of Bakersfield on September 23, 1998, and the grantee consents to recordation thereof by its duly authorized officer.

DATED: September 25, 1998

By: /s/ Bob Price

BOB PRICE
Mayor of the City of Bakersfield

EXHIBIT "B"

Proposed Plan of Delivery of
 City of Bakersfield's Kern River Water to
 California Water Service Company for
 Northeast Bakersfield Water Filtration Plant

Introduction

The City of Bakersfield ("CITY") Kern River water supplies vary in quantity from year to year. Thus, the Miscellaneous Water supplies available to the City for diversion to California Water Service Company's ("CAL WATER") filtration plant will fluctuate on an annual basis.

An analysis of the annual water supplies that will be made available to CAL WATER was performed utilizing historical data and review of CITY water right yields.

Assumptions:

CITY:

- 1.) Honor all presently existing agreements, contracts or documents referring to provisions to supply Kern River water;
- 2.) Best use its acquired surface storage reservoir space to maximize conservation of miscellaneous water for filtration plant deliveries;
- 3.) Operate its "2800 Acres" banking and extraction facility to supplement Kern River flows during critically "dry" conditions to provide minimum base flows to filtration plant;
- 4.) Formulate exchanges or trades of water supplies in anticipation of annual shortages of CITY miscellaneous water;
- 5.) Exercise the provisions of certain contracts for priority use of Kern River water within CITY boundaries and on CITY properties.

CAL WATER:

- 1.) Determine a ramp up timetable for the filtration plant initial annual delivery requirement and expansion to full build-out;
- 2.) Project annual delivery schedule required to meet filtration plant requirements including demands for maximum and minimum month & maximum and minimum day;
- 3.) Limit take to filtration plant in critically "dry" years to amount necessary to serve only the new customers in the immediate vicinity of the filtration plant;
- 4.) Optimize use of alternative water supply sources, both treated surface and groundwater resources, in years of critically dry or low flows on the Kern River;
- 5.) Use best efforts to regulate receiving Kern River waters into its system to minimize peaks and dips in flows.

Projected Annual Delivery Schedules

The delivery schedules are developed to quantify projected water deliveries for the NEWSP under various hydrologic conditions on the Kern River. CITY will attempt to deliver the water in conformance with the Normal Delivery where practical and at the ability and convenience of the CITY. However, CITY may deliver pursuant to the Critically Dry or Maximum Delivery schedules as conditions warrant.

1.) NORMAL DELIVERY

<TABLE>
 <CAPTION>

YEAR	PLANT CAPACITY (MGD)	MAXIMUM MONTH (AF)	PEAK FLOW (CES)	MINIMUM MONTH	MINIMUM FLOW (CFS)	ANNUAL TOTAL (AF)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
2002	10	1,000	15.5	1,000	15.5	12,000
2007	20	1,900	31	1,900	31	22,800
2012	40	3,700	62	1,900	31	29,500
2017	60	5,500	93	1,900	31	39,600

</TABLE>

2.) CRITICALLY DRY DELIVERY

<TABLE>
<CAPTION>

YEAR	PLANT CAPACITY (MGD)	MAXIMUM MONTH (AF)	PEAK FLOW (CES)	MINIMUM MONTH	MINIMUM FLOW (CFS)	ANNUAL TOTAL (AF)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
2002	10	300	5	200	3.5	4,500
2007	20	500	8	300	5	4,500
2012	40	1,500	25	500	8	10,525
2017	60	2,000	35	625	10.5	13,825

</TABLE>

2

3.) MAXIMUM DELIVERY

<TABLE>
<CAPTION>

YEAR	PLANT CAPACITY (MGD)	MAXIMUM MONTH (AF)	PEAK FLOW (CES)	MINIMUM MONTH	MINIMUM FLOW (CFS)	ANNUAL TOTAL (AF)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
2002	10	1,000	15.5	1,000	15.5	12,000
2007	20	1,900	31	1,900	31	22,800
2012	40	3,700	62	2,500	42	37,200
2017	60	5,500	93	3,500	59	54,000

</TABLE>

Revised Deliveries

If CAL WATER desires to vary its delivery schedule, it may do so by submitting a revised schedule to CITY no later than February 1 of the year for which CAL WATER desires to vary schedule. CITY shall review and advise CAL WATER of approval of revised schedule for that remaining year by March 1 of that year. CITY will make reasonable efforts to deliver the water according to the approved revised schedules. The inability of CAL WATER to accept water when tendered by CITY under schedules herein shall be deemed to be water delivered under terms of this Agreement

3

[MAP OMITTED]

Exhibit "C"

AGREEMENT NO. 99-73(1)

WATER BOARD AGREEMENT NO. 01-08 W.B.

AMENDMENT NO. 1 TO AGREEMENT NO. 99-73

THE NORTHEAST BAKERSFIELD WATER SUPPLY AGREEMENT

THIS AMENDMENT NO. 1 TO AGREEMENT NO. 99-73 is made and entered into on OCT 3 2001, by and between the CITY OF BAKERSFIELD a Charter CITY and municipal corporation, ("CITY" herein) and, CALIFORNIA WATER SERVICE COMPANY, a California public utility water corporation, ("CAL WATER" herein).

RECITALS

WHEREAS, on March 31, 1999, CITY and CAL WATER entered into Agreement No. 99-73 concerning the Northeast Water Supply Project ("NEWSP" herein); and

WHEREAS, as of March 31, 1999, certain details of the NEWSP were yet to be determined; and

WHEREAS, NEWSP details are currently more fully determined; and

WHEREAS, CAL WATER and CITY desire to establish terms and conditions for the Water Supply for the NEWSP and operation and maintenance of certain NEWSP facilities and secure long term use of certain facilities by each entity for the NEWSP; and

WHEREAS, CAL WATER and CITY desire to amend Agreement No. 99-73 to include terms and conditions for water supply, operation and maintenance and term of use of certain facilities.

NOW, THEREFORE, incorporating the foregoing recitals herein, CITY and CAL WATER mutually agree to amend Agreement No. 99-73 as follows:

1. Section 1, WATER SUPPLY, is hereby amended to read as follows:

1. WATER SUPPLY. CITY will make available to CAL WATER a Kern River surface water supply to serve the needs of present and future CITY residents located in the area of Service described in Section 2 herein. The parties anticipate CITY will make available to CAL WATER up to 22,400 (twenty-two thousand four hundred) acre-feet per year or an average 20 million gallons per day (MGD) starting February 1, 2003 to meet the initial needs of a newly constructed water treatment plant. CITY will provide additional water to meet future demands of an expanded Bakersfield water treatment plant consistent with the

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Schedule in Exhibit "A" (as substitute for Exhibit "B" In Agreement No. 99-73) attached hereto.

2. Section 2, AREA OF SERVICE, is hereby amended to read as follows:

2. AREA OF SERVICE. The area to be served with high quality treated water from the NEWSP shall be within the franchise service territory of CAL WATER's Bakersfield district, whose location is generally within the area south of the Kern River, within the CAL WATER Olcese service area to the east, south to the East Niles Community Service District, and the remaining Bakersfield district service area of CAL WATER to the west The NEWSP distribution area may be changed by the mutual consent of both parties and may be adjusted for CITY annexations; however, CAL WATER understands the CITY will require water supplied hereunder be delivered within CITY limits no matter what the specified area described in this Agreement CAL WATER may determine how best to serve both CITY and unincorporated residents with water from various sources including its wells, the Kern County Water Agency water treatment plant and the NEWSP, subject to the constraint that the water delivered to the unincorporated areas is less than that produced and delivered from sources other than NEWSP. CAL WATER may transfer banked groundwater supplies to CITY to balance NEWSP deliveries to unincorporated areas. Both parties acknowledge the water acquired hereunder by CAL WATER may be commingled with other waters, as described herein, at any time with the resulting goal that the water quality at all times shall meet or exceed all Federal, State, and local statutory and regulatory water

quality standards, including, but not limited to California Department of Health Services standards. A map showing the NEWSP area is attached hereto as Exhibit "C" (as attached to Agreement No. 99-73) and Incorporated by reference as though fully set forth.

3. A new section, 4.4, shall be added to Agreement No. 99-73 and shall be entitled "NEWSP Details" as set forth below.

4.4 NEWSP Details. The following NEWSP details have been agreed to by the CITY and CAL WATER with the understanding that said NEWSP details are intended to supplement Sections 4.1 and 4.2 of this Agreement however, if a conflict arises between 4.1 and 4.2 and this section, this section shall govern. CITY holds certain right-of-ways and easements with the County of Kern by Agreement No. 98-224 (dated September 23, 1998) which allow the construction and operation of water facilities on certain County properties and properties under lease with the California Living Museum, generally described as located in Section 5 of T29S/R29E, M.D.B.&M. A copy of said agreement with map is part of Agreement No. 99-73 attached as Exhibit "A" to that agreement and incorporated herein by reference. A more definitive description of the water facilities which have been or shall be constructed, operated and maintained are described as:

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1. The Kern River Diversion Structure;
2. Two (2) 54" diameter intake pipelines connecting the diversion structure to the intake structure;
3. The intake structure;
4. A pumping station containing separate pumping facilities for pumping water to: 1) Cal Waters NE Bakersfield water treatment plant, 2) the raw water storage ponds which are to supply irrigation water to Kern County soccer fields and Hart Park, and 3) California Living Museum (CALM);
5. Power transfer equipment and metering for each of the separate pumping facilities at the pump station;
6. Raw water storage ponds or reservoirs;
7. Access road along CAL WATER's 54" diameter transmission pipeline from the pump station to Alfred Harrell Highway;
8. Maintenance roads to the raw water storage ponds and on top of the berm for the entire perimeter of the raw water storage ponds; and
9. Other appurtenant facilities that may be installed within the area.

4.4.1 CALM Entrance at Alfred Harrell Highway. CAL WATER will connect a fifty-four inch (54") underground raw water transmission line from the pump station at the intake of the storage pond to the line going to the NE Bakersfield water treatment plant by using existing easements and directly boring and casing under Alfred Harrell Highway. CAL WATER agrees to base its design on this understanding.

4.4.2 Morning Drive Bike Path and Western Access to the Treatment Plant.

4.4.2.1 The initial plan for the Morning Drive Bike Path is to construct a seven foot (7') shoulder, a twelve foot (12') wide paved Bike Path, a twelve foot (12') wide dirt road and a four foot (4') wide shoulder starting from the centerline to the west (viewing north). For this same orientation, the ultimate plan is to construct a seven foot (7') shoulder, two (2) twelve foot (12') wide paved road lanes, two (2) eleven foot (11') wide paved road lanes, two (2) fifteen foot (15') wide paved road lanes, and a ten foot (10') wide landscaped area.

4.4.2.2 CAL WATER agrees to excavate a trench of at least eleven feet (11') in width to accommodate a fifty-four inch (54") raw water transmission pipe and an eighteen inch (18") finished water pipe and certain communication conduits. The bottom of the trench will be covered with slurry and the pipes will be covered with a minimum of four foot (4') of compacted soil. Facing north, the water pipes will be west of the centerline

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[SEAL]
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and the trench will start on the eastern edge of the twelve foot (12') wide dirt road.

4.4.2.3 CAL WATER will construct or cause to be constructed, through its contractor, an approximately two foot (2') wide trench to accommodate the subsurface power line and conduit. The trench would be about fifty-four (54") deep and covered with a minimum of four feet (4') of compacted soil. The eastern edge of the trench will be a minimum of three feet (3') from the western edge of the trench for the water lines. CAL WATER's water transmission pipes will cross under the bike path due east of the treatment plant and continue to the plant. CAL WATER will install underground conduits for power from the sub-station site near the Morning Drive Bike Path to the water treatment site and to the pump station. PG&E will install overhead lines within a franchised corridor to an area in the vicinity of the intersection of the secondary access road to the water treatment plant and Morning Drive.

4.4.2.4 CITY has provided CAL WATER and PG&E with final grading plans for the Morning Drive area of the project. CITY has completed the grading of Morning Drive within the project area. CAL WATER intends to complete installation of its respective water transmission lines along Morning Drive between Alfred Harrell Highway and the secondary access road to the treatment plant by the end of September 2001. The CITY intends to finish paving the Bike path by October 30, 2001.

4.4.3 Paladino Drive and Primary Access Road to the Plant Site.

4.4.3.1 The CITY agrees to grade and final pave Paladino Drive from the intersection of Paladino Drive and Morning Drive to the intersection of Cosmo Street and Paladino Drive. This approximately four thousand six hundred fifty-five foot (4,655') section will be a twenty-four foot (24') wide two (2) lane paved road when finished. The CITY and CAL WATER agree that CAL WATER will reimburse the CITY for its costs to finish grade and pave the 4,655 foot section of Paladino Drive subject to the following conditions. The CITY will submit the proposed bid from the Contractor selected by the CITY to do the finish grading and paving work to CAL WATER for review of the bid price. The CITY agrees to credit the \$60,000 owed to CITY by CAL WATER for water valve adjustments from past street resurfacing projects against the costs for the 4,655 foot section of Paladino Drive. The CITY agrees to credit the grading costs, with prior review by CITY of such costs, incurred by CAL WATER for Valley Lane from Paladino Drive to the NE Bakersfield plant site boundary against the paving costs for the 4655 foot section of Paladino Drive. Thus, the final amount that CAL WATER will owe the CITY upon completion of the finish grading and paving of the 4,655 foot section of Paladino Drive will be the bid price minus \$80,000 minus CAL WATER's design and construction costs for the grading of Valley Lane subject to the review and approval by the CITY. The net amount owed to CITY by CAL WATER will be paid within two (2) years of the filing of the Notice of Completion of the paving project.

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4.4.3.2 The City agrees to assist in acquiring all necessary easements and grade for a twenty-four foot (24) wide two (2) lane paved road along Valley Lane, running from Paladino Drive to the east side of the CAL WATER treatment plant site property line, a distance of approximately three thousand feet (3,000).

4.4.3.3 CAL WATER agrees to trench and install a twenty-seven inch (27') or larger finished water line from the plant site along the primary access road, Valley Lane, -to Paladino Drive.

4.4.3.4 CAL WATER agrees to trench and install a twenty-seven inch (27") or larger finished water line from the intersection of the primary access road and Paladino Drive, west along Paladino Drive to a tie in point with its system past Morning Drive. CAL WATER agrees to lay a short stub out on Paladino Drive heading east for future development

4.4.3.5 CAL WATER agrees to lay a base and pave the section of Paladino Drive from Morning Drive to Casino Street a distance of approximately four thousand six hundred fifty feet (4650') and pave Valley Lane from Paladino Drive to the water treatment site.

4.4.4 Raw water Storage Ponds and Pumping Facilities for the Storage Ponds and CALM.

4.4.4.1 CITY agrees to design and build the raw water storage ponds as set forth under Section 4.1 herein. Design drawings and construction plans for the storage ponds shall be ready for bid by October 2001. Construction of the ponds is to be completed no later than March 31, 2002,

4.4.4.2 Design and construction of the connection to the existing CITY river intake structure, pump stations and transmission lines shall be completed by CAL WATER for use by CAL WATER. CITY and CALM. It is intended that the pumping facilities for providing raw water to the NE Bakersfield water treatment plant be operational on or before February 1, 2003. CAL WATER will use its best efforts to complete construction of pumping facilities for providing water to the raw water storage ponds and CALM so they are operational by May 1, 2002.

4.4.4.3 CITY agrees to construct aggregate base access roads, as needed, from Alfred Harrell Highway to the western raw water storage pond where a turn out for a gravity flow line to the Kern Soccer Complex and Hart Park are to be provided by CITY.

4.4.4.4 The CITY agrees to grade and provide an aggregate base road on the top of the berm for the entire perimeter of the raw water storage ponds for a single lane access and use for maintenance vehicles.

-- Page 5 of 9 Pages --

[SEAL]
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4.4.4.5 The CITY agrees to construct a aggregate base access road along the transmission pipeline on the south side of the ponds from the pumping station to the tie in point with the pipeline running under Morning Drive to allow equipment access for repair or replacement operations.

4.4.5 Plans and Specifications. Plans and specifications for the connection to the intake structure, pump station and transmission lines shall be presented to the CITY for review by CAL WATER prior to construction. The CITY and CAL WATER agree to use their best efforts to incorporate mutually agreeable review comments made by CITY into final plans and specifications.

4. Section 31, TERM, is hereby amended to read as follows:

31. TERM. This Agreement shall commence upon date of execution and terminate on December 31, 2038 unless sooner terminated as herein provided. This Agreement will automatically renew for an additional term of five (5) years unless either party provides written notice of termination to the other within one hundred eighty (180) days prior to termination date. During the additional five (5) year term period, the parties shall negotiate in good faith for further term extensions. The parties shall without limitation take in to account current market conditions and other relevant factors concerning water and water supplies.

5. Two new Sections 34 and 35 shall be added to Agreement No. 99-73 and shall be entitled, "OPERATIONS AND MAINTENANCE and "COMPENSATION FOR OPERATIONS" as set forth below:

34. OPERATIONS AND MAINTENANCE. CITY hereby authorizes and allows CAL WATER full and unlimited access to and use of the facilities described herein for the purpose of supplying raw water to CAL WATER's Northeast Bakersfield water treatment plant and for all operations and routine maintenance activities associated with the facilities. CITY grants to CAL WATER full and unlimited ingress and egress to CITY owned facilities within the described water facilities area and CAL WATER agrees to provide operations and routine maintenance of the CITY owned facilities as described in this Agreement. Operations and routine maintenance shall include but are not limited to: daily system inspection, meter readings, water quality testing as required by law, pumping flow adjustments, trash and debris removal from diversion inlet and pumping station, turn-out adjustments for irrigation, security fence inspections and minor fence repairs, reservoir inspections, minor reservoir levee repairs, periodic road grading and, in general, to do all such acts and perform such routine services as required to operate and maintain the water facilities in accordance with accepted industry practices. Should non-scheduled operations, maintenance or emergency repairs be required, CAL WATER and

CITY shall confer and determine expedient and cost effective methods of correction under appropriate statutes and

[SEAL]
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regulations as may apply to each party. The CITY shall be responsible for one hundred percent (100%) payment of extraordinary costs for non-scheduled operations, maintenance or emergency repairs for facilities that are 100% owned by the CITY. The CITY shall be responsible for fifty percent (50%) payment of extraordinary costs for non-scheduled operations, maintenance or emergency repairs for pump station facilities for which the CITY shares a 50% ownership. The CITY shall be responsible for twenty five percent (25%) payment of extraordinary costs for non-scheduled operations, maintenance or emergency repairs for pump station facilities for which CITY shares a 25% ownership. Allocation of costs for non-scheduled operations, maintenance or emergency repairs shall be in accordance with the Reimbursement Agreement No. 01 - 205 executed on Sep 5, 2001 between CITY and CAL WATER and attached hereto as Exhibit "5".

35. COMPENSATION FOR OPERATIONS. To compensate CAL WATER for operation and maintenance of the water facilities described herein, CITY shall pay CAL WATER One Dollar (\$1.00) per acre-foot for all water pumped from the Kern River at the pumping station. For example, if CAL WATER pumps a daily average of 20 MGD to the NEWSP treatment plant and CITY pumps 11 MGD for its uses, the CITY's ordinary operating and routine maintenance payment to CAL WATER would be approximately \$34,700. For ordinary operation and maintenance and repairs, if the cost of parts, materials, installation and/or repair services is equal to or less than \$2,500 per month CAL WATER will absorb that cost as part of its compensation for that month. If the repairs, the cost of parts, materials, installation and/or repair services exceeds \$2,500 per month, the CITY will be responsible for paying the amount in excess of \$2,500 per month for CITY facilities. The CITY will be responsible for paying for all power costs except for those for pumping water from the wet well structure to the NEWSP treatment plant. CAL WATER shall be responsible for paying for power costs to pump water from its high lift pumping facilities to the NEWSP treatment plant. CAL WATER's compensation is subject to annual adjustment on the basis of the January 1999 Producer Price Index for "All Commodities" as published by the Bureau of Labor Statistics of the U.S. Department of Labor and first adjustment shall occur in January of the year following execution of this Agreement. CAL WATER shall determine metered water deliveries to the NEWSP treatment plant and invoice CITY on a monthly basis. CITY shall pay within thirty (30) days of receipt of invoice for water delivered and any other incurred costs that both parties agree for which CAL WATER should be compensated. Compensation as stated shall include all costs CAL WATER incurs in ordinary operating and routine maintenance of CITY owned NEWSP facilities. CAL WATER shall not be entitled to any additional compensation from CITY for its acts as an operator and agent of CITY, other than as specified in Sections 34 and 35 of this amendment.

6. Except as amended above, all terms and conditions of Agreement No. 99-73 shall continue in full force and effect.

[SEAL]
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IN WITNESS WHEREOF, the parties hereto have caused this Amendment No. 1 to Agreement No. 99-73 to be executed, the day and year first-above written.

"CITY"

"CAL WATER"

CITY OF BAKERSFIELD

CALIFORNIA WATER SERVICE
COMPANY

By: /s/ Harvey L. Hall

By: /s/ Robert Guzzetta

HARVEY L. HALL
Mayor

ROBERT GUZZETTA

Title: Vice President

APPROVED AS TO FORM:
BART J. THILTGEN
City Attorney

By: /s/ [ILLEGIBLE]

Title: Corporate Secretary

By: /s/ Alan D. Daniel

ALAN D. DANIEL
Deputy City Attorney

APPROVED AS TO CONTENT:
WATER RESOURCES DEPARTMENT

By: /s/ Gene Bogart

GENE BOGART
Water Resources Manager

MORE SIGNATURES ON FOLLOWING PAGE

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COUNTERSIGNED:

By: /s/ Gregory J. Klimko

GREGORY J. KLIMKO
Finance Director

ADD:dlr

Attachments: EXHIBIT "A"
EXHIBIT "B"

S:\2001CONTRACTS\CWSCOBAmend1to99-73
August 24, 2001

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EXHIBIT "A"

Proposed Plan of Delivery of
CITY of Bakersfield's Kern River Water to
California Water Service Company for
Northeast Bakersfield Water Treatment Plant

Introduction

CITY Kern River water supplies vary in quantity from year to year. The CITY's first and highest priority use of its water supplies is to provide drinking water to its customers whether served directly by CITY or CAL WATER. Thus, CITY and CAL WATER plan to develop a specific plan and further arrangements to address supply deficiencies during critically dry years. While water supplies available to CITY for diversion to the CAL WATER NE Bakersfield water treatment plant may fluctuate on an annual basis, during normal hydrologic conditions, CITY will make every effort to meet daily treatment plant flow requirements as indicated in the herein table entitled "DELIVERY SCHEDULE". The parties recognize the term "critically" dry year is based on a number of factors and conditions and therefore agree to confer and mutually agree as to when a "critically" dry year is occurring or is about to occur and to what extent reductions and restrictions in the quantity of water delivered to the treatment plant will be made. This will include developing a monthly and daily supply and delivery schedule for such "critically" dry periods.

An analysis, by CITY, of the annual water supplies that will be made available to CAL WATER was performed utilizing historical data and review of CITY water right yields.

Assumptions

CITY:

- 1.) Honor all presently existing agreements, contracts or documents referring to provisions to supply Kern River water;
- 2.) Best use its acquired surface storage reservoir space to maximize conservation of miscellaneous water for treatment plant deliveries;
- 3.) Operate its "2800 Acres" banking and extraction facility to supplement Kern River flows during critically "dry" conditions to provide minimum base flows to treatment plant;
- 4.) Formulate exchanges or trades of water supplies in anticipation of any annual shortages of CITY miscellaneous water;
- 5.) Exercise the provisions of certain contracts for priority use of Kern River water within CITY boundaries and on CITY properties.

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CAL WATER:

- 1.) Determine a ramp up timetable for the treatment plant initial annual delivery requirement and expansion to full build-out;
- 2.) Project annual delivery schedule required to meet treatment plant requirements including demands for maximum and minimum month & maximum and minimum day;
- 3.) Optimize use of alternative water supply sources, both treated surface and groundwater resources, in years of critically dry or low flows on the Kern River;
- 4.) Use best efforts to regulate receiving Kern River waters into its system to minimize peaks and dips in flows.

Projected Annual Delivery Schedule

The delivery schedule is developed to quantify projected water deliveries for the NEWSP under various hydrologic conditions on the Kern River. CITY will attempt to deliver the water in conformance with this Delivery Schedule where practical and at the ability and convenience of CITY. However, CITY may deliver pursuant to "critically" dry provisions as herein described as conditions warrant.

DELIVERY SCHEDULE

<TABLE>
<CAPTION>

YEAR	PLANT CAPACITY (MGD)	MAXIMUM MONTH (AF)	PEAK FLOW (CES)	MINIMUM MONTH	MINIMUM FLOW (CFS)	ANNUAL TOTAL (AF)
2003	20	2,330	39	1,400	24	22,400
2012	40	4,670	79	2,800	47	44,800
2017	60	7,000	118	4,200	71	67,200

</TABLE>

Note: (MGD) is million gallons per day
(AF) is acre-feet
(CFS) is cubic feet per second

Revised Deliveries

If CAL WATER desires to vary its delivery schedule, it may do so by submitting a revised schedule to CITY no later than February 1 of the year for which CAL WATER desires to vary schedule. CITY shall review and advise CAL WATER of approval of revised schedule for that remaining year by March 1 of that year. CITY will make reasonable efforts to delivery the water according to the approved revised schedules. The inability of CAL WATER to accept water when tendered by CITY under schedules herein shall be deemed to be water delivered under terms of this Agreement.

EXHIBIT "B"

AGREEMENT NO. 01-205

REIMBURSEMENT AGREEMENT

THIS REIMBURSEMENT AGREEMENT (the Agreement") is made and entered into on SEP 5 2001, 2001 by and between the CITY OF BAKERSFIELD, a charter CITY and municipal corporation, ("CITY" herein) and CALIFORNIA WATER SERVICE COMPANY, a California public utility water corporation ("CAL WATER" herein).

RECITALS

WHEREAS, CAL WATER is currently in the final phases of engineering and design of CAL WATER'S Kern River Intake Pumping Station ("Pumping Facilities"), as described in Section 1.3 below for the Northeast Bakersfield Water Supply Project and is prepared to begin construction of the Pumping Facilities (the "Project"). The Project is located on the Kern River near the California Living Museum (CALM); and

WHEREAS, the consolidation of the Pumping Facilities to combine the capacity requirements of CITY and CAL WATER will have economies of scale and achieve savings in construction; and

WHEREAS, CITY desires to have water pumping capacity built in the Pumping Facilities for CITY use and a portion of the Pumping Facilities will be conveyed to CITY after completion and a portion of such facility owned by CAL WATER will be used in part by CITY; and

WHEREAS, CITY and CAL WATER have finalized the engineering, design and construction plans to meet CITY'S requirements for the Pumping Facilities and are prepared to begin installation of the pumping plant; and

WHEREAS, CITY desires CAL WATER to provide the construction installation, construction management and inspection of the Pumping Facilities, including the portions that are to be CITY'S facilities or are to be CAL WATER'S facilities which are used in part by CITY and CAL WATER has agreed to be responsible for construction of the Pumping Facilities; and

WHEREAS, the construction cost for the Pumping Facilities has been estimated to be Four Million Six Hundred Eighty Nine Thousand Dollars (\$4,689,000) and the respective share of construction costs is estimated at Three Million Eight Hundred Nine Thousand Dollars (\$3,809,000) for CAL WATER and Eight Hundred Eighty Thousand Dollars (\$880,000) for CITY; and

WHEREAS, the final cost for the Pumping Facilities will be determined based on the completed Project cost; and

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WHEREAS, CAL WATER will advertise and receive bids for construction of the Pumping Facilities In accordance with provisions and procedures acceptable to CITY.

NOW, THEREFORE, incorporating the foregoing recitals herein, CITY and CAL WATER mutually agree as follows:

1. SCOPE OF WORK

1.1 CAL WATER shall construct the Pumping Facilities, with the scope of work to include all items and procedures necessary to properly complete the Pumping Facilities, including without limitation the portions thereof which will be conveyed to or used by CITY. The scope of work includes, without limitation, (a) furnishing all plant tools, equipment, materials, supplies, manufactured articles, transportation and services, including fuel, power, potable water and essential communications, and (b) the performance of all labor, work, or other operations required for complete construction of the Pumping Facilities. All work shall be performed in accordance with the plans and specifications heretofore approved by the CITY and in compliance with all applicable laws, codes and regulations. The general location of the Project site is shown on attached Exhibit "As.

1.2 The Pumping Facilities shall be constructed on the basis of the price of items as listed in the Bid Schedule.

1.3 The Project will consist of:

1.3.1 Mobilization Demobilization.

1.3.2 Clearing, grubbing and she preparation.

1.3.3 Excavation and grading including the construction of approximately four hundred twenty (420) linear feet of earthen embankment.

1.3.4 Construction of an extension of the Kern River diversion twin intake pipelines consisting of two (2) fifty-four inch (54") diameter reinforced concrete pipelines with approximately two hundred ten (210) linear feet of total pipe length.

1.3.5 Construction of a raw water reservoir inlet/outlet pipeline consisting of approximately three hundred seventy (370) linear feet of forty-eight inch (48") diameter cement mortar lined and cement mortar coated steel cylinder pipe.

1.3.6 Construction of concrete river diversion flow control structure with a traveling water screen and including sand collection and pump system, slide gates, with electric actuators, miscellaneous metal work and related appurtenances.

1.3.7 Construction of a low head raw water pumping system including: concrete pump sump structure; installation of two (2) ten cubic foot per second (cfs) submersible pump and motor assemblies; construction of respective discharge piping

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fittings valves; and miscellaneous metal work; and installation of related mechanical, electrical, control equipment and appurtenances.

1.3.8 Construction of a pumping system to serve the California Living Museum including: concrete pump sump structure; Installation of one (1) 100 gpm and one (1) 1750 gpm submersible pump and motor assemblies; construction of respective discharge piping, fittings, valves; and miscellaneous metalwork; and Installation of related mechanical, electrical, control equipment and appurtenances.

1.3.9 Construction of a high head raw water pumping system including: construction of eight (8) forty-eight inch (48") diameter pump suction cans, approximately one hundred thirty-two (132) linear feet of seventy-two inch (72") diameter suction manifold, approximately two hundred sixteen (218) linear feet of thirty inch (30") diameter suction piping, approximately two hundred forty-one (241) linear feet of fifty-four inch (54") diameter discharge manifold, approximately two hundred twelve (212) linear feet of twenty inch (20"), eighteen inch (18"), and fourteen inch (14") diameter discharge piping, furnishing and installation of one (1) eight (8) cfs, two (2) fifteen (15) cfs and one (1) twenty (20) cfs vertical turbine pump and motor assemblies, construction of a three thousand eight hundred forty (3840) square foot pump and equipment enclosure, and construction of all related mechanical, electrical and control equipment

1.3.10 Construction of three (3) flow metering facilities including related concrete structures, mechanical, electrical, control equipment and appurtenances.

1.3.11 Construction of a twelve foot (12') by thirty-five foot (35') long horizontal steel welded surge tank (air chamber) and related mechanical, electrical and control equipment including the furnishing and installation of a base mounted compressor and respective enclosure.

1.3.12 Site and pumping plant electrical service. Note that each of the three (3) pumping systems will have separate electrical services and power consumption meters and will operate independent of the other pump systems.

1.3.13 Finished grading.

1.3.14 Miscellaneous she piping including fittings, valves and respective appurtenances.

1.3.15 Miscellaneous site improvements including catch basins, drain pipes, swales, culverts, fencing, site gravel surface and miscellaneous site improvements.

1.3.16 Finish grading and gravel surfacing of site access

road. The gravel surface will be fourteen feet (14') wide by six inches (8") thick.

1.4 During the construction period, CITY may utilize all or part of the area and facilities designated for use by CITY for the conduct of the CITY's normal operations and maintenance. CAL WATER shall cooperate with the CITY to minimize interference

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with the CAL WATER's operations and to facilitate the CITY's operations and maintenance activities.

1.5 CAL WATER agrees to complete the Project by a completion date hereafter approved by CITY, which approval will not be unreasonably withheld. CITY acknowledges that the completion date may be extended by CAL WATER as a result of changes in the Project normal construction delays encountered by CAL WATER as owner of the portions of the Project that are not being provided for CITY, and/or delays permitted under the various subcontracts between CAL WATER and its subcontractors.

2. AWARD OF BID TO QUALIFIED CONSTRUCTION FIRM. CAL WATER shall provide CITY a copy of the bid summary for the Project and will consult with CITY in determining selection of the firm to provide construction services for installation of the Pumping Facilities, provided that CAL WATER shall make the final selection of the contractor. CAL WATER shall not authorize any changes to the construction work on the portion of the Project which will be owned by CITY or the estimated construction cost to the CITY without prior approval of such changes to the work and the estimated price by CITY. CITY shall not be obligated to pay any costs for any changes to the construction or products to be owned by CITY without prior approval of the changes by CITY.

3. CONSTRUCTION COST ESTIMATES. CAL WATER and CAL WATER's engineer have prepared construction cost estimates for the Project and, in conjunction with CITY, has determined the estimated share of the Project costs for CITY and CAL WATER. The estimated total construction cost is Four Million Six Hundred Eighty Nine Thousand Dollars (\$4,689,000), inclusive of contingencies and inspection services by qualified inspectors. CITY's share of this estimated Project cost is approximately Eight Hundred Eighty Thousand Dollars (\$880,000). CAL WATER shall not exceed CITY's estimated cost on elements of the Project to be owned 100% by CITY without approval of CITY. CAL WATER shall not exceed CITY's estimated cost on elements of the Project to be available for partial use by CITY without advising CITY of the potential changes in such elements of the cost of the Project and obtaining CITY Input on any changes which will increase CITY cost. Notwithstanding the foregoing, CITY acknowledges that the final dollar amount of CITY's share will be based on the actual final construction cost of the various elements of the Project. Although the final usage of the pumping facilities may be in percentages different from the percentages set forth In this Agreement, the percentages of usage set forth in Section 4, below, shall govern the cost allocation.

4. COMPENSATION. The compensation set forth in this section for CAL WATER from CITY shall be the total compensation under this Agreement Including, but not limited to, all out-of-pocket costs and applicable taxes. CITY shall pay only the compensation listed unless otherwise agreed to in writing by the parties. CITY shall be responsible for only its share of costs incurred by CAL WATER for providing construction as set forth in 1. Scope of Work herein.

4.1 Costs to be recovered by the CAL WATER from the CITY will be based on one hundred percent (100%) of the costs for construction and installation of facilities provided solely for the CITY. Facilities included in this category are the extension

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of the fifty-four inch (54") diameter pipes, raw water reservoir inlet/outlet pipe, low lift pumps and related equipment, pumps and stub-outs to CALM and flow metering system for CITY pumps.

4.2 Costs for construction, equipment and installation of facilities that will be jointly shared by CITY and CAL WATER and be split on a fifty-fifty (50/50) basis include costs for the inlet/outlet box to reservoir and a sonic meter for the fifty-four inch (54") diameter pipes.

4.3 Costs for construction, equipment and installation of facilities

that will be jointly shared by CITY' and CAL WATER and be split on a seventy-five/twenty-five (75/25) basis, with CAL WATER paying 75%, include the open sump, inlet/outlet box, site earthwork and dewatering. traveling water screen, fencing and gates, drainage culverts, metal grating walkways and handrails.

4.4 Costs for facilities provided solely for CAL WATER will be paid for one hundred percent (100%) by CAL WATER Facilities included in this category are the steel manifold piping and pumping Inlet and discharge piping, valves, air chambers, pump building, certain meters, high lift pumps, pipeline to the tie-In with the fifty-four inch (54") transmission line and the emergency power generation site.

4.5 Costs incurred for inspection services by bonafide professional inspectors shall be reimbursed to CAL WATER based on the actual cost split for the entire Project costs as adjusted by the split factors as described in 4.1 through 4.4 above. The, estimated CITY share of these service costs is approximately nineteen percent (19%) of the costs.

4.6 Subject to adjustment pursuant to this Agreement, the total of payments from CITY to CAL WATER shall not exceed Eight Hundred Eighty Thousand Dollars (\$880,000).

5. PAYMENT PROCEDURE.

5.1 CITY shall owe CAL WATER Four Hundred Forty Thousand Dollars (\$440,000) at fifty percent (50%) completion of the Project construction as certified in writing by CAL WATER's designated Project engineer. CAL WATER shall submit its invoice for such amount and CITY shall pay CAL WATER within thirty (30) days after receipt of the invoice.

5.2 CITY shall pay CAL WATER the remainder of CITY's share of the Project costs pursuant to an itemized Invoice submitted after filing of Notice of Completion that clearly establishes and documents the work performed Is complete by or on behalf of CAL WATER, as such invoice shall be approved by CITY in accordance with the terms of this Agreement. CITY shall pay CAL WATER the remaining amount due from CITY within forty-five (45) days after receipt by CITY of CAL WATER's itemized invoice, unless CITY gives CAL WATER notice of any disapproved items In the invoice within thirty (30) days after receipt of CAL WATER's invoice, in which event CITY shall pay all amounts not

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disapproved. Upon resolution of any disputed amounts, CITY shall pay CAL WATER the amount owing within thirty (30) days after resolution of such dispute.

6. OWNERSHIP/TITLE OF FACILITIES

6.1 CAL WATER shall convey to CITY title to the facilities which are to be used exclusively by CITY, which facilities are listed on Exhibit "B" and CITY shall accept title to such facilities, such conveyance to be made within five (5) business days after acceptance by CITY of those facilities as installed.

6.2 Acceptance by CITY of the facilities to be conveyed to CITY shall be upon written notice by CITY to CAL WATER after CITY has received Notice of Substantial Completion and CITY has had a reasonable time to inspect and accept the facilities. In no event shall CITY delay inspection beyond thirty (30) days after Notice of Substantial Completion. CITY's failure to inspect within thirty (30) days shall be deemed acceptance. Should CITY inspect and reject acceptance of the facilities, CITY shall inform CAL WATER, in writing, as to the reasons for the rejection and CAL WATER shall have a reasonable time to correct the cause for the rejection.

6.3 CAL WATER shall warrant that upon passage of title, the title shall be free and clear of any and all liens, charges and encumbrances.

6.4 Concurrently with transfer of title of the CITY's portion of the facilities to CITY, CAL WATER shall assign to CITY all guarantees from the manufacturer for materials installed and all legal remedies concerning or related to such portion of the facilities. CAL WATER shall guarantee CITY's portion of the Project for one (1) year from the date of CITY's acceptance; provided CITY shall pursue. through CAL WATER, all remedies under guarantees issued by the manufacturers of equipment included in CITY's portion of the facilities.

6.5 CAL WATER will retain ownership of all portions of the Pumping Facility which it does not convey to CITY. CITY will retain ownership of its share of the Pumping Facility which is not owned by CAL WATER. The foregoing shall not limit CAL WATER in transferring all or portions of the Pumping

Facility to any entity owned or controlled by CAL WATER or its parent company. CITY shall not be limited in transferring ownership of any or all portions of the Pumping Facility it owns. Neither party shall consummate any transfer of any kind without the written consent of the other party.

7. MONTHLY PROJECT MEETINGS. CITY may attend and participate in the monthly Project meetings for the Project. For such purpose, CITY may review and comment on the construction cost estimates and bid documents, including contracts with construction firms, engineering firms and other subcontractors to this Project.

8. NO WAIVER OF DEFAULT. The failure of any party to enforce against another party any provision of this Agreement shall not constitute a waiver of that party's right to enforce such a provision at a later time and shall not serve to vary the terms of this Agreement.

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9. TERMINATION FOR CAUSE.

9.1 If at any time CAL WATER persistently fails to address concerns of CITY with respect to the Project that have been raised by CITY at the monthly Project meetings, CITY shall give CAL WATER written notice of such concerns and the resolution sought by CITY. If CAL WATER fails to resolve such concerns to the reasonable satisfaction of CITY within thirty (30) days after receipt of such notice (or such longer period as may be necessary to successfully resolve such concerns), CITY may thereafter terminate this Agreement on ten (10) days written notice. Written notice shall be given pursuant to the notices paragraph of this Agreement. In the event of early termination, CAL WATER shall be compensated only for work satisfactorily completed up to the date of termination and delivered to and accepted by CITY.

9.2 If CITY fails to pay the amounts due to CAL WATER hereunder within fifteen (15) days after the due date hereof, CAL WATER may, on fifteen (15) days written notice given after expiration of the initial fifteen (15) days, and upon failure of CITY to pay the amounts due and payable within said fifteen (15) days, terminate this Agreement by notice to CITY or suspend work on the CITY facilities until payment has been made.

10. COMPLIANCE WITH ALL LAWS. CAL WATER shall, at CAL WATER's sole cost, comply with all of the requirements of Municipal, State, and Federal authorities now in force, or which may hereafter be in force, pertaining to this Agreement, including, without limitation, obtaining a CITY of Bakersfield business tax certificate (Bakersfield Municipal Code Chapter 5.02) where required.

11. INDEPENDENT CONTRACTOR; NEGATION OF PARTNERSHIUP. CITY shall not become or be deemed a partner or joint venturer with CAL WATER or associate in any such relationship with CAL WATER by reason of the provisions of this Agreement CAL WATER shall not for any purpose be considered an agent, officer or employee of CITY. CAL WATER is not an agent or employee of CITY for any purpose and Is not entitled to any of the benefits provided by CITY to its employees. CAL WATER shall at all times be deemed an independent contractor and retains the right to control or direct the manner in which the work on the Pumping Facilities is performed.

12. EQUIPMENT. CAL WATER will supply all equipment. tools, materials and supplies necessary to perform the services under this Agreement.

13. INSURANCE. In addition to any other insurance or bond required under this Agreement, CAL WATER shall procure and maintain for the duration of this Agreement the following types and limits of insurance ("basic insurance requirements" herein):

13.1 Automobile liability insurance, providing coverage on an occurrence basis for bodily injury, including death, of one or more persons, property damage and personal Injury, with limits of not less than One Million Dollars (\$1,000,000) per occurrence; and the policy shall:

13.1.1 Provide coverage for owned, non-owned and hired autos.

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13.1.2 Contain an additional insured endorsement in favor of CITY and its employees.

13.2 Broad form commercial general liability Insurance. ISO form CG00 01 11 85 or 88, or such other form as may be approved by CITY In its reasonable discretion, providing coverage on an occurrence basis for bodily Injury, Including death, of one or more persons, property damage and personal Injury, with limits of not less than One Million Dollars (\$1,000,000) per occurrence; and the policy shall:

13.2.1 Provide contractual liability coverage.

13.2.2 Contain an additional insured endorsement in favor of CITY and its employees.

13.3 Worker's compensation insurance. CITY acknowledges CAL WATER has advised CITY that CAL WATER Is self Insured for the first \$300,000 of workers compensation coverage and carries excess coverage over that amount CITY hereby accepts such insurance arrangement for this Project.

13.4 Except for workers' compensation, insurance is to be placed with insurers with a Best's rating of no less than A:VII. Any deductibles, self-insured retentions or Insurance in lesser amounts or lack of certain types of insurance otherwise required by this Agreement, or insurance rated below Best's A:VII, must be declared prior to execution of This Agreement and approved by CITY in writing.

13.5 All policies shall contain an endorsement providing CITY with thirty (30) days written notice of cancellation or material change In policy language or terms.

13.6 The insurance required hereunder shall be maintained until all work to be conveyed to CITY is completed, as evidenced by written acceptance by the CITY, and all work to be used In part by CITY pursuant to this Agreement is satisfactorily completed.

13.7 CAL WATER shall furnish CITY Risk Manager with a certificate of insurance and required endorsements evidencing the insurance required. CITY may withdraw its offer of contract or cancel this Agreement If certificates of Insurance and endorsements required have not been provided prior to the execution of this Agreement

13.8 Full compensation for all premiums which CAL WATER is required to pay on all the insurance described herein shall be included in the prices paid for the various items of work to be performed under the Agreement and no additional allowance will be made therefor or for additional premiums which may be required by extensions of the policies of insurance.

13.9 CAL WATER's liability to CITY under the indemnification provisions of this Agreement shall not in anyway be limited to or affected by the amount of insurance obtained and carried by CAL WATER In connection with this Agreement.

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14. INDEMNITY By CAL WATER. CAL WATER shall indemnify, defend, and hold harmless CITY, Its officers, agents and employees against any and all liability, claims, actions, causes of action or demands whatsoever against them, or any of them, before administrative or judicial tribunals of any kind whatsoever (collectively, "Claims"), to the extent caused by the negligence or misconduct of CAL WATER, CAL WATER's employees, agents, independent contractors, companies, or subcontractors in the performance of, or In any way arising from, the terms and provisions of this Agreement, except as limited by California Civil Code section 2782. Such indemnification shall not apply to any claims to the extent caused by the negligence or misconduct of CITY, its officers, employees, subcontractors and agents.

15. INDEMNITY BY CITY. CITY shall indemnify, defend, and hold harmless CAL WATER, its officers, agents, employees and subcontractors against any and all Claims to the extent caused by the negligence or misconduct of CITY, its officers, employees, subcontractors and agents, in the performance of , or in any way arising from, the terms and provisions of this Agreement whether or not caused in part by a party indemnified hereunder, except as limited by California Civil Code section 2782. Such indemnification shall not apply to any claims to the extent caused by the negligence or misconduct of CAL WATER, its agents, employees or subcontractors.

16. EXECUTION. This Agreement is effective upon execution. It is the product of negotiation and all parties are equally responsible for authorship of this Agreement. Section 1854 of the California Civil Code shall not apply to the Interpretation of this Agreement

17. NOTICES. All notices relative to this Agreement shall be given in writing and shall be personally served & sent by certified or registered mail and be effective upon actual personal service or depositing in the United States mail. The parties shall be addressed as follows, or at any other address designated by notice:

CITY: CITY OF BAKERSFIELD
CITY HALL
1601 Truxtun Avenue
Bakersfield, California 93301

CAL WATER: CALIFORNIA WATER SERVICE COMPANY
ATTN: Michael Rosal, Chief Engineer
1720 North First Street
San Jose, California 95112

18. GOVERNING LAW. The laws of the State of California will govern the validity of this Agreement, its interpretation and performance. Any litigation arising in any way from this Agreement shall be brought in Kern County, California.

19. MERGER AND MODIFICATION. This Agreement sets forth the entire agreement between the parties and supersedes all other oral or written representations.

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This Agreement may be modified only in a writing approved by the CITY Council and signed by all the parties.

20. EXHIBITS. In the event of a conflict between the terms, conditions or specifications set forth in this Agreement and those in exhibits attached hereto, the terms, conditions and specifications set forth in this Agreement shall prevail. All exhibits to which reference is made in this Agreement are deemed incorporated in this Agreement, whether or not actually attached.

21. FURTHER ASSURANCES. Each party shall execute and deliver such papers, documents, and instruments, and perform such acts as are necessary or appropriate, to implement the terms of this Agreement and the intent of the parties to this Agreement.

22. ASSIGNMENT. Neither this Agreement, nor any interest in it may be assigned or transferred by any party without the prior written consent of all the parties. Any such assignment will be subject to such terms and conditions as CITY may choose to impose.

23. BINDING EFFECT. The rights and obligations of this Agreement shall inure to the benefit of, and be binding upon, the parties to this Agreement and their heirs, administrators, executors, personal representatives, successors and assigns, and when never then context so requires, the masculine gender includes the feminine and neuter, and the singular number includes the plural. This Agreement may be executed in any number of counterparts, each of which shall be considered as an original and be effective as such.

24. TITLE TO DOCUMENTS. All documents, plans, and drawings, maps, photographs, and other papers, or copies thereof prepared by CAL WATER pertaining to those facilities for which CITY will pay CAL WATER one hundred percent (100%) of the costs of engineering and construction related services shall upon completion of the work become the property of CITY. CAL WATER may retain copies of the record plans and specifications in connection with operation of the facility.

24.1 All documents, plans, drawings, maps, photographs and other papers or copies thereof prepared by the CAL WATER pertaining to the remainder of the facilities for which the CITY will pay the CAL WATER a portion of the costs of engineering and construction related services shall remain the property of CAL WATER.

24.2 CITY and CAL WATER shall have access to and shall be allowed to copy or obtain reproductions of all documents, plans, drawings, maps, photographs or other papers pertaining to this Project, whether or not owned or controlled by CITY or CAL WATER, upon reasonable notice.

25. ACCOUNTING RECORDS. CAL WATER shall maintain accurate accounting records and other written documentation pertaining to all costs incurred in performance of this Agreement. Such records and documentation shall be kept at CAL WATER's office during the term of this Agreement, and for a period of three (3) years from the date of the

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final payment hereunder and said records shall be made available to CITY representatives upon request at any time during regular business hours.

26. CORPORATE AUTHORITY. Each individual signing this Agreement on behalf of entities represent and warrant that they are, respectively, duly authorized to sign on behalf of the entities and to bind the entities fully to each and all of the obligations set forth In this Agreement.

27. TAX NUMBERS.

CAL WATER's Federal Tax ID Number 94-0362795
CAL WATER is a corporation? Yes X No _____
(Please check one)

28. NON-INTEREST. No officer or employee of the CITY shall hold any interest in this Agreement (California Government Code section 1090).

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed, the day and year first-above written.

"CITY"

"CAL WATER"

CITY OF BAKERSFIELD

CALIFORNIA WATER SERVICE COMPANY

By: /s/ Harvey L. Hall

HARVEY L. HALL, Mayor

By: /s/ [ILLEGIBLE]

Title: Vice President Engineering +
Water Quality

By: /s/ [ILLEGIBLE]

Title: Corporate Secretary

MORE SIGNATURES ON FOLLOWING PAGE

APPROVED AS TO FORM:
BART J. THILTGEN
City Attorney

By: /s/ Alan D. Daniel

ALAN D. DANIEL
Deputy City Attorney

Insurance: [ILLEGIBLE]

APPROVED AS TO CONTENT:
WATER RESOURCES DEPARTMENT

By: /s/ Gene Bogart

GENE BOGART
Water Resources Manager

COUNTERSIGNED:

By: /s/ Gregory J. Klimko

GREGORY J. KLIMKO
Finance Director

Attachments: EXHIBIT "A"
EXHIBIT "B"

EXHIBIT B

Kern River Intake Pumping Station
Facilities to be Conveyed to CITY

PHASE I CONSTRUCTION

1. Reservoir Wet Well
2. CALM Wet Well
3. 36 lin. feet of 35-inch diameter Steel Pipe from Open Sump to Reservoir Wet Well
4. 65 lin. feet of 18-inch diameter Steel Pipe from Open Sump to CALM Wet Well
5. 18-inch Sonic Meter on 18-Inch diameter line
6. Two (2) 4,500 gpm, 40hp Submersible Pumps
7. One (1) 1,750 gpm, 40 hp Submersible Pump
8. One (1) 100 gpm, 5 hp Submersible Pump
9. 290 lin. feet of dual 54-inch diameter Intake Pipes

[SEAL]
CITY
OF
BAKERSFIELD
ORIGINAL

PROJECT MAP

EXHIBIT A

[MAP OMITTED]

[SEAL]
CITY
OF
BAKERSFIELD
ORIGINAL

CERTIFICATIONS

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

1. I have reviewed this Form 10-Q for September 30, 2003 of California Water Service Group;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, 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 and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2003

By: /s/ Peter C. Nelson

PETER C. NELSON

President and Chief Executive
Officer California Water
Service Group

CERTIFICATIONS

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

1. I have reviewed this Form 10-Q for September 30, 2003 of California Water Service Group;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, 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 and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

RICHARD D. NYE
Chief Financial Officer
California Water Service
Group

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 Quarterly Report on Form 10-Q for the Quarter Ended September 30, 2003 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 Report fairly presents, in all material respects, the financial condition and results of operations of California Water Service Group.

Date: November 13, 2003

/s/ Peter C. Nelson

PETER C. NELSON
Chief Executive Officer
California Water Service Group

Date: November 13, 2003

/s/ Richard D. Nye

RICHARD D. NYE
Chief Financial Officer
California Water Service Group