

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

FORM 8-K

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

Date of report (Date of earliest event reported): December 23, 2004

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

Delaware	1-13883	77-0448994
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(State or other jurisdiction of Incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)
1720 North First Street, San Jose, CA.		95112
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(Address of principal executive offices)		(Zip Code)
Registrant's telephone number, including area code		1-408-367-8200

Not Applicable

(Former name or former address, if changed since last report)

Check the appropriate box below if the form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 1.01 Entry into a Material Definitive Agreement

The response to this Item is incorporated by reference to the response to Item 1.02 of this report.

Item 1.02 Termination of a Material Definitive Agreement

Effective December 23, 2004, the Company entered into two unsecured credit facilities with Bank of America, N.A. The first agreement is for a \$45 million credit facility for California Water Service Company (Cal Water), a 100% owned subsidiary of the registrant. The second agreement is for a \$10 million credit facility for California Water Service Group (Group) and its other wholly-own subsidiaries. Interest under both agreements is variable based on margin spreads against either the bank's prime rate or the London Inter-Bank Offered Rate (LIBOR). Both agreements require a consecutive 30-day out-of-debt period during any 24 month consecutive period. In addition, the Cal Water and the Group agreements require the borrowing balance to be below \$10 million and \$5 million, respectively, for a 30-day consecutive period for any 12 month consecutive period. Both agreements have a covenant requiring debt as a percent of total capitalization to be less than 67%. The agreements include usual and customary covenants for credit facilities of this type, including specific use of funds, reporting requirements, limitations on other debts, limitations on liens and maintenance of assets. Repayment of borrowings under the agreements may be accelerated in the event of failure to make payment and breach of certain covenants. The agreements terminate April 30, 2007.

These new agreements terminate and replace two credit facilities, as amended, both dated February 28, 2003. At the time of the termination, the first agreement was for \$45 million for California Water Service Company and the second was for \$10 million for California Water Service Group and its other wholly-owned subsidiaries. These terminated agreements would have expired April 30, 2005. No borrowings were outstanding under the terminated agreements at the time of their termination and no early termination penalties were incurred. The first credit facility had a letter of credit of \$0.5 million outstanding at time of termination, which was transferred to the new facility.

The primary purpose of the credit agreements is to provide short-term financing to meet seasonal needs of the business. In addition, the facilities are used to provide short-term financing for capital expenditures and acquisitions until long-term financing is obtained.

The foregoing summary of the terms of the agreements does not purport to be complete and is qualified in its entirety by reference to the agreements attached hereto as exhibits.

Item 2.03 Creation of a Direct Financial Obligation

The registrant incorporates by reference the information submitted under Item 1.01 above with respect to entry into the credit agreements. As no borrowings have yet been made under the credit agreement, no material direct financial obligation has arisen or been created under either facility.

Item 9.01 Financial Statements and Exhibits.

The exhibit list is incorporated by reference to the Exhibit Index included with this report.

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SIGNATURES

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

CALIFORNIA WATER SERVICE GROUP
(Registrant)

Date: February 8, 2005

By: /s/ Richard D. Nye

Richard D. Nye
Vice President,
Chief Financial Officer and Treasurer

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EXHIBIT INDEX

Exhibit Number -----	Description of Exhibits -----
10.1	\$10,000,000 Business Loan Agreement between Bank of America, N.A. and California Water Service Group, CWS Utility Services, New Mexico Water Service Company, Washington Water Service Company, and Hawaii Water Service Company, Inc dated December 23, 2004.
10.2	\$45,000,000 Business Loan Agreement between Bank of America, N.A. and California Water Service Company dated December 23, 2004.

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LOAN AGREEMENT

This Agreement dated as of December 23, 2004, is among Bank of America, N.A. (the "Bank"), California Water Service Group ("Borrower 1"), CWS Utility Services ("Borrower 2"), New Mexico Water Service Company ("Borrower 3"), Washington Water Service Company ("Borrower 4") and Hawaii Water Service Company ("Borrower 5") (Borrower 1, Borrower 2, Borrower 3, Borrower 4 and Borrower 5 are sometimes referred to collectively as the "Borrowers" and individually as the "Borrower").

1. FACILITY NO. 1: LINE OF CREDIT AMOUNT AND TERMS
 - 1.1 Line of Credit Amount.
 - (a) During the availability period described below, the Bank will provide a line of credit to the Borrowers. The amount of the line of credit (the "Facility No. 1 Commitment") is Ten Million and 00/100 Dollars (\$10,000,000.00).
 - (b) This is a revolving line of credit. During the availability period, the Borrowers may repay principal amounts and reborrow them.
 - (c) The Borrowers agree not to permit the principal balance outstanding to exceed the Facility No. 1 Commitment. If the Borrowers exceed this limit, the Borrowers will immediately pay the excess to the Bank upon the Bank's demand.
 - 1.2 Availability Period. The line of credit is available between the date of this Agreement and April 30, 2007, or such earlier date as the availability may terminate as provided in this Agreement (the "Facility No. 1 Expiration Date").
 - 1.3 Repayment Terms.
 - (a) The Borrowers will pay interest on December 31, 2004, and then on the same day of each month thereafter until payment in full of any principal outstanding under this facility.
 - (b) The Borrowers will repay in full any principal, interest or other charges outstanding under this facility no later than the Facility No. 1 Expiration Date. Any interest period for an optional interest rate (as described below) shall expire no later than the Facility No. 1 Expiration Date.
 - 1.4 Interest Rate.
 - (a) The interest rate is a rate per year equal to the Bank's Prime Rate minus the Applicable Margin as defined below.
 - (b) The Prime Rate is the rate of interest publicly announced from time to time by the Bank as its Prime Rate. The Prime Rate is set by the Bank based on various factors, including the Bank's costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans. The Bank may price loans to its customers at, above, or below the Prime Rate. Any change in the Prime Rate shall take effect at the opening of business on the day specified in the public announcement of a change in the Bank's Prime Rate.
 - 1.5 Optional Interest Rates. Instead of the interest rate based on the rate stated in the paragraph entitled "Interest Rate" above, the Borrowers may elect the optional interest rates listed below for this Facility No. 1 during interest periods agreed to by the Bank and the Borrowers. The optional interest rates shall be subject to the terms and conditions described later in this Agreement. Any principal amount bearing interest at an optional rate under this Agreement is referred to as a "Portion." The following optional interest rates are available:
 - (a) The LIBOR Rate plus the Applicable Margin as defined below.
 - 1.6 Applicable Margin. The Applicable Margin shall be the following amounts per annum, based upon the Debt to Capitalization Ratio (as defined below) as calculated on a consolidated basis from Borrower 1's most recent financial statement received by the Bank as required in the Covenants section; provided, however, that until the Bank receives the first financial statement, such amounts shall be those indicated for pricing level 1 set forth below:

Pricing Level	Ratio	Applicable Margin (in percentage points per annum)	
		Prime Rate -	LIBOR Rate +
1	less than 0.50:1.00	1.000	0.775
2	equal to or greater than 0.50:1.00 and less than 0.55:1.00	0.750	0.900
3	equal to or greater than 0.55:1.00 and less than 0.60:1.00	0.625	1.025
4	equal to or greater than 0.60:1.00	0.500	1.150

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

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

1.7 Letters of Credit.

(a) During the availability period, at the request of the Borrowers, the Bank will issue standby letters of credit with a maximum maturity of three hundred sixty-five (365) days but not to extend more than three hundred sixty five (365) days beyond the Facility No. 1 Expiration Date. The standby letters of credit may include a provision providing that the maturity date will be automatically extended each year for an additional year unless the Bank gives written notice to the contrary.

(b) The amount of the letters of credit outstanding at any one time (including the drawn and unreimbursed amounts of the letters of credit) may not exceed Five Million and 00/100 Dollars (\$5,000,000.00).

(c) In calculating the principal amount outstanding under the Facility No. 1 Commitment, the calculation shall include the amount of any letters of credit outstanding, including amounts drawn on any letters of credit and not yet reimbursed.

(d) The Borrowers agree:

(i) Any sum drawn under a letter of credit may, at the option of the Bank, be added to the principal amount outstanding under this Agreement. The amount will bear interest and be due as described elsewhere in this Agreement.

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

(iii) The issuance of any letter of credit and any amendment to a letter of credit is subject to the Bank's written approval and must be in form and content satisfactory to the Bank and in favor of a beneficiary acceptable to the Bank.

(iv) To sign the Bank's form Application and Agreement for Commercial Letter of Credit or Application and Agreement for Standby Letter of Credit, as applicable.

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

(vi) To allow the Bank to automatically charge any Borrower's checking account for applicable fees, discounts, and other charges.

2. OPTIONAL INTEREST RATES

2.1 Optional Rates. Each optional interest rate is a rate per year. Interest will be paid on December 31, 2004, and then on the same day of each month thereafter until payment in full of any principal

outstanding under this facility. No Portion will be converted to a different interest rate during the applicable interest period. Upon the occurrence of an event of default under this Agreement, the Bank may terminate the availability of optional interest rates for interest periods commencing after the default occurs. At the end of each interest period, the interest rate will revert to the rate stated in the paragraph(s) entitled "Interest Rate" above, unless the Borrowers have designated another optional interest rate for the Portion.

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

- (a) The interest period during which the LIBOR Rate will be in effect will be one or two weeks, one month, two months, three months, four months, five months, six months, seven months, eight months, nine months, ten months, eleven months or twelve months. The first day of the interest period must be a day other than a Saturday or a Sunday on which the Bank is open for business in New York and London and dealing in offshore dollars (a "LIBOR Banking Day"). The last day of the interest period and the actual number of days during the interest period will be determined by the Bank using the practices of the London inter-bank market.
- (b) Each LIBOR Rate Portion will be for an amount not less than One Hundred Thousand and 00/100 Dollars (\$100,000.00).
- (c) The "LIBOR Rate" means the interest rate determined by the following formula, rounded upward to the nearest 1/100 of one percent. (All amounts in the calculation will be determined by the Bank as of the first day of the interest period.)

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

Where,

- (i) "London Inter-Bank Offered Rate" means the average per annum interest rate at which U.S. dollar deposits would be offered for the applicable interest period by major banks in the London inter-bank market, as shown on the Telerate Page 3750 (or any successor page) at approximately 11:00 a.m. London time two (2) London Banking Days before the commencement of the interest period. If such rate does not appear on the Telerate Page 3750 (or any successor page), the rate for that interest period will be determined by such alternate method as reasonably selected by the Bank. A "London Banking Day" is a day on which the Bank's London Banking Center is open for business and dealing in offshore dollars.
- (ii) "Reserve Percentage" means the total of the maximum reserve percentages for determining the reserves to be maintained by member banks of the Federal Reserve System for Eurocurrency Liabilities, as defined in Federal Reserve Board Regulation D, rounded upward to the nearest 1/100 of one percent. The percentage will be expressed as a decimal, and will include, but not be limited to, marginal, emergency, supplemental, special, and other reserve percentages.
- (d) The Borrowers shall irrevocably request a LIBOR Rate Portion no later than 12:00 noon Pacific time on the LIBOR Banking Day preceding the day on which the London Inter-Bank Offered Rate will be set, as specified above. For example, if there are no intervening holidays or weekend days in any of the relevant locations, the request must be made at least three days before the LIBOR Rate takes effect.
- (e) The Bank will have no obligation to accept an election for a LIBOR Rate Portion if any of the following described events has occurred and is continuing:

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- (i) Dollar deposits in the principal amount, and for periods equal to the interest period, of a LIBOR Rate Portion are not available in the London inter-bank market; or
- (ii) The LIBOR Rate does not accurately reflect the cost of a LIBOR Rate Portion.
- (f) Each prepayment of a LIBOR Rate Portion, whether voluntary, by reason of acceleration or otherwise, will be accompanied by the amount of accrued interest on the amount prepaid and a prepayment fee as described below. A "prepayment" is a payment of an amount on a date earlier than the scheduled payment date for such amount as required by

this Agreement.

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

3. FEES AND EXPENSES

3.1 Fees.

- (a) Unused Commitment Fee. The Borrowers agree to pay a fee on any difference between the Facility No. 1 Commitment and the amount of credit they actually use, determined by the average of the daily amount of credit outstanding during the specified period. The fee will be calculated at the following percentage points per annum, based upon the Debt to Capitalization Ratio (as defined in Paragraph 1.6 above). The calculation of credit outstanding shall not include the undrawn amount of letters of credit. The Debt to Capitalization Ratio will be calculated in the manner described in Paragraph 1.6 of this Agreement; provided, however, that until the Bank receives the first financial statement, the fee will be calculated at the percentage points indicated for fee level 1 set forth below:

Fee Level	Ratio	Applicable Fee (in percentage points per annum)
1	less than 0.55:1.00	.125
2	equal to or greater than 0.55:1.00 and less than 0.60:1.00	.250
3	equal to or greater than 0.60:1.00	.375

This fee is due on January 1, 2005, and on the same day of each following quarter until the expiration of the availability period.

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

- (b) Late Fee. To the extent permitted by law, the Borrowers agree to pay a late fee in an amount not to exceed four percent (4%) of any payment that is more than fifteen (15) days late. The imposition and payment of a late fee shall not constitute a waiver of the Bank's rights with respect to the default.

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

- 3.3 Reimbursement Costs. The Borrowers agree to reimburse the Bank for any expenses it incurs in the preparation of this Agreement and any agreement or instrument required by this Agreement. Expenses include, but are not limited to, reasonable attorneys' fees, including any allocated costs of the Bank's in-house counsel to the extent permitted by applicable law.

4. DISBURSEMENTS, PAYMENTS AND COSTS

4.1 Disbursements and Payments.

- (a) Each payment by the Borrowers will be made in U.S. Dollars and immediately available funds by direct debit to a deposit account as specified below or, for payments not required to be made by direct debit, by mail to the address shown on the Borrowers' statement or at one of the Bank's banking centers in the United States.

(b) Each disbursement by the Bank and each payment by the Borrowers will be evidenced by records kept by the Bank. In addition, the Bank may, at its discretion, require the Borrowers to sign one or more promissory notes.

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

4.3 Telephone and Telefax Authorization.

(a) The Bank may honor telephone or telefax instructions for advances or repayments or for the designation of optional interest rates and telefax requests for the issuance of letters of credit given, or purported to be given, by any one of the individuals authorized to sign loan agreements on behalf of any of the Borrowers, or any other individual designated by any one of such authorized signers.

(b) Advances will be deposited in and repayments will be withdrawn from account number 14878-03863 owned by Borrower 1 or such other of the Borrowers' accounts with the Bank as designated in writing by the Borrowers.

(c) The Borrowers will indemnify and hold the Bank harmless from all liability, loss, and costs in connection with any act resulting from telephone or telefax instructions the Bank reasonably believes are made by any individual authorized by the Borrowers to give such instructions. This paragraph will survive this Agreement's termination, and will benefit the Bank and its officers, employees, and agents.

4.4 Direct Debit (Pre-Billing).

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

(b) Prior to each Due Date, the Bank will mail to the Borrowers a statement of the amounts that will be due on that Due Date (the "Billed Amount"). The bill will be mailed a specified number of calendar days prior to the Due Date, which number of days will be mutually agreed from time to time by the Bank and the Borrowers. The calculations in the bill will be made on the assumption that no new extensions of credit or payments will be made between the date of the billing statement and the Due Date, and that there will be no changes in the applicable interest rate.

(c) The Bank will debit the Designated Account for the Billed Amount, regardless of the actual amount due on that date (the "Accrued Amount"). If the Billed Amount debited to the Designated Account differs from the Accrued Amount, the discrepancy will be treated as follows:

(i) If the Billed Amount is less than the Accrued Amount, the Billed Amount for the following Due Date will be increased by the amount of the discrepancy. The Borrowers will not be in default by reason of any such discrepancy.

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(ii) If the Billed Amount is more than the Accrued Amount, the Billed Amount for the following Due Date will be decreased by the amount of the discrepancy.

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

(d) The Borrowers will maintain sufficient funds in the Designated Account to cover each debit. If there are insufficient funds in the Designated Account on the date the Bank enters any debit authorized by this Agreement, the Bank may reverse the debit.

(e) The Borrowers may terminate this direct debit arrangement at any time by sending written notice to the Bank at the address specified at the end of this Agreement. If the Borrowers terminate this arrangement, then the principal amount outstanding under this Agreement will at the option of the Bank bear interest at a rate per annum which is 0.5

percentage point higher than the rate of interest otherwise provided under this Agreement.

- 4.5 Banking Days. Unless otherwise provided in this Agreement, a banking day is a day other than a Saturday, Sunday or other day on which commercial banks are authorized to close, or are in fact closed, in the state where the Bank's lending office is located, and, if such day relates to amounts bearing interest at an offshore rate (if any), means any such day on which dealings in dollar deposits are conducted among banks in the offshore dollar interbank market. All payments and disbursements which would be due on a day which is not a banking day will be due on the next banking day. All payments received on a day which is not a banking day will be applied to the credit on the next banking day.
- 4.6 Interest Calculation. Except as otherwise stated in this Agreement, all interest and fees, if any, will be computed on the basis of a 360-day year and the actual number of days elapsed. This results in more interest or a higher fee than if a 365-day year is used. Installments of principal which are not paid when due under this Agreement shall continue to bear interest until paid.
- 4.7 Default Rate. Upon the occurrence of any default under this Agreement, all amounts outstanding under this Agreement, including any interest, fees or costs which are not paid when due, will at the option of the Bank bear interest at a rate which is 2.0 percentage points higher than the rate of interest otherwise provided under this Agreement. This may result in compounding of interest. This will not constitute a waiver of any default.

5. CONDITIONS

Before the Bank is required to extend any credit to the Borrowers under this Agreement, it must receive any documents and other items it may reasonably require, in form and content acceptable to the Bank, including any items specifically listed below.

- 5.1 Authorizations. If any Borrower or any guarantor is anything other than a natural person, evidence that the execution, delivery and performance by such Borrower and/or such guarantor of this Agreement and any instrument or agreement required under this Agreement have been duly authorized.
- 5.2 Governing Documents. If required by the Bank, a copy of each Borrowers' organizational documents.
- 5.3 Payment of Fees. Payment of all fees and other amounts due and owing to the Bank, including without limitation payment of all accrued and unpaid expenses incurred by the Bank as required by the paragraph entitled "Reimbursement Costs."
- 5.4 Good Standing. Certificates of good standing for each Borrower from its state of formation and from any other state in which such Borrower is required to qualify to conduct its business.
- 5.5 Insurance. Evidence of insurance coverage, as required in the "Covenants" section of this Agreement.

6. REPRESENTATIONS AND WARRANTIES

When the Borrowers sign this Agreement, and until the Bank is repaid in full, the Borrowers make the following representations and warranties. Each request for an extension of credit constitutes a renewal of these representations and warranties as of the date of the request:

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- 6.1 Formation. Each Borrower is duly formed and existing under the laws of the state or other jurisdiction where organized.
- 6.2 Authorization. This Agreement, and any instrument or agreement required hereunder, are within each Borrower's powers, have been duly authorized, and do not conflict with any of its organizational papers.
- 6.3 Enforceable Agreement. This Agreement is a legal, valid and binding agreement of each Borrower, enforceable against each Borrower in accordance with its terms, and any instrument or agreement required hereunder, when executed and delivered, will be similarly legal, valid, binding and enforceable.
- 6.4 Good Standing. In each state in which each Borrower does business, each Borrower is properly licensed, in good standing, and, where required, in compliance with fictitious name statutes.

- 6.5 No Conflicts. This Agreement does not conflict with any law, agreement, or obligation by which any Borrower is bound.
- 6.6 Financial Information. All financial and other information that has been or will be supplied to the Bank is sufficiently complete to give the Bank accurate knowledge of the Borrowers' (and any guarantor's) financial condition, including all material contingent liabilities. Since the date of the most recent financial statement provided to the Bank, there has been no material adverse change in the business condition (financial or otherwise), operations, properties or prospects of any Borrower (or any guarantor).
- 6.7 Lawsuits. There is no lawsuit, tax claim or other dispute pending or threatened against any Borrower which, if lost, would impair such Borrower's financial condition or ability to repay the loan, except as have been disclosed in writing to the Bank.
- 6.8 Permits, Franchises. Each Borrower possesses all permits, memberships, franchises, contracts and licenses required and all trademark rights, trade name rights, patent rights, copyrights and fictitious name rights necessary to enable it to conduct the business in which it is now engaged.
- 6.9 Other Obligations. No Borrower is in default on any obligation for borrowed money, any purchase money obligation or any other material lease, commitment, contract, instrument or obligation, except as have been disclosed in writing to the Bank.
- 6.10 Tax Matters. No Borrower has any knowledge of any pending assessments or adjustments of its income tax for any year and all taxes due have been paid, except as have been disclosed in writing to the Bank.
- 6.11 No Event of Default. There is no event which is, or with notice or lapse of time or both would be, a default under this Agreement.
- 6.12 Insurance. Each Borrower has obtained, and maintained in effect, the insurance coverage required in the "Covenants" section of this Agreement.

7. COVENANTS

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

- 7.1 Use of Proceeds. To use the proceeds of Facility No. 1 only for working capital, permitted acquisitions and general corporate purposes and to bridge capital expenditures.
- 7.2 Financial Information. To provide the following financial information and statements in form and content acceptable to the Bank, and such additional information as requested by the Bank from time to time:
- (a) Within ninety (90) days of the fiscal year end, the annual financial statements of Borrower 1. These financial statements must be audited (with an opinion satisfactory to the Bank) by a Certified Public Accountant acceptable to the Bank. The statements shall be prepared on a consolidated and consolidating basis.
- (b) Within sixty (60) days of the period's end, Borrower 1's quarterly financial statements certified and dated by an authorized financial officer. These financial statements may be company-prepared. The statements shall be prepared on a consolidated and consolidating basis.
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- (c) Copies of the Form 10-K Annual Report and the Form 10-Q Quarterly Report for Borrower 1 within ten (10) days after the date of filing with the Securities and Exchange Commission.
- (d) Within the periods provided in (a) and (b) above, a compliance certificate of the Borrowers signed by an authorized financial officer of the Borrowers and setting forth (i) the computation (on a consolidated basis) of the Debt to Capitalization Ratio (as defined in Paragraph 1.6 above) at the end of the period covered by the financial statements then being furnished and (ii) whether there existed as of the date of such financial statements and whether there exists as of the date of the certificate, any default under this Agreement and, if any such default exists, specifying the nature thereof and the action the Borrowers are taking and propose to take with respect thereto.
- (e) The annual financial projections of Borrower 1 covering a time period acceptable to the Bank and specifying the assumptions used in creating the projections. These projections shall be provided to the Bank by April 30th of each year.

7.3 Out of Debt Periods and Reduction of Debt Periods.

- (a) Out of Debt Periods. Not to permit the passage of any period of twenty-four (24) consecutive months during which the Borrowers fail to repay in full the advances outstanding under Facility No. 1 for a period of at least thirty (30) consecutive days.
- (b) Reduction of Debt Periods. Not to permit the passage of any period of twelve (12) consecutive months during which the Borrowers fail to reduce the amount of advances outstanding under Facility No. 1 to not more than Five Million Dollars (\$5,000,000) for a period of at least thirty (30) consecutive days.

For purposes of this paragraph, "advances" does not include undrawn amounts of outstanding letters of credit.

7.4 Other Debts. Not to have outstanding or incur any direct or contingent liabilities or lease obligations (other than those to the Bank), or become liable for the liabilities of others, without the Bank's written consent. This does not prohibit:

- (a) Acquiring goods, supplies, or merchandise on normal trade credit.
- (b) Endorsing negotiable instruments received in the usual course of business.
- (c) Obtaining surety bonds in the usual course of business.
- (d) Liabilities, lines of credit and leases in existence on the date of this Agreement disclosed in writing to the Bank.
- (e) Additional debts and lease obligations for the acquisition of fixed assets, to the extent permitted under Paragraph 7.5(d) of this Agreement.
- (f) Additional debts assumed in connection with acquisitions permitted under Paragraph 7.8(b) of this Agreement.
- (g) Additional obligations of any Borrower consisting of first mortgage bonds or unsecured senior notes substantially similar in structure to those certain first mortgage bonds and unsecured senior notes that are obligations of California Water Service Company and are outstanding as of the date of this Agreement.

7.5 Other Liens. Not to create, assume, or allow any security interest or lien (including judicial liens) on property any Borrower now or later owns, except:

- (a) Liens and security interests in favor of the Bank.
- (b) Liens for taxes not yet due.
- (c) Liens outstanding on the date of this Agreement disclosed in writing to the Bank.
- (d) Additional purchase money security interests in assets acquired after the date of this Agreement, if the total principal amount of debts secured by such liens does not exceed Two Million Five Hundred Thousand Dollars (\$2,500,000) in the aggregate at any one time for all of the Borrowers.

- (e) Liens securing first mortgage bonds permitted under the preceding paragraph.

7.6 Maintenance of Assets.

- (a) Not to sell, assign, lease, transfer or otherwise dispose of any part of any Borrower's business or any Borrower's assets except in the ordinary course of such Borrower's business. It is provided, however, that this negative covenant shall not be deemed to prohibit sales by Borrower 2 of those certain parcels of real property previously transferred or sold to Borrower 2 by CWSC because such parcels were not essential to the regulated water operations of CWSC.
- (b) Not to sell, assign, lease, transfer or otherwise dispose of any assets for less than fair market value, or enter into any agreement to do so.
- (c) Not to enter into any sale and leaseback agreement covering any of its fixed assets.

- (d) To maintain and preserve all rights, privileges, and franchises the Borrowers now have.
 - (e) To make any repairs, renewals, or replacements to keep the Borrowers' properties in good working condition.
- 7.7 Loans. Not to make any loans, advances or other extensions of credit to any individual or entity, except for:
- (a) Existing extensions of credit disclosed to the Bank in writing.
 - (b) Extensions of credit to the Borrowers' current subsidiaries.
 - (c) Extensions of credit in the nature of accounts receivable or notes receivable arising from the sale or lease of goods or services in the ordinary course of business to non-affiliated entities.
- 7.8 Additional Negative Covenants. Not to, without the Bank's written consent:
- (a) Enter into any consolidation, merger, or other combination, or become a partner in a partnership, a member of a joint venture, or a member of a limited liability company.
 - (b) Acquire or purchase a business or its assets for a consideration, including assumption of direct or contingent debt, in excess of Five Million Dollars (\$5,000,000) in the aggregate. It is provided however, that this negative covenant does not apply to acquisitions by Borrower 3 (including, without limitation, any acquisition of Independent Utility Company) for an aggregate consideration, including assumption of direct or contingent debt, not in excess of Seven Hundred Fifty Thousand Dollars (\$750,000).
 - (c) Engage in any business activities substantially different from each Borrower's present business.
 - (d) Liquidate or dissolve any Borrower's business.
 - (e) Voluntarily suspend any Borrower's business for more than seven (7) days in any three hundred sixty-five (365) day period.
- 7.9 Notices to Bank. To promptly notify the Bank in writing of:
- (a) Any lawsuit over Five Million and 00/100 Dollars (\$5,000,000.00) against any Borrower (or any guarantor).
 - (b) Any substantial dispute between any governmental authority and any Borrower (or any guarantor).
 - (c) Any event of default under this Agreement, or any event which, with notice or lapse of time or both, would constitute an event of default.
 - (d) Any material adverse change in any Borrower's (or any guarantor's) business condition (financial or otherwise), operations, properties or prospects, or ability to repay the credit.
 - (e) Any change in any Borrower's name, legal structure, place of business, or chief executive office if such Borrower has more than one place of business.
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- (f) Any actual contingent liabilities of any Borrower (or any guarantor), and any such contingent liabilities which are reasonably foreseeable, where such liabilities are in excess of Five Million and 00/100 Dollars (\$5,000,000.00) in the aggregate.
- 7.10 General Business Insurance. To maintain insurance as is usual for the business each Borrower is in.
- 7.11 Compliance with Laws. To comply with the laws (including any fictitious or trade name statute), regulations, and orders of any government body with authority over any Borrower's business.
- 7.12 ERISA Plans. Promptly during each year, to pay and cause any subsidiaries to pay contributions adequate to meet at least the minimum funding standards under ERISA with respect to each and every Plan; file each annual report required to be filed pursuant to ERISA in connection with each Plan for each year; and notify the Bank within ten (10) days of the occurrence of any Reportable Event that might constitute grounds for termination of any capital Plan by the Pension Benefit Guaranty Corporation or for the appointment by the appropriate United States District Court of a trustee to administer any Plan. "ERISA" means the

Employee Retirement Income Security Act of 1974, as amended from time to time. Capitalized terms in this paragraph shall have the meanings defined within ERISA.

- 7.13 Books and Records. To maintain adequate books and records.
- 7.14 Audits. To allow the Bank and its agents to inspect each Borrower's properties and examine, audit, and make copies of books and records at any reasonable time. If any of the Borrowers' properties, books or records are in the possession of a third party, the Borrowers authorize that third party to permit the Bank or its agents to have access to perform inspections or audits and to respond to the Bank's requests for information concerning such properties, books and records.
- 7.15 Cooperation. To take any action reasonably requested by the Bank to carry out the intent of this Agreement.
- 7.16 Mandatory Prepayment; Early Termination. To immediately repay the entire principal balance of this Agreement, together with interest, any fees (including any prepayment fees) and any other amounts due hereunder, and not obtain any further credit hereunder upon the occurrence of the following event: Facility No. 1 of the Loan Agreement dated as of the date hereof between CWSC and the Bank, as now in effect or as hereafter renewed, amended, restated or superseded (the "Other Credit Facility"), terminates for any reason, including, without limitation, termination of the Other Credit Facility at the request of CWSC, termination resulting from failure by the Bank to renew the Other Credit Facility, or termination as otherwise provided under the Other Credit Facility.

8. DEFAULT AND REMEDIES

If any of the following events of default occurs, the Bank may do one or more of the following: declare the Borrowers in default, stop making any additional credit available to the Borrowers, and require the Borrowers to repay their entire debt immediately and without prior notice. If an event which, with notice or the passage of time, will constitute an event of default has occurred and is continuing, the Bank has no obligation to make advances or extend additional credit under this Agreement. In addition, if any event of default occurs, the Bank shall have all rights, powers and remedies available under any instruments and agreements required by or executed in connection with this Agreement, as well as all rights and remedies available at law or in equity. If an event of default occurs under the paragraph entitled "Bankruptcy," below, with respect to any Borrower, then the entire debt outstanding under this Agreement will automatically be due immediately.

- 8.1 Failure to Pay. The Borrowers fail to make a payment under this Agreement when due.
 - 8.2 Other Bank Agreements. Any default occurs under any other agreement any Borrower (or any Obligor) or any of the Borrowers' related entities or affiliates has with the Bank or any affiliate of the Bank. For purposes of this Agreement, "Obligor" shall mean any guarantor or any party pledging collateral to the Bank.
 - 8.3 Cross-default. Any default occurs under any agreement in connection with any credit any Borrower (or any Obligor) or any of the Borrowers' related entities or affiliates has obtained from anyone else or which any Borrower (or any Obligor) or any of the Borrowers' related entities or affiliates has guaranteed, or any default occurs under that certain Loan Agreement dated as of the date hereof between the Bank and CWSC, as now in effect and as hereafter amended, restated, renewed, or superseded.
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- 8.4 False Information. Any Borrower or any Obligor has given the Bank false or misleading information or representations.
 - 8.5 Bankruptcy. Any Borrower, any Obligor, or any general partner of any Borrower or of any Obligor files a bankruptcy petition, a bankruptcy petition is filed against any of the foregoing parties, or any Borrower, any Obligor, or any general partner of any Borrower or of any Obligor makes a general assignment for the benefit of creditors.
 - 8.6 Receivers. A receiver or similar official is appointed for a substantial portion of any Borrower's or any Obligor's business, or the business is terminated, or, if any Obligor is anything other than a natural person, such Obligor is liquidated or dissolved.
 - 8.7 Lawsuits. Any lawsuit or lawsuits are filed on behalf of one or more trade creditors against any Borrower or any Obligor in an aggregate amount of Five Million and 00/100 Dollars (\$5,000,000.00) or more in excess of any insurance coverage.

- 8.8 Judgments. Any judgments or arbitration awards are entered against any Borrower or any Obligor, or any Borrower or any Obligor enters into any settlement agreements with respect to any litigation or arbitration, in an aggregate amount of Five Million and 00/100 Dollars (\$5,000,000.00) or more in excess of any insurance coverage.
- 8.9 Material Adverse Change. A material adverse change occurs, or is reasonably likely to occur, in any Borrower's (or any Obligor's) business condition (financial or otherwise), operations, properties or prospects, or ability to repay the credit.
- 8.10 Government Action. Any government authority takes action that the Bank believes materially adversely affects any Borrower's or any Obligor's financial condition or ability to repay.
- 8.11 Default under Related Documents. Any default occurs under any guaranty, subordination agreement, security agreement, deed of trust, mortgage, or other document required by or delivered in connection with this Agreement or any such document is no longer in effect, or any guarantor purports to revoke or disavow the guaranty.
- 8.12 ERISA Plans. Any one or more of the following events occurs with respect to a Plan of any Borrower subject to Title IV of ERISA, provided such event or events could reasonably be expected, in the judgment of the Bank, to subject any Borrower to any tax, penalty or liability (or any combination of the foregoing) which, in the aggregate, could have a material adverse effect on the financial condition of such Borrower:
- (a) A reportable event shall occur under Section 4043(c) of ERISA with respect to a Plan.
 - (b) Any Plan termination (or commencement of proceedings to terminate a Plan) or the full or partial withdrawal from a Plan by any Borrower or any ERISA Affiliate.
- 8.13 Other Breach Under Agreement. A default occurs under any other term or condition of this Agreement not specifically referred to in this Article. This includes any failure or anticipated failure by any Borrower (or any other party named in the Covenants section) to comply with the financial covenants set forth in this Agreement, whether such failure is evidenced by financial statements delivered to the Bank or is otherwise known to the Borrowers or the Bank.
- 8.14 Restrictive Covenant. Borrower 1 directly or indirectly agrees to any arrangement whereby the ability of any of its subsidiaries to pay dividends to Borrower 1 is restricted.
- 8.15 Debt to Capitalization Ratio. The Debt to Capitalization Ratio, as defined in Paragraph 1.6 above and as calculated on a consolidated basis from Borrower 1's most recent financial statement received by the Bank as required under the Covenants section above, exceeds 0.667:1.0.

9. ENFORCING THIS AGREEMENT; MISCELLANEOUS

- 9.1 GAAP. Except as otherwise stated in this Agreement, all financial information provided to the Bank and all financial covenants will be made under generally accepted accounting principles, consistently applied.
- 9.2 California Law. This Agreement is governed by California state law.

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- 9.3 Successors and Assigns. This Agreement is binding on the Borrowers' and the Bank's successors and assignees. The Borrowers agree that they may not assign this Agreement without the Bank's prior consent. The Bank may sell participations in or assign this loan, and may exchange financial information about the Borrowers with actual or potential participants or assignees. If a participation is sold or the loan is assigned, the purchaser will have the right of set-off against the Borrowers.
- 9.4 Arbitration and Waiver of Jury Trial
- (a) This paragraph concerns the resolution of any controversies or claims between the parties, whether arising in contract, tort or by statute, including but not limited to controversies or claims that arise out of or relate to: (i) this agreement (including any renewals, extensions or modifications); or (ii) any document related to this agreement (collectively a "Claim"). For the purposes of this arbitration provision only, the term "parties" shall include any parent corporation, subsidiary or affiliate of the Bank involved in the

servicing, management or administration of any obligation described or evidenced by this agreement.

- (b) At the request of any party to this agreement, any Claim shall be resolved by binding arbitration in accordance with the Federal Arbitration Act (Title 9, U. S. Code) (the "Act"). The Act will apply even though this agreement provides that it is governed by the law of a specified state.
- (c) Arbitration proceedings will be determined in accordance with the Act, the applicable rules and procedures for the arbitration of disputes of JAMS or any successor thereof ("JAMS"), and the terms of this paragraph. In the event of any inconsistency, the terms of this paragraph shall control.
- (d) The arbitration shall be administered by JAMS and conducted, unless otherwise required by law, in any U. S. state where real or tangible personal property collateral for this credit is located or if there is no such collateral, in the state specified in the governing law section of this agreement. All Claims shall be determined by one arbitrator; however, if Claims exceed Five Million Dollars (\$5,000,000), upon the request of any party, the Claims shall be decided by three arbitrators. All arbitration hearings shall commence within ninety (90) days of the demand for arbitration and close within ninety (90) days of commencement and the award of the arbitrator(s) shall be issued within thirty (30) days of the close of the hearing. However, the arbitrator(s), upon a showing of good cause, may extend the commencement of the hearing for up to an additional sixty (60) days. The arbitrator(s) shall provide a concise written statement of reasons for the award. The arbitration award may be submitted to any court having jurisdiction to be confirmed and enforced.
- (e) The arbitrator(s) will have the authority to decide whether any Claim is barred by the statute of limitations and, if so, to dismiss the arbitration on that basis. For purposes of the application of the statute of limitations, the service on JAMS under applicable JAMS rules of a notice of Claim is the equivalent of the filing of a lawsuit. Any dispute concerning this arbitration provision or whether a Claim is arbitrable shall be determined by the arbitrator(s). The arbitrator(s) shall have the power to award legal fees pursuant to the terms of this agreement.
- (f) This paragraph does not limit the right of any party to: (i) exercise self-help remedies, such as but not limited to, setoff; (ii) initiate judicial or non-judicial foreclosure against any real or personal property collateral; (iii) exercise any judicial or power of sale rights, or (iv) act in a court of law to obtain an interim remedy, such as but not limited to, injunctive relief, writ of possession or appointment of a receiver, or additional or supplementary remedies.
- (g) The procedure described above will not apply if the Claim, at the time of the proposed submission to arbitration, arises from or relates to an obligation to the Bank secured by real property. In this case, all of the parties to this agreement must consent to submission of the Claim to arbitration. If both parties do not consent to arbitration, the Claim will be resolved as follows: The parties will designate a referee (or a panel of referees) selected under the auspices of JAMS in the same manner as arbitrators are selected in JAMS administered proceedings. The designated referee(s) will be appointed by a court as provided in California Code of Civil Procedure Section 638 and the following related sections. The referee (or presiding referee of the panel) will be an active attorney or a retired judge. The award that results from the decision of the referee(s) will be entered as a judgment in the court that appointed the referee, in accordance with the provisions of California Code of Civil Procedure Sections 644 and 645.
- (h) The filing of a court action is not intended to constitute a waiver of the right of any party, including the suing party, thereafter to require submittal of the Claim to arbitration.
- (i) By agreeing to binding arbitration, the parties irrevocably and voluntarily waive any right they may have to a trial by jury in respect of any Claim. Furthermore, without intending in any way to limit this agreement to arbitrate, to the extent any Claim is not arbitrated, the parties irrevocably and voluntarily waive any right they may have to a trial by jury in respect of such Claim. This provision is a material inducement for the parties entering into this agreement.

9.5 Severability; Waivers. If any part of this Agreement is not enforceable, the rest of the Agreement may be enforced. The Bank retains all rights, even if it makes a loan after default. If the Bank

waives a default, it may enforce a later default. Any consent or waiver under this Agreement must be in writing.

9.6 Attorneys' Fees. The Borrowers shall reimburse the Bank for any reasonable costs and attorneys' fees incurred by the Bank in connection with the enforcement or preservation of any rights or remedies under this Agreement and any other documents executed in connection with this Agreement, and in connection with any amendment, waiver, "workout" or restructuring under this Agreement. In the event of a lawsuit or arbitration proceeding, the prevailing party is entitled to recover costs and reasonable attorneys' fees incurred in connection with the lawsuit or arbitration proceeding, as determined by the court or arbitrator. In the event that any case is commenced by or against any Borrower under the Bankruptcy Code (Title 11, United States Code) or any similar or successor statute, the Bank is entitled to recover costs and reasonable attorneys' fees incurred by the Bank related to the preservation, protection, or enforcement of any rights of the Bank in such a case. As used in this paragraph, "attorneys' fees" includes the allocated costs of the Bank's in-house counsel.

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

(a) Each Borrower agrees that it is jointly and severally liable to the Bank for the payment of all obligations arising under this Agreement, and that such liability is independent of the obligations of the other Borrower(s). Each obligation, promise, covenant, representation and warranty in this Agreement shall be deemed to have been made by, and be binding upon, each Borrower, unless this Agreement expressly provides otherwise. The Bank may bring an action against any Borrower, whether an action is brought against the other Borrower(s).

(b) Each Borrower agrees that any release which may be given by the Bank to the other Borrower(s) or any guarantor will not release such Borrower from its obligations under this Agreement.

(c) Each Borrower waives any right to assert against the Bank any defense, setoff, counterclaim, or claims which such Borrower may have against the other Borrower(s) or any other party liable to the Bank for the obligations of the Borrowers under this Agreement.

(d) Each Borrower waives any defense by reason of any other Borrower's or any other person's defense, disability, or release from liability. The Bank can exercise its rights against each Borrower even if any other Borrower or any other person no longer is liable because of a statute of limitations or for other reasons.

(e) Each Borrower agrees that it is solely responsible for keeping itself informed as to the financial condition of the other Borrower(s) and of all circumstances which bear upon the risk of nonpayment. Each Borrower waives any right it may have to require the Bank to disclose to such Borrower any information which the Bank may now or hereafter acquire concerning the financial condition of the other Borrower(s).

(f) Each Borrower waives all rights to notices of default or nonperformance by any other Borrower under this Agreement. Each Borrower further waives all rights to notices of the existence or the creation of new indebtedness by any other Borrower and all rights to any other notices to any party liable on any of the credit extended under this Agreement.

(g) The Borrowers represent and warrant to the Bank that each will derive benefit, directly and indirectly, from the collective administration and availability of credit under this Agreement. The Borrowers agree that the Bank will not be required to inquire as to the disposition by any Borrower of funds disbursed in accordance with the terms of this Agreement.

(h) Until all obligations of the Borrowers to the Bank under this Agreement have been paid in full and any commitments of the Bank or facilities provided by the Bank under this Agreement have been terminated, each Borrower (a) waives any right of subrogation, reimbursement, indemnification and contribution (contractual, statutory or otherwise), including without limitation, any claim or right of subrogation under the Bankruptcy Code (Title 11, United States Code) or any successor statute, which such Borrower may now or hereafter have against any other Borrower with respect to the indebtedness incurred under this Agreement; (b) waives any right to enforce any remedy which the Bank now has or may hereafter have against any other Borrower, and waives any benefit of, and any right to participate in, any security now or hereafter held by the Bank.

(i) Each Borrower waives any right to require the Bank to proceed against

any other Borrower or any other person; proceed against or exhaust any security; or pursue any other remedy. Further, each Borrower consents to the taking of, or failure to take, any action which might in any manner or to any extent vary the risks of the Borrowers under this Agreement or which, but for this provision, might operate as a discharge of the Borrowers.

- 9.8 One Agreement. This Agreement and any related security or other agreements required by this Agreement, collectively:
- (a) represent the sum of the understandings and agreements between the Bank and the Borrowers concerning this credit;
 - (b) replace any prior oral or written agreements between the Bank and the Borrowers concerning this credit; and
 - (c) are intended by the Bank and the Borrowers as the final, complete and exclusive statement of the terms agreed to by them.

In the event of any conflict between this Agreement and any other agreements required by this Agreement, this Agreement will prevail. Any reference in any related document to a "promissory note" or a "note" executed by the Borrowers and dated as of the date of this Agreement shall be deemed to refer to this Agreement, as now in effect or as hereafter amended, renewed, or restated.

- 9.9 Indemnification. The Borrowers will indemnify and hold the Bank harmless from any loss, liability, damages, judgments, and costs of any kind relating to or arising directly or indirectly out of (a) this Agreement or any document required hereunder, (b) any credit extended or committed by the Bank to the Borrowers hereunder, and (c) any litigation or proceeding related to or arising out of this Agreement, any such document or any such credit; provided, however, that the Borrowers shall have no such obligation to indemnify or hold the Bank harmless to the extent such loss, liability, damages, judgments or costs result from the gross negligence or willful misconduct of the Bank, its officers, agents or employees. This indemnity includes but is not limited to attorneys' fees (including the allocated cost of in-house counsel). This indemnity extends to the Bank, its parent, subsidiaries and all of their directors, officers, employees, agents, successors, attorneys, and assigns. This indemnity will survive repayment of the Borrowers' obligations to the Bank. All sums due to the Bank hereunder shall be obligations of the Borrowers, due and payable immediately without demand.

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

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

- 9.12 Counterparts. This Agreement may be executed in as many counterparts as necessary or convenient, and by the different parties on separate counterparts each of which, when so executed, shall be deemed an original but all such counterparts shall constitute but one and the same agreement.

- 9.13 Prior Agreement Superseded. This Agreement supersedes the Business Loan Agreement entered into as of February 28, 2003, between the Bank and the Borrowers, and any credit outstanding thereunder shall be deemed to be outstanding under this Agreement.

- 9.14 Commitment Expiration. The Bank's commitment to extend credit under this Agreement will expire on December 24, 2004, unless this Agreement and any documents required by this Agreement have been signed and returned to the Bank on or before that date.

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

By: /Richard D. Nye/

Richard D. Nye, Vice President, Chief
Financial Officer and Treasurer

By: /John C. Plecque/

John C. Plecque,
Senior Vice President

Borrower:

CWS Utility Services

By: /Richard D. Nye/

Richard D. Nye, Vice President, Chief
Financial Officer and Treasurer

Borrower:

New Mexico Water Service Company

By: /Richard D. Nye/

Richard D. Nye, Vice President, Chief
Financial Officer and Treasurer

Borrower:

Washington Water Service Company

By: /Richard D. Nye/

Richard D. Nye, Vice President, Chief
Financial Officer and Treasurer

Borrower:

Hawaii Water Service Company, Inc.

By: /Richard D. Nye/

Richard D. Nye, Vice President, Chief
Financial Officer and Treasurer

Address where notices to the
Borrower are to be sent:

Address where notices to the
Bank are to be sent:

1720 North First Street
San Jose, CA 95112

315 Montgomery Street, 13th Floor
San Francisco, CA 94104

LOAN AGREEMENT

This Agreement dated as of December 23, 2004, is between Bank of America, N.A. (the "Bank") and California Water Service Company (the "Borrower").

1. FACILITY NO. 1: LINE OF CREDIT AMOUNT AND TERMS

1.1 Line of Credit Amount.

- (a) During the availability period described below, the Bank will provide a line of credit to the Borrower. The amount of the line of credit (the "Facility No. 1 Commitment") is Forty-Five Million and 00/100 Dollars (\$45,000,000.00).
- (b) This is a revolving line of credit. During the availability period, the Borrower may repay principal amounts and reborrow them.
- (c) The Borrower agrees not to permit the principal balance outstanding to exceed the Facility No. 1 Commitment. If the Borrower exceeds this limit, the Borrower will immediately pay the excess to the Bank upon the Bank's demand.

1.2 Availability Period. The line of credit is available between the date of this Agreement and April 30, 2007, or such earlier date as the availability may terminate as provided in this Agreement (the "Facility No. 1 Expiration Date").

1.3 Repayment Terms.

- (a) The Borrower will pay interest on December 31, 2004, and then on the same day of each month thereafter until payment in full of any principal outstanding under this facility.
- (b) The Borrower will repay in full any principal, interest or other charges outstanding under this facility no later than the Facility No. 1 Expiration Date. Any interest period for an optional interest rate (as described below) shall expire no later than the Facility No. 1 Expiration Date.

1.4 Interest Rate.

- (a) The interest rate is a rate per year equal to the Bank's Prime Rate minus the Applicable Margin as defined below.
- (b) The Prime Rate is the rate of interest publicly announced from time to time by the Bank as its Prime Rate. The Prime Rate is set by the Bank based on various factors, including the Bank's costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans. The Bank may price loans to its customers at, above, or below the Prime Rate. Any change in the Prime Rate shall take effect at the opening of business on the day specified in the public announcement of a change in the Bank's Prime Rate.

1.5 Optional Interest Rates. Instead of the interest rate based on the rate stated in the paragraph entitled "Interest Rate" above, the Borrower may elect the optional interest rates listed below for this Facility No. 1 during interest periods agreed to by the Bank and the Borrower. The optional interest rates shall be subject to the terms and conditions described later in this Agreement. Any principal amount bearing interest at an optional rate under this Agreement is referred to as a "Portion." The following optional interest rates are available:

- (a) The LIBOR Rate plus the Applicable Margin as defined below.

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

Applicable Margin
(in percentage points per annum)

Prime Rate -	LIBOR Rate +
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Pricing Level	Ratio	Prime Rate -	LIBOR Rate +

1	less than 0.50:1.00	1.000	0.775
2	equal to or greater than 0.50:1.00 and less than 0.55:1.00	0.750	0.900
3	equal to or greater than 0.55:1.00 and less than 0.60:1.00	0.625	1.025
4	equal to or greater than 0.60:1.00	0.500	1.150

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

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

1.7 Letters of Credit.

- (a) During the availability period, at the request of the Borrower, the Bank will issue standby letters of credit with a maximum maturity of three hundred sixty-five (365) days but not to extend more than three hundred sixty-five (365) days beyond the Facility No. 1 Expiration Date. The standby letters of credit may include a provision providing that the maturity date will be automatically extended each year for an additional year unless the Bank gives written notice to the contrary.
- (b) The amount of the letters of credit outstanding at any one time (including the drawn and unreimbursed amounts of the letters of credit) may not exceed Ten Million and 00/100 Dollars (\$10,000,000.00).
- (c) In calculating the principal amount outstanding under the Facility No. 1 Commitment, the calculation shall include the amount of any letters of credit outstanding, including amounts drawn on any letters of credit and not yet reimbursed.
- (d) The following letter of credit is outstanding from the Bank for the account of the Borrower:

Letter of Credit Number	Amount
-----	-----
3060134	\$500,000.00

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

- (e) The Borrower agrees:
 - (i) Any sum drawn under a letter of credit may, at the option of the Bank, be added to the principal amount outstanding under this Agreement. The amount will bear interest and be due as described elsewhere in this Agreement.
 - (ii) If there is a default under this Agreement, to immediately prepay and make the Bank whole for any outstanding letters of credit.
 - (iii) The issuance of any letter of credit and any amendment to a letter of credit is subject to the Bank's written approval and must be in form and content satisfactory to the Bank and in favor of a beneficiary acceptable to the Bank.
 - (iv) To sign the Bank's form Application and Agreement for Commercial Letter of Credit or Application and Agreement for Standby Letter of Credit, as applicable.
 - (v) To pay any issuance and/or other fees that the Bank notifies the Borrower will be charged for issuing and processing letters of credit for the Borrower.
 - (vi) To allow the Bank to automatically charge its checking account for applicable fees, discounts, and other charges.

2. OPTIONAL INTEREST RATES

2.1 Optional Rates. Each optional interest rate is a rate per year. Interest will be paid on December 31, 2004, and then on the same day of each month thereafter until payment in full of any principal outstanding under this facility. No Portion will be converted to a different interest rate during the applicable interest period. Upon the occurrence of an event of default under this Agreement, the Bank may terminate the availability of optional interest rates for interest periods commencing after the default occurs. At the end of each interest period, the interest rate will revert to the rate stated in the paragraph(s) entitled "Interest Rate" above, unless the Borrower has designated another optional interest rate for the Portion.

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

- (a) The interest period during which the LIBOR Rate will be in effect will be one or two weeks, one month, two months, three months, four months, five months, six months, seven months, eight months, nine months, ten months, eleven months or twelve months. The first day of the interest period must be a day other than a Saturday or a Sunday on which the Bank is open for business in New York and London and dealing in offshore dollars (a "LIBOR Banking Day"). The last day of the interest period and the actual number of days during the interest period will be determined by the Bank using the practices of the London inter-bank market.
- (b) Each LIBOR Rate Portion will be for an amount not less than One Hundred Thousand and 00/100 Dollars (\$100,000.00).
- (c) The "LIBOR Rate" means the interest rate determined by the following formula, rounded upward to the nearest 1/100 of one percent. (All amounts in the calculation will be determined by the Bank as of the first day of the interest period.)

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

Where,

- (i) "London Inter-Bank Offered Rate" means the average per annum interest rate at which U.S. dollar deposits would be offered for the applicable interest period by major banks in the London inter-bank market, as shown on the Telerate Page 3750 (or any successor page) at approximately 11:00 a.m. London time two (2) London Banking Days before the commencement of the interest period. If such rate does not appear on the Telerate Page 3750 (or any successor page), the rate for that interest period will be determined by such alternate method as reasonably selected by the Bank. A "London Banking Day" is a day on which the Bank's London Banking Center is open for business and dealing in offshore dollars.
- (ii) "Reserve Percentage" means the total of the maximum reserve percentages for determining the reserves to be maintained by member banks of the Federal Reserve System for Eurocurrency Liabilities, as defined in Federal Reserve Board Regulation D, rounded upward to the nearest 1/100 of one percent. The percentage will be expressed as a decimal, and will include, but not be limited to, marginal, emergency, supplemental, special, and other reserve percentages.
- (d) The Borrower shall irrevocably request a LIBOR Rate Portion no later than 12:00 noon Pacific time on the LIBOR Banking Day preceding the day

on which the London Inter-Bank Offered Rate will be set, as specified above. For example, if there are no intervening holidays or weekend days in any of the relevant locations, the request must be made at least three days before the LIBOR Rate takes effect.

- (e) The Bank will have no obligation to accept an election for a LIBOR Rate Portion if any of the following described events has occurred and is continuing:
 - (i) Dollar deposits in the principal amount, and for periods equal to the interest period, of a LIBOR Rate Portion are not available in the London inter-bank market; or

(ii) The LIBOR Rate does not accurately reflect the cost of a LIBOR Rate Portion.

(f) Each prepayment of a LIBOR Rate Portion, whether voluntary, by reason of acceleration or otherwise, will be accompanied by the amount of accrued interest on the amount prepaid and a prepayment fee as described below. A "prepayment" is a payment of an amount on a date earlier than the scheduled payment date for such amount as required by this Agreement.

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

3. FEES AND EXPENSES

3.1 Fees.

(a) Unused Commitment Fee. The Borrower agrees to pay a fee on any difference between the Facility No. 1 Commitment and the amount of credit it actually uses, determined by the average of the daily amount of credit outstanding during the specified period. The fee will be calculated at the following percentage points per annum, based upon the Debt to Capitalization Ratio (as defined in Paragraph 1.6 above). The calculation of credit outstanding shall not include the undrawn amount of letters of credit. The Debt to Capitalization Ratio will be calculated in the manner described in Paragraph 1.6 of this Agreement; provided, however, that until the Bank receives the first financial statement, the fee will be calculated at the percentage points indicated for fee level 1 set forth below:

Fee Level	Ratio	Applicable Fee (in percentage points per annum)
1	less than 0.55:1.00	.125
2	equal to or greater than 0.55:1.00 and less than 0.60:1.00	.250
3	equal to or greater than 0.60:1.00	.375

This fee is due on January 1, 2005, and on the same day of each following quarter until the expiration of the availability period.

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

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(b) Late Fee. To the extent permitted by law, the Borrower agrees to pay a late fee in an amount not to exceed four percent (4%) of any payment that is more than fifteen (15) days late. The imposition and payment of a late fee shall not constitute a waiver of the Bank's rights with respect to the default.

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

3.3 Reimbursement Costs. The Borrower agrees to reimburse the Bank for any expenses it incurs in the preparation of this Agreement and any agreement or instrument required by this Agreement. Expenses include, but are not limited to, reasonable attorneys' fees, including any allocated costs of the Bank's in-house counsel to the extent permitted by applicable law.

4. DISBURSEMENTS, PAYMENTS AND COSTS

4.1 Disbursements and Payments.

- (a) Each payment by the Borrower will be made in U.S. Dollars and immediately available funds by direct debit to a deposit account as specified below or, for payments not required to be made by direct debit, by mail to the address shown on the Borrower's statement or at one of the Bank's banking centers in the United States.
- (b) Each disbursement by the Bank and each payment by the Borrower will be evidenced by records kept by the Bank. In addition, the Bank may, at its discretion, require the Borrower to sign one or more promissory notes.

4.2 Telephone and Telefax Authorization.

- (a) The Bank may honor telephone or telefax instructions for advances or repayments or for the designation of optional interest rates and telefax requests for the issuance of letters of credit given, or purported to be given, by any one of the individuals authorized to sign loan agreements on behalf of the Borrower, or any other individual designated by any one of such authorized signers.
- (b) Advances will be deposited in and repayments will be withdrawn from account number 14872-00230 owned by the Borrower or such other of the Borrower's accounts with the Bank as designated in writing by the Borrower.
- (c) The Borrower will indemnify and hold the Bank harmless from all liability, loss, and costs in connection with any act resulting from telephone or telefax instructions the Bank reasonably believes are made by any individual authorized by the Borrower to give such instructions. This paragraph will survive this Agreement's termination, and will benefit the Bank and its officers, employees, and agents.

4.3 Direct Debit (Pre-Billing).

- (a) The Borrower agrees that the Bank will debit deposit account number 14872-00230 owned by the Borrower or such other of the Borrower's accounts with the Bank as designated in writing by the Borrower (the "Designated Account") on the date each payment of principal and interest and any fees from the Borrower becomes due (the "Due Date").
- (b) Prior to each Due Date, the Bank will mail to the Borrower a statement of the amounts that will be due on that Due Date (the "Billed Amount"). The bill will be mailed a specified number of calendar days prior to the Due Date, which number of days will be mutually agreed from time to time by the Bank and the Borrower. The calculations in the bill will be made on the assumption that no new extensions of credit or payments will be made between the date of the billing statement and the Due Date, and that there will be no changes in the applicable interest rate.
- (c) The Bank will debit the Designated Account for the Billed Amount, regardless of the actual amount due on that date (the "Accrued Amount"). If the Billed Amount debited to the Designated Account differs from the Accrued Amount, the discrepancy will be treated as follows:
 - (i) If the Billed Amount is less than the Accrued Amount, the Billed Amount for the following Due Date will be increased by the amount of the discrepancy. The Borrower will not be in default by reason of any such discrepancy.

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- (ii) If the Billed Amount is more than the Accrued Amount, the Billed Amount for the following Due Date will be decreased by the amount of the discrepancy.

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

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

4.4 Banking Days. Unless otherwise provided in this Agreement, a banking day is a day other than a Saturday, Sunday or other day on which commercial banks are authorized to close, or are in fact closed, in the state where the Bank's lending office is located, and, if such day relates to amounts bearing interest at an offshore rate (if any), means any such day on which dealings in dollar deposits are conducted among banks in the offshore dollar interbank market. All payments and disbursements which would be due on a day which is not a banking day will be due on the next banking day. All payments received on a day which is not a banking day will be applied to the credit on the next banking day.

4.5 Interest Calculation. Except as otherwise stated in this Agreement, all interest and fees, if any, will be computed on the basis of a 360-day year and the actual number of days elapsed. This results in more interest or a higher fee than if a 365-day year is used. Installments of principal which are not paid when due under this Agreement shall continue to bear interest until paid.

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

5. CONDITIONS

Before the Bank is required to extend any credit to the Borrower under this Agreement, it must receive any documents and other items it may reasonably require, in form and content acceptable to the Bank, including any items specifically listed below.

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

5.2 Governing Documents. If required by the Bank, a copy of the Borrower's organizational documents.

5.3 Guaranty. Guaranty signed by CWSG.

5.4 Payment of Fees. Payment of all fees and other amounts due and owing to the Bank, including without limitation payment of all accrued and unpaid expenses incurred by the Bank as required by the paragraph entitled "Reimbursement Costs."

5.5 Good Standing. Certificates of good standing for the Borrower from its state of formation and from any other state in which the Borrower is required to qualify to conduct its business.

5.6 Insurance. Evidence of insurance coverage, as required in the "Covenants" section of this Agreement.

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6. REPRESENTATIONS AND WARRANTIES

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

6.1 Formation. The Borrower is duly formed and existing under the laws of the state or other jurisdiction where organized.

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

6.3 Enforceable Agreement. This Agreement is a legal, valid and binding agreement of the Borrower, enforceable against the Borrower in accordance with its terms, and any instrument or agreement required hereunder, when executed and delivered, will be similarly legal, valid, binding and enforceable.

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

- 6.5 No Conflicts. This Agreement does not conflict with any law, agreement, or obligation by which the Borrower is bound.
- 6.6 Financial Information. All financial and other information that has been or will be supplied to the Bank is sufficiently complete to give the Bank accurate knowledge of the Borrower's (and any guarantor's) financial condition, including all material contingent liabilities. Since the date of the most recent financial statement provided to the Bank, there has been no material adverse change in the business condition (financial or otherwise), operations, properties or prospects of the Borrower (or any guarantor).
- 6.7 Lawsuits. There is no lawsuit, tax claim or other dispute pending or threatened against the Borrower which, if lost, would impair the Borrower's financial condition or ability to repay the loan, except as have been disclosed in writing to the Bank.
- 6.8 Permits, Franchises. The Borrower possesses all permits, memberships, franchises, contracts and licenses required and all trademark rights, trade name rights, patent rights, copyrights and fictitious name rights necessary to enable it to conduct the business in which it is now engaged.
- 6.9 Other Obligations. The Borrower is not in default on any obligation for borrowed money, any purchase money obligation or any other material lease, commitment, contract, instrument or obligation, except as have been disclosed in writing to the Bank.
- 6.10 Tax Matters. The Borrower has no knowledge of any pending assessments or adjustments of its income tax for any year and all taxes due have been paid, except as have been disclosed in writing to the Bank.
- 6.11 No Event of Default. There is no event which is, or with notice or lapse of time or both would be, a default under this Agreement.
- 6.12 Insurance. The Borrower has obtained, and maintained in effect, the insurance coverage required in the "Covenants" section of this Agreement.

7. COVENANTS

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

- 7.1 Use of Proceeds. To use the proceeds of Facility No. 1 only for working capital and general corporate purposes and to bridge capital expenditures.
- 7.2 Financial Information. To provide the following financial information and statements in form and content acceptable to the Bank, and such additional information as requested by the Bank from time to time:
- (a) Within one hundred twenty (120) days of the fiscal year end, the annual financial statements of the Borrower. These financial statements must be audited (with an opinion satisfactory to the Bank) by a Certified Public Accountant acceptable to the Bank. The statements shall be prepared on an unconsolidated basis.
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- (b) Within sixty (60) days of the period's end, quarterly financial statements of the Borrower, certified and dated by an authorized financial officer. These financial statements may be company-prepared. The statements shall be prepared on an unconsolidated basis.
- (c) Within the periods provided in (a) and (b) above, a compliance certificate of the Borrower signed by an authorized financial officer, and setting forth (i) the computation (on a consolidated basis) of the Debt to Capitalization Ratio (as defined in Paragraph 1.6 above) at the end of the period covered by the financial statements then being furnished and (ii) whether there existed as of the date of such financial statements and whether there exists as of the date of the certificate, any default under this Agreement and, if any such default exists, specifying the nature thereof and the action the Borrower is taking and proposes to take with respect thereto.
- (d) Within ninety (90) days of the fiscal year end, the annual financial statements of CWSG. These financial statements must be audited (with an opinion satisfactory to the Bank) by a Certified Public Accountant acceptable to the Bank. The statements shall be prepared on a consolidated and consolidating basis.
- (e) Within sixty (60) days of the period's end, quarterly financial statements of CWSG, certified and dated by an authorized financial

officer. These financial statements may be company-prepared. The statements shall be prepared on a consolidated and consolidating basis.

- (f) Copies of the Form 10-K Annual Report and Form 10-Q Quarterly Report for CWSG within ten (10) days after the date of filing with the Securities and Exchange Commission.
- (g) The annual financial projections of the Borrower covering a time period acceptable to the Bank and specifying the assumptions used in creating the projections. These projections shall be provided to the Bank by April 30th of each year.
- (h) The annual financial projections of CWSG covering a time period acceptable to the Bank and specifying the assumptions used in creating the projections. These projections shall be provided to the Bank by April 30th of each year.

7.3 Out of Debt Periods and Reduction of Debt Periods.

- (a) Out of Debt Periods. Not to permit the passage of any period of twenty-four (24) consecutive months during which the Borrower fails to repay in full the advances outstanding under Facility No. 1 for a period of at least thirty (30) consecutive days.
- (b) Reduction of Debt Periods. Not to permit the passage of any period of twelve (12) consecutive months during which the Borrower fails to reduce the amount of advances outstanding under Facility No. 1 to not more than Ten Million Dollars (\$10,000,000) for a period of at least thirty (30) consecutive days.

For purposes of this paragraph, "advances" does not include undrawn amounts of outstanding letters of credit.

7.4 Other Debts. Not to have outstanding or incur any direct or contingent liabilities or lease obligations (other than those to the Bank), or become liable for the liabilities of others, without the Bank's written consent. This does not prohibit:

- (a) Acquiring goods, supplies, or merchandise on normal trade credit.
- (b) Endorsing negotiable instruments received in the usual course of business.
- (c) Obtaining surety bonds in the usual course of business.
- (d) Liabilities, lines of credit and leases in existence on the date of this Agreement disclosed in writing to the Bank.
- (e) Additional debts and lease obligations for the acquisition of fixed assets, to the extent permitted under Paragraph 7.5(d) of this Agreement.
- (f) Additional obligations of the Borrower consisting of first mortgage bonds or unsecured senior notes substantially similar in amount and structure to those certain first mortgage bonds and unsecured senior notes that are outstanding as of the date of this Agreement.

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7.5 Other Liens. Not to create, assume, or allow any security interest or lien (including judicial liens) on property the Borrower now or later owns, except:

- (a) Liens and security interests in favor of the Bank.
- (b) Liens for taxes not yet due.
- (c) Liens outstanding on the date of this Agreement disclosed in writing to the Bank.
- (d) Additional purchase money security interests in assets acquired after the date of this Agreement, if the total principal amount of debts secured by such liens does not exceed Five Million Dollars (\$5,000,000) at any one time.
- (e) Liens securing first mortgage bonds permitted under the preceding paragraph.

7.6 Maintenance of Assets.

- (a) Not to sell, assign, lease, transfer or otherwise dispose of any part

of the Borrower's business or the Borrower's assets except in the ordinary course of the Borrower's business. It is provided, however, that this negative covenant shall not be deemed to prohibit transfers and sales by the Borrower to CWS Utility Services of those certain parcels of real property that are not essential to Borrower's regulated water operations.

- (b) Not to sell, assign, lease, transfer or otherwise dispose of any assets for less than fair market value, or enter into any agreement to do so.
 - (c) Not to enter into any sale and leaseback agreement covering any of its fixed assets.
 - (d) To maintain and preserve all rights, privileges, and franchises the Borrower now has.
 - (e) To make any repairs, renewals, or replacements to keep the Borrower's properties in good working condition.
- 7.7 Loans. Not to make any loans, advances or other extensions of credit to any individual or entity, except for:
- (a) Existing extensions of credit disclosed to the Bank in writing.
 - (b) Extensions of credit to the Borrower's current subsidiaries.
 - (c) Extensions of credit in the nature of accounts receivable or notes receivable arising from the sale or lease of goods or services in the ordinary course of business to non-affiliated entities.
- 7.8 Additional Negative Covenants. Not to, without the Bank's written consent:
- (a) Enter into any consolidation, merger, or other combination, or become a partner in a partnership, a member of a joint venture, or a member of a limited liability company.
 - (b) Acquire or purchase a business or its assets.
 - (c) Engage in any business activities substantially different from the Borrower's present business.
 - (d) Liquidate or dissolve the Borrower's business.
 - (e) Voluntarily suspend the Borrower's business for more than seven (7) days in any three hundred sixty-five (365) day period.
- 7.9 Notices to Bank. To promptly notify the Bank in writing of:
- (a) Any lawsuit over Five Million and 00/100 Dollars (\$5,000,000.00) against the Borrower (or any guarantor).
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- (b) Any substantial dispute between any governmental authority and the Borrower (or any guarantor).
 - (c) Any event of default under this Agreement, or any event which, with notice or lapse of time or both, would constitute an event of default.
 - (d) Any material adverse change in the Borrower's (or any guarantor's) business condition (financial or otherwise), operations, properties or prospects, or ability to repay the credit.
 - (e) Any change in the Borrower's name, legal structure, place of business, or chief executive office if the Borrower has more than one place of business.
 - (f) Any actual contingent liabilities of the Borrower (or any guarantor), and any such contingent liabilities which are reasonably foreseeable, where such liabilities are in excess of Five Million and 00/100 Dollars (\$5,000,000.00) in the aggregate.
- 7.10 General Business Insurance. To maintain insurance as is usual for the business it is in.
- 7.11 Compliance with Laws. To comply with the laws (including any fictitious or trade name statute), regulations, and orders of any government body with authority over the Borrower's business.
- 7.12 ERISA Plans. Promptly during each year, to pay and cause any subsidiaries to pay contributions adequate to meet at least the minimum funding standards under ERISA with respect to each and every Plan; file each annual report required to be filed pursuant to ERISA in connection

with each Plan for each year; and notify the Bank within ten (10) days of the occurrence of any Reportable Event that might constitute grounds for termination of any capital Plan by the Pension Benefit Guaranty Corporation or for the appointment by the appropriate United States District Court of a trustee to administer any Plan. "ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time. Capitalized terms in this paragraph shall have the meanings defined within ERISA.

- 7.13 Books and Records. To maintain adequate books and records.
- 7.14 Audits. To allow the Bank and its agents to inspect the Borrower's properties and examine, audit, and make copies of books and records at any reasonable time. If any of the Borrower's properties, books or records are in the possession of a third party, the Borrower authorizes that third party to permit the Bank or its agents to have access to perform inspections or audits and to respond to the Bank's requests for information concerning such properties, books and records.
- 7.15 Cooperation. To take any action reasonably requested by the Bank to carry out the intent of this Agreement.

8. DEFAULT AND REMEDIES

If any of the following events of default occurs, the Bank may do one or more of the following: declare the Borrower in default, stop making any additional credit available to the Borrower, and require the Borrower to repay its entire debt immediately and without prior notice. If an event which, with notice or the passage of time, will constitute an event of default has occurred and is continuing, the Bank has no obligation to make advances or extend additional credit under this Agreement. In addition, if any event of default occurs, the Bank shall have all rights, powers and remedies available under any instruments and agreements required by or executed in connection with this Agreement, as well as all rights and remedies available at law or in equity. If an event of default occurs under the paragraph entitled "Bankruptcy," below, with respect to the Borrower, then the entire debt outstanding under this Agreement will automatically be due immediately.

- 8.1 Failure to Pay. The Borrower fails to make a payment under this Agreement when due.
- 8.2 Other Bank Agreements. Any default occurs under any other agreement the Borrower (or any Obligor) or any of the Borrower's related entities or affiliates has with the Bank or any affiliate of the Bank. For purposes of this Agreement, "Obligor" shall mean any guarantor or any party pledging collateral to the Bank.
- 8.3 Cross-default. Any default occurs under any agreement in connection with any credit the Borrower (or any Obligor) or any of the Borrower's related entities or affiliates has obtained from anyone else or which the Borrower (or any Obligor) or any of the Borrower's related entities or affiliates has guaranteed.

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- 8.4 False Information. The Borrower or any Obligor has given the Bank false or misleading information or representations.
- 8.5 Bankruptcy. The Borrower, any Obligor, or any general partner of the Borrower or of any Obligor files a bankruptcy petition, a bankruptcy petition is filed against any of the foregoing parties, or the Borrower, any Obligor, or any general partner of the Borrower or of any Obligor makes a general assignment for the benefit of creditors.
- 8.6 Receivers. A receiver or similar official is appointed for a substantial portion of the Borrower's or any Obligor's business, or the business is terminated, or, if any Obligor is anything other than a natural person, such Obligor is liquidated or dissolved.
- 8.7 Lawsuits. Any lawsuit or lawsuits are filed on behalf of one or more trade creditors against the Borrower or any Obligor in an aggregate amount of Five Million and 00/100 Dollars (\$5,000,000.00) or more in excess of any insurance coverage.
- 8.8 Judgments. Any judgments or arbitration awards are entered against the Borrower or any Obligor, or the Borrower or any Obligor enters into any settlement agreements with respect to any litigation or arbitration, in an aggregate amount of Five Million and 00/100 Dollars (\$5,000,000.00) or more in excess of any insurance coverage.
- 8.9 Material Adverse Change. A material adverse change occurs, or is reasonably likely to occur, in the Borrower's (or any Obligor's) business condition (financial or otherwise), operations, properties or prospects, or ability to repay the credit.

- 8.10 Government Action. Any government authority takes action that the Bank believes materially adversely affects the Borrower's or any Obligor's financial condition or ability to repay.
- 8.11 Default under Related Documents. Any default occurs under any guaranty, subordination agreement, security agreement, deed of trust, mortgage, or other document required by or delivered in connection with this Agreement or any such document is no longer in effect, or any guarantor purports to revoke or disavow the guaranty.
- 8.12 ERISA Plans. Any one or more of the following events occurs with respect to a Plan of the Borrower subject to Title IV of ERISA, provided such event or events could reasonably be expected, in the judgment of the Bank, to subject the Borrower to any tax, penalty or liability (or any combination of the foregoing) which, in the aggregate, could have a material adverse effect on the financial condition of the Borrower:
- (a) A reportable event shall occur under Section 4043(c) of ERISA with respect to a Plan.
 - (b) Any Plan termination (or commencement of proceedings to terminate a Plan) or the full or partial withdrawal from a Plan by the Borrower or any ERISA Affiliate.
- 8.13 Other Breach Under Agreement. A default occurs under any other term or condition of this Agreement not specifically referred to in this Article. This includes any failure or anticipated failure by the Borrower (or any other party named in the Covenants section) to comply with the financial covenants set forth in this Agreement, whether such failure is evidenced by financial statements delivered to the Bank or is otherwise known to the Borrower or the Bank.
- 8.14 Restrictive Covenant. CWSG directly or indirectly agrees to any arrangement whereby the ability of any of its subsidiaries to pay dividends to CWSG is restricted.
- 8.15 Debt to Capitalization Ratio. The Debt to Capitalization Ratio, as defined in Paragraph 1.6 above and as calculated on a consolidated basis from CWSG's most recent financial statement received by the Bank as required under the Covenants section above, exceeds 0.667:1.0.

9. ENFORCING THIS AGREEMENT; MISCELLANEOUS

- 9.1 GAAP. Except as otherwise stated in this Agreement, all financial information provided to the Bank and all financial covenants will be made under generally accepted accounting principles, consistently applied.
- 9.2 California Law. This Agreement is governed by California state law.

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- 9.3 Successors and Assigns. This Agreement is binding on the Borrower's and the Bank's successors and assignees. The Borrower agrees that it may not assign this Agreement without the Bank's prior consent. The Bank may sell participations in or assign this loan, and may exchange financial information about the Borrower with actual or potential participants or assignees. If a participation is sold or the loan is assigned, the purchaser will have the right of set-off against the Borrower.
- 9.4 Arbitration and Waiver of Jury Trial
- (a) This paragraph concerns the resolution of any controversies or claims between the parties, whether arising in contract, tort or by statute, including but not limited to controversies or claims that arise out of or relate to: (i) this agreement (including any renewals, extensions or modifications); or (ii) any document related to this agreement (collectively a "Claim"). For the purposes of this arbitration provision only, the term "parties" shall include any parent corporation, subsidiary or affiliate of the Bank involved in the servicing, management or administration of any obligation described or evidenced by this agreement.
 - (b) At the request of any party to this agreement, any Claim shall be resolved by binding arbitration in accordance with the Federal Arbitration Act (Title 9, U. S. Code) (the "Act"). The Act will apply even though this agreement provides that it is governed by the law of a specified state.
 - (c) Arbitration proceedings will be determined in accordance with the Act, the applicable rules and procedures for the arbitration of disputes of

JAMS or any successor thereof ("JAMS"), and the terms of this paragraph. In the event of any inconsistency, the terms of this paragraph shall control.

- (d) The arbitration shall be administered by JAMS and conducted, unless otherwise required by law, in any U. S. state where real or tangible personal property collateral for this credit is located or if there is no such collateral, in the state specified in the governing law section of this agreement. All Claims shall be determined by one arbitrator; however, if Claims exceed Five Million Dollars (\$5,000,000), upon the request of any party, the Claims shall be decided by three arbitrators. All arbitration hearings shall commence within ninety (90) days of the demand for arbitration and close within ninety (90) days of commencement and the award of the arbitrator(s) shall be issued within thirty (30) days of the close of the hearing. However, the arbitrator(s), upon a showing of good cause, may extend the commencement of the hearing for up to an additional sixty (60) days. The arbitrator(s) shall provide a concise written statement of reasons for the award. The arbitration award may be submitted to any court having jurisdiction to be confirmed and enforced.
- (e) The arbitrator(s) will have the authority to decide whether any Claim is barred by the statute of limitations and, if so, to dismiss the arbitration on that basis. For purposes of the application of the statute of limitations, the service on JAMS under applicable JAMS rules of a notice of Claim is the equivalent of the filing of a lawsuit. Any dispute concerning this arbitration provision or whether a Claim is arbitrable shall be determined by the arbitrator(s). The arbitrator(s) shall have the power to award legal fees pursuant to the terms of this agreement.
- (f) This paragraph does not limit the right of any party to: (i) exercise self-help remedies, such as but not limited to, setoff; (ii) initiate judicial or non-judicial foreclosure against any real or personal property collateral; (iii) exercise any judicial or power of sale rights, or (iv) act in a court of law to obtain an interim remedy, such as but not limited to, injunctive relief, writ of possession or appointment of a receiver, or additional or supplementary remedies.
- (g) The procedure described above will not apply if the Claim, at the time of the proposed submission to arbitration, arises from or relates to an obligation to the Bank secured by real property. In this case, all of the parties to this agreement must consent to submission of the Claim to arbitration. If both parties do not consent to arbitration, the Claim will be resolved as follows: The parties will designate a referee (or a panel of referees) selected under the auspices of JAMS in the same manner as arbitrators are selected in JAMS administered proceedings. The designated referee(s) will be appointed by a court as provided in California Code of Civil Procedure Section 638 and the following related sections. The referee (or presiding referee of the panel) will be an active attorney or a retired judge. The award that results from the decision of the referee(s) will be entered as a judgment in the court that appointed the referee, in accordance with the provisions of California Code of Civil Procedure Sections 644 and 645.
- (h) The filing of a court action is not intended to constitute a waiver of the right of any party, including the suing party, thereafter to require submittal of the Claim to arbitration.

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- (i) By agreeing to binding arbitration, the parties irrevocably and voluntarily waive any right they may have to a trial by jury in respect of any Claim. Furthermore, without intending in any way to limit this agreement to arbitrate, to the extent any Claim is not arbitrated, the parties irrevocably and voluntarily waive any right they may have to a trial by jury in respect of such Claim. This provision is a material inducement for the parties entering into this agreement.

9.5 Severability; Waivers. If any part of this Agreement is not enforceable, the rest of the Agreement may be enforced. The Bank retains all rights, even if it makes a loan after default. If the Bank waives a default, it may enforce a later default. Any consent or waiver under this Agreement must be in writing.

9.6 Attorneys' Fees. The Borrower shall reimburse the Bank for any reasonable costs and attorneys' fees incurred by the Bank in connection with the enforcement or preservation of any rights or remedies under this Agreement and any other documents executed in connection with this Agreement, and in connection with any amendment, waiver, "workout" or restructuring under this Agreement. In the event of a lawsuit or arbitration proceeding, the prevailing party is entitled to recover costs and reasonable attorneys' fees incurred in connection with the

lawsuit or arbitration proceeding, as determined by the court or arbitrator. In the event that any case is commenced by or against the Borrower under the Bankruptcy Code (Title 11, United States Code) or any similar or successor statute, the Bank is entitled to recover costs and reasonable attorneys' fees incurred by the Bank related to the preservation, protection, or enforcement of any rights of the Bank in such a case. As used in this paragraph, "attorneys' fees" includes the allocated costs of the Bank's in-house counsel.

- 9.7 One Agreement. This Agreement and any related security or other agreements required by this Agreement, collectively:
- (a) represent the sum of the understandings and agreements between the Bank and the Borrower concerning this credit;
 - (b) replace any prior oral or written agreements between the Bank and the Borrower concerning this credit; and
 - (c) are intended by the Bank and the Borrower as the final, complete and exclusive statement of the terms agreed to by them.

In the event of any conflict between this Agreement and any other agreements required by this Agreement, this Agreement will prevail. Any reference in any related document to a "promissory note" or a "note" executed by the Borrower and dated as of the date of this Agreement shall be deemed to refer to this Agreement, as now in effect or as hereafter amended, renewed, or restated.

- 9.8 Indemnification. The Borrower will indemnify and hold the Bank harmless from any loss, liability, damages, judgments, and costs of any kind relating to or arising directly or indirectly out of (a) this Agreement or any document required hereunder, (b) any credit extended or committed by the Bank to the Borrower hereunder, and (c) any litigation or proceeding related to or arising out of this Agreement, any such document or any such credit; provided, however, that the Borrower shall have no such obligation to indemnify or hold the Bank harmless to the extent such loss, liability, damages, judgments or costs result from the gross negligence or willful misconduct of the Bank, its officers, agents or employees. This indemnity includes but is not limited to attorneys' fees (including the allocated cost of in-house counsel). This indemnity extends to the Bank, its parent, subsidiaries and all of their directors, officers, employees, agents, successors, attorneys, and assigns. This indemnity will survive repayment of the Borrower's obligations to the Bank. All sums due to the Bank hereunder shall be obligations of the Borrower, due and payable immediately without demand.

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

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

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- 9.11 Counterparts. This Agreement may be executed in as many counterparts as necessary or convenient, and by the different parties on separate counterparts each of which, when so executed, shall be deemed an original but all such counterparts shall constitute but one and the same agreement.

- 9.12 Prior Agreement Superseded. This Agreement supersedes the Business Loan Agreement entered into as of February 28, 2003, between the Bank and the Borrower, and any credit outstanding thereunder shall be deemed to be outstanding under this Agreement.

- 9.13 Commitment Expiration. The Bank's commitment to extend credit under this Agreement will expire on December 24, 2004, unless this Agreement and any documents required by this Agreement have been signed and returned to the Bank on or before that date.

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

Borrower:

Bank:

California Water Service Company

Bank of America, N.A.

By: /Richard D. Nye/

Richard D. Nye, Vice President, Chief
Vice President Financial
Officer and Treasurer

By: /John C. Plecque/

John C. Plecque, Senior

Address where notices to the
Borrower are to be sent:

1720 North First Street
San Jose, CA 95112

Address where notices to the
Bank are to be sent:

315 Montgomery Street, 13th Floor
San Francisco, CA 94104