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

# FORM 10-K

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

For the fiscal year ended December 31, 2005

OR

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

For the transition period from ............to...................

Commission file No. 1-13883

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

| Delaware | 77-0448994 |
|---|---|
| (State of Incorporation) | (I.R.S. Employer Identification No.) |

| 1720 North First Street, San Jose, California | 95112 |
|---|---|
| (Address of Principal Executive Offices) | (Zip Code) |

(408) 367-8200
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

| Title of Each Class: | Name of Each Exchange on Which Registered: |
|---|---|
| Common Stock, $0.01 Par Value | New York Stock Exchange |

Preferred Share Purchase Rights New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None
(Title of Class)

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ___ No _X_

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 of Section 15(d) of the Act. Yes ___ No _X_

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]



Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non- accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [ ] Accelerated filer [X] Non-accelerated filer [ ].

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ___ No _X_

The aggregate market value of the common stock held by non-affiliates of the Registrant was $646.7 million on June 30, 2005, the last business day of the registrant's most recently completed second fiscal quarter. The valuation is based on the closing price of the registrant's common stock as traded on the New York Stock Exchange.

Common stock outstanding at March 6, 2006, - 18,405,138 shares.

EXHIBIT INDEX

DOCUMENTS INCORPORATED BY REFERENCE

Designated portions of Registrant's Annual Report to Stockholders for the calendar year ended December 31, 2005, (2005 Annual Report) are incorporated by reference in Part I (Item 1 and 2) and Part II (Items 5, 6, 7, 7A, 8 and 9A).

Designated portions of the Registrant's Proxy Statement (Proxy Statement) relating to the 2006 annual meeting of stockholders are incorporated by reference in Part III (Items 10, 11, 12 and 14).



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# PART I

## Item 1. Business.

### Forward-Looking Statements

This annual report, including all documents incorporated by reference, contains forward-looking statements within the meaning established by the Private Securities Litigation Reform Act of 1995 (Act). The forward-looking statements are intended to qualify under provisions of the federal securities laws for "safe harbor" treatment established by the Act. Forward-looking statements are based on currently available information, expectations, estimates, assumptions, projections, and management's judgment about the Company, the water utility industry, and general economic conditions. Such words as expects, intends, plans, believes, estimates, assumes, anticipates, projects, predicts, forecasts, or variations of such words or similar expressions are intended to identify forward-looking statements. The forward-looking statements are not guarantees of future performance. They are subject to uncertainty and changes in circumstances. Actual results may vary materially from what is contained in a forward-looking statement.

Factors that may cause a result different than expected or anticipated include: governmental and regulatory commissions' decisions, including decisions on proper disposition of property; changes in regulatory commissions' policies and procedures; the timeliness of regulatory commissions' actions concerning rate relief; new legislation; changes in accounting valuations and estimates; the ability to satisfy requirements related to the Sarbanes-Oxley Act and other regulations on internal controls; electric power interruptions; increases in suppliers' prices and the availability of supplies including water and power; fluctuations in interest rates; changes in environmental compliance and water quality requirements; acquisitions and the ability to successfully integrate acquired companies; the ability to successfully implement business plans; changes in customer water use patterns; the impact of weather on water sales and operating results; access to sufficient capital on satisfactory terms; civil disturbances or terrorist threats or acts, or apprehension about the possible future occurrences of acts of this type; the involvement of the United States in war or other hostilities; restrictive covenants in or changes to the credit ratings on current or future debt that could increase financing costs or affect the ability to borrow, make payments on debt, or pay dividends; and other risks and unforeseen events. When considering forward-looking statements, the reader should keep in mind the cautionary statements included in this paragraph. The Company assumes no obligation to provide public updates on forward-looking statements.

### a. General Development of Business

California Water Service Group (the Company) is a holding company incorporated in Delaware with five operating subsidiaries: California Water Service Company (Cal Water), CWS Utility Services (Utility Services), New Mexico Water Service Company (New Mexico Water), Washington Water Service Company (Washington Water), and Hawaii Water Service Company, Inc. (Hawaii Water). Cal Water, New Mexico Water, Washington Water, and Hawaii Water are regulated public utilities. The regulated utility entities also provide some non-regulated services. Utility Services provides non-regulated services to private companies and municipalities. Cal Water was the originating company and began operations in 1926. The other entities were incorporated within the last 10 years.

California water operations are conducted by the Cal Water and Utility Services entities, which provide service to approximately 456,700 customers in 75 California communities through 26 separate districts. Of these 26 districts, 24 districts are regulated water systems, which are subject to regulation by the California Public Utilities Commission (CPUC). The other 2 districts, the City of Hawthorne and the City of Commerce, are governed through their respective city councils and are considered non-regulated because they are outside of the CPUC's jurisdiction. Their activities are reflected in the Company's operating revenue and operating costs, as the risks and rewards of these operations are similar to the Company's regulated activities. California water operations account for 95% of the total customers and 96% of the total operating revenue of the Company.

Washington Water provides domestic water service to 15,311 customers in the Tacoma and Olympia areas. Washington Water's utility operations are regulated by the Washington Utilities and Transportation Commission. Washington Water accounts for 3% of the total customers and 2% of the total operating revenue of the Company.



New Mexico Water provides service to 6,480 water and wastewater customers in the Belen, Los Lunas and Elephant Butte areas in New Mexico. Its regulated operations are subject to the jurisdiction of the New Mexico Public Regulation Commission. New Mexico Water accounts for 1% of the total customers and 1% of the total operating revenue of the Company.

Hawaii Water provides water service to 537 customers on the island of Maui, including several large resorts and condominium complexes. Its regulated operations are subject to the jurisdiction of the Hawaii Public Utilities Commission. Hawaii Water accounts for less than 1% of the total customers and 1% of the total operating revenue of the Company.

Other non-regulated activities consist primarily of operating water systems, which are owned by other entities; providing meter reading and billing services; leasing communication antenna sites on the Company's properties; operating recycled water systems; providing brokerage services for water rights; providing lab services for water quality testing; and selling surplus property. The results of these activities are reported below operating profit on the income statement and therefore the revenue is not included in operating revenue. Due to the variety of services provided and activities being outside of the Company's core business, the number of customers is not tracked for these non-regulated activities except customers for the City of Hawthorne and the City of Commerce. Non-regulated activities, excluding gains on sale of non-utility property, comprised 6% of the Company's total net income in 2005.

The state regulatory entities governing the Company's regulated operations are referred to as the Commissions in this report. Rates and operations for regulated customers are subject to the jurisdiction of the respective state's regulatory commission. The Commissions require that water and wastewater rates for each regulated district be independently determined. The Commissions are expected to authorize rates sufficient to recover normal operating expenses and allow the utility to earn a fair and reasonable return on invested capital. Rates for the City of Hawthorne and City of Commerce water systems are established in accordance with operating agreements and are subject to ratification by the respective city councils. Fees for other non-regulated activities are based on contracts negotiated between the parties.

The Company's mailing address and contact information is:
California Water Service Group
1720 North First Street
San Jose, California 95112-4598
telephone number: 408-367-8200
www.calwatergroup.com

Annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports are available free of charge through the Company's website. The reports are available on the Company's website on the same day they appear on the SEC's website.

During the year ended December 31, 2005, there were no significant changes in the kind of products produced or services rendered or those provided by the Company's operating subsidiaries, or in the markets or methods of distribution.



## b. Financial Information about Industry Segments

The Company operates primarily in one business segment, the supply and distribution of water and providing water-related utility services.

## c. Narrative Description of Business

The business is conducted through the Company's operating subsidiaries. The bulk of the business consists of the production, purchase, storage, treatment, testing, distribution and sale of water for domestic, industrial, public and irrigation uses, and for fire protection. Also provided are non-regulated water-related services under agreements with municipalities and other private companies. The non-regulated services include full water system operation, billing and meter reading services. Non-regulated operations also include the lease of communication antenna sites, lab services, water rights brokerage, and our Extended Service Protection program. Earnings may be significantly affected by the sale of surplus real properties if and when they occur.

Operating results from the water business fluctuate according to the demand for water, which is often influenced by seasonal conditions, such as summer temperatures or the amount and timing of precipitation in the Company's service areas. Revenue, expenses and income are affected by changes in water sales. Expenses for purchased water, purchased power and pump taxes will vary due to changes in water sales. The majority of other costs, such as payroll and benefits, depreciation, interest on long-term debt and property taxes are more predictable, remain fairly constant, and are not significantly impacted by variations in the amount of water sold. As a result, earnings are highest in the high use, warm weather summer months when rainfall is lower. Earnings are lower in the cool winter months when most rainfall takes place in the Company's service territories.

The Company distributes water in accordance with accepted water utility methods. Where applicable, the Company holds franchises and permits in the cities and communities where it operates. The franchises and permits allow the Company to operate and maintain facilities in public streets and right- of-ways as necessary.

The Company operates the City of Hawthorne and the City of Commerce water systems under lease agreements. In accordance with the lease agreements, the Company receives all revenues from operating the systems and is responsible for paying the operating costs. Under other contract arrangements, the Company operates municipally owned water systems, privately owned water systems, and recycled water distribution systems, but is not responsible for all operating costs. These contracts are fee-per-service, fixed-fee or cost-plus contracts. The Company also provides billing and other customer services to a number of municipalities.

The Company intends to continue exploring opportunities to expand its regulated and non-regulated businesses in the western United States. The opportunities could include system acquisitions, lease arrangements similar to the City of Hawthorne contract, full service system operation and maintenance agreements, meter reading, billing contracts and other utility-related services. Management believes that a holding company structure facilitates providing non-regulated utility services, which are not subject to Commission jurisdiction.

Geographical Service Areas and Number of Customers at Year-end
- -------------------------------------------------------------------
The Company's principal markets are users of water within its service areas. Most of the geographical service areas or districts are regulated. In addition, the City of Hawthorne and City of Commerce are included due to similarities in structure and risk of operations. The approximate number of customers served in each district is as follows:



Regulated Customers, City of Hawthorne and City of Commerce Customers at December 31,
<TABLE>
<CAPTION>

| | 2005 | 2004 |
|---|---|---|
| <C> | <C> | <C> |
| SAN FRANCISCO BAY AREA | | |
| Mid-Peninsula (serving San Mateo and San Carlos) | 36,100 | 36,100 |
| South San Francisco (including Colma and Broadmoor) | 16,800 | 16,700 |
| Bear Gulch (serving portions of Menlo Park, Atherton, Woodside and Portola Valley) | 18,000 | 17,700 |
| Los Altos (including portions of Cupertino, Los Altos Hills, Mountain View and Sunnyvale) | 18,500 | 18,500 |
| Livermore | 18,100 | 17,900 |
| | 107,500 | 106,900 |
| SACRAMENTO VALLEY | | |
| Chico (including Hamilton City) | 26,400 | 25,900 |
| Oroville | 3,600 | 3,500 |
| Marysville | 3,800 | 3,800 |
| Dixon | 2,900 | 2,900 |
| Willows | 2,300 | 2,300 |
| Redwood Valley (Lucerne, Duncans Mills, Guerneville, Dillon Beach, Noel Heights & portions of Santa Rosa) | 2,000 | 2,000 |
| | 41,000 | 40,400 |
| SALINAS VALLEY | | |
| Salinas | 27,800 | 27,800 |

| | | |
|---|---|---|
| King City | 2,400 | 2,300 |
| | 30,200 | 30,100 |
| SAN JOAQUIN VALLEY | | |
| Bakersfield | 63,600 | 62,400 |
| Stockton | 42,300 | 41,800 |
| Visalia | 35,800 | 34,500 |
| Selma | 6,000 | 5,800 |
| Kern River Valley | 4,300 | 4,200 |
| Antelope Valley (Fremont Valley, Lake Hughes, Lancaster & Leona Valley) | 1,400 | 1,400 |
| | 153,400 | 150,100 |
| LOS ANGELES AREA | | |
| East Los Angeles (including portions of the City of Commerce) | 27,800 | 27,700 |
| Hermosa-Redondo (serving Hermosa Beach, Redondo Beach and a portion of Torrance) | 26,100 | 26,000 |
| Dominguez (Carson and portions of Compton, Harbor City, Long Beach, Los Angeles and Torrance) | 33,600 | 33,500 |
| Palos Verdes (including Palos Verdes Estates, Rancho Palos Verdes, Rolling Hills Estates and Rolling Hills) | 24,000 | 24,000 |
| Westlake (a portion of Thousand Oaks) | 7,000 | 7,000 |
| Hawthorne (leased municipal system) | 6,100 | 6,100 |
| | 124,600 | 124,300 |
| CALIFORNIA TOTAL | 456,700 | 451,800 |
| HAWAII | 500 | 500 |
| NEW MEXICO | 6,500 | 5,800 |
| WASHINGTON | 15,300 | 15,000 |
| COMPANY TOTAL | 479,000 | 473,100 |

</TABLE>



## Rates and Regulation

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

Since the Company's 24 California-regulated operating districts are not physically integrated, rates are set independently for each district as required by the CPUC. General office (headquarters) expenses and capital expenditures are considered separately and allocated ratably to the operating districts.

## General and Step Rate Increases

General rate case (GRC) applications in California address district and general office operating costs and capital requirements for a forward-looking three-year period. GRC decisions typically authorize an immediate rate increase and annual step rate increases for the three-year cycle. Step rate increases are generally effective at the start of each calendar year, and are designed to maintain the return on equity (ROE) authorized in the initial decision in succeeding years. Effective January 1, 2003, Cal Water is required to file a GRC for each operating district every three years. Previously, Cal Water's GRC preliminary applications were submitted in July of each year. Effective in 2004, preliminary applications are scheduled for submission in May and each year thereafter.

According to the CPUC's processing schedule, a final decision should be expected about 12 months after the filings are accepted by the CPUC. The backlog of Cal Water's overdue filings has been cleared and there are no pending filings that have gone beyond the expected decision date. In 2004 and 2005, Cal Water received GRC decisions on a timely basis. Cal Water expects future filings to receive decisions on the CPUC's published processing time line. If decisions are delayed in the future, legislation enacted in 2003 gives the Company protection by establishing an effective date when the decision should have been made, allowing interim rates to be charged and retroactive adjustments once the CPUC renders a decision.

Because districts are on different three-year GRC rate case cycles, the number of customers affected by GRC filings varies from year to year.

Water rates for Washington Water and New Mexico Water regulated operations are set based on historic 12-month data. Applications are filed on an "as needed" basis and can be submitted annually. Water rates for Hawaii Water are set based on a combination of historical base and forward-looking methodology and are allowed to be filed annually. In these states, regulatory procedures do not provide for step rate increases or offset increases, (see "Offsetable Expenses and Balancing Accounts" below) except for Hawaii which allows immediate rate adjustments to changes in purchased power rates.

Offsetable Expenses and Balancing Accounts
- -----------------------------------------

The Company records costs for purchased water, purchased power and pump taxes as incurred. Expenses for these categories above or below levels included in prior GRC decisions are tracked in off-line expense balancing or memorandum accounts. The cost differences are referred to as offsetable expenses. When the CPUC authorizes a rate change to recover the costs tracked in expense balancing or memorandum accounts, the rate change is referred to as an offset rate change. The Company does not record revenue or refunds related to the balancing accounts until authorized by the CPUC, and then only as the authorized rates are included in customers' monthly billings. Currently, recovery of balancing and memorandum accounts is subject to a downward adjustment only based on a review of each district's earnings for the past calendar year. If the recorded return on rate base exceeds the rate authorized by the Commission, recovery of the balancing account balance is adjusted downward by the amount of earnings above the authorized return.

See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations-- RATES AND REGULATIONS" section for more information on rates and regulation.



Water Supply
- ------------

Cal Water obtains its water supply from wells, surface runoff or diversion, and by purchase from public agencies and other wholesale suppliers. The Company's water supply has been adequate to meet customer demand; however, during periods of drought some districts have experienced mandatory water rationing. California's rainy season usually begins in November and continues through March with the most rain typically falling in December, January and February. During winter months, reservoirs and underground aquifers are replenished by rainfall. Snow accumulated in the mountains provides an additional water source when spring and summer temperatures melt the snowpack, producing runoff into streams and reservoirs, and also replenishing underground aquifers.

Washington and Hawaii receive rain in all seasons with the majority falling during winter months. Washington Water and Hawaii Water draw all of their water supply by pumping from wells.

New Mexico Water's rainfall normally occurs in all seasons, but is heaviest in the summer monsoon season. New Mexico Water pumps all of its water supply from wells based on its water rights.

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

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

Drought can have an impact on the business. When rainfall is below average for consecutive years, drought conditions can develop and certain customers may be required to reduce consumption to preserve available supply. As an example, from 1987 to 1993, California experienced a six-year period when rainfall was below historic average. During that period, some districts issued water-rationing requirements to their customers. In certain districts, penalties were assessed on customers who exceeded monthly allotments, which was approved by the CPUC after local governments enacted ordinances for drought. During past drought periods, the CPUC has allowed modifications to Cal Water's customer billings that provided a means to recover a portion of revenue that was deemed lost due to conservation measures, although there are no assurances the CPUC would do so in future droughts.

As noted above, Washington Water, New Mexico Water and Hawaii Water obtain their entire water supply from wells. Historically, about half of Cal Water's water supply is purchased from wholesale suppliers with the balance pumped from wells. During 2005, approximately 46 percent of the Cal Water supply was obtained from wells, 50 percent was purchased from wholesale suppliers and 4 percent was obtained from surface supplies. Well water is generally less expensive and Cal Water strives to maximize the use of its well sources in districts where there is an option between well or purchased supply sources.

The Company has five California water treatment plants in the Bakersfield, Bear Gulch, Kernville, Oroville and Redwood Valley districts. A new plant was put into service during 2003 in Bakersfield, with a capacity of 20 million gallons per day. Water for operation of the plant is drawn from the Kern River under a long-term contract with the City of Bakersfield. The smaller Bakersfield treatment plant was removed from service when the new plant became fully functional. The other four plants have a capacity of 13 million gallons per day.



During 2005, the Company delivered 132 billion gallons of water to its customers, down 3% from the 139 billion gallons delivered in 2004. The 2005 average daily water production was 356 million gallons, while the maximum single day production was 471 million gallons. By comparison, in 2004, the average daily water production was 380 million gallons and the maximum single day production was 635 million gallons.

The following table shows the quantity of water purchased and the percentage of purchased water to total water production in each California operating district that purchased water in 2005. All other districts receive 100% of their water supply from wells.
<TABLE>
<CAPTION>

| District | (MG) Water Production Purchased | Supply Purchased | Source of Purchased Supply |
|---|---|---|---|
| <C> | <C> | <C> | <C> |
| SAN FRANCISCO BAY AREA | | | |
| Mid-Peninsula | 5,948 | 100% | San Francisco Water Department |
| South San Francisco | 3,140 | 100% | San Francisco Water Department |
| Bear Gulch | 3,830 | 87% | San Francisco Water Department |
| Los Altos | 3,126 | 65% | Santa Clara Valley Water District |
| Livermore | 2,719 | 73% | Alameda County Flood Control and Water Conservation District |
| SACRAMENTO VALLEY | | | |
| Oroville | 937 | 86% | Pacific Gas and Electric Co. and County of Butte |
| Redwood Valley | 153 | 77% | County of Lake |
| SAN JOAQUIN VALLEY | | | |
| Antelope/Kern | 295 | 34% | Antelope Valley-East Kern Water Agency and City of Bakersfield |
| Bakersfield | 5,792 | 22% | Kern County Water Agency and City of Bakersfield |
| Stockton | 6,371 | 61% | Stockton East Water District |
| LOS ANGELES AREA | | | |
| East Los Angeles | 4,579 | 70% | Central Basin Municipal Water District |
| Dominguez | 11,738 | 89% | West Basin Municipal Water District |
| City of Commerce | 196 | 24% | Central Basin Municipal Water District |
| Hawthorne | 1,480 | 90% | West Basin Municipal Water District |
| Hermosa-Redondo | 4,036 | 85% | West Basin Municipal Water District |
| Palos Verdes | 6,682 | 100% | West Basin Municipal Water District |
| Westlake | 3,006 | 100% | Calleguas Municipal Water District |

</TABLE>

MG = million gallons

The Bear Gulch district obtains a portion of its water supply from surface runoff from the local watershed. In the Oroville and Redwood Valley districts, the water purchased is from a surface supply. The surface sources are processed through the water treatment plants before being delivered to the distribution system. In the Bakersfield and Kern River Valley districts, the Company purchases surface supply then processes the water through its treatment plants. In addition, the Bakersfield district purchases treated water as a component of its water supply.

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



In the Salinas district, which solely depends upon ground water, several wells were taken out of service in the last 24 months primarily due to poor water quality. The Company has installed treatment systems on some of these wells.

Management believes that water supply issues in the Salinas district will be adequately resolved in 2006 and beyond.

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

The water supplies purchased for the Dominguez, East Los Angeles, Hermosa-Redondo, Palos Verdes, and Westlake districts, the City of Hawthorne system, and the City of Commerce system are provided by public agencies pursuant to a statutory obligation of continued non-preferential service to purveyors within the agencies' boundaries.

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

Management anticipates that the Company will be able to renew each of the water supply contracts as they expire. The price of wholesale water purchases is subject to pricing changes imposed by the various wholesale suppliers. Price changes are generally beyond the Company's control. Management expects that the Company will be allowed to recover the wholesale water suppliers' rate increases in customers' future rates, although recovery is subject to approval by the CPUC.

Shown below are wholesaler price rates and increases that became effective in 2005, and estimated wholesaler price rates changes for 2006.
<TABLE>
<CAPTION>

| District | 2005 Effective Month | 2005 Percent Change | 2005 Unit Cost | 2006 Effective Month | 2006 Percent Change | 2006 Unit Cost |
|---|---|---|---|---|---|---|
| <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| Antelope | July | 0.0% | $220/af | July | 8.6% | $239/af |
| Bakersfield * | July | 7.7% | 136/af | July | 7.4% | 146/af |
| Bear Gulch | July | 4.4% | 1.02/ccf | July | 0.0% | 1.02/ccf |
| City of Commerce | Jan | 2.9% | 488/af | Jan | 2.0% | 498/af |
| Dominguez | Jan | 2.9% | 536/af | Jan. | 1.7% | 545/af |
| East Los Angeles | July | 6.8% | 488/af | July | 2.0% | 498/af |
| Hawthorne | Jan | 2.9% | 536/af | Jan. | 1.7% | 545/af |
| Hermosa-Redondo | Jan | 2.9% | 536/af | Jan. | 1.7% | 545/af |
| Livermore | Jan. | 0.0% | 1.29/ccf | Jan. | 5.2% | 1.36/ccf |
| Los Altos | July | 6.1% | 510/af | July | 2.9% | 525/af |
| Oroville | Jan | 8.4% | 69,200/yr | Jan. | 8.4% | 75,000/yr |
| Palos Verdes | Jan | 2.9% | 536/af | Jan. | 1.7% | 545/af |
| Mid-Peninsula | July | 4.4% | 1.02/ccf | July | 0.0% | 1.02/ccf |
| Redwood Valley | May | 4.0% | 46.17/af | May | 4.0% | 48.00/af |
| So. San Francisco | July | 4.4% | 1.02/ccf | July | 0.0% | 1.02/ccf |
| Stockton | April | 23.5% | 376,292/mo | April | -2.7% | 366,146/mo |
| Westlake | Jan. | 8.4% | 650/af | Jan. | 3.8% | 675/af |

</TABLE>

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

See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - WATER SUPPLY" concerning more information on adequacy of supplies.

The Company works with all local suppliers and agencies responsible for water supply to insure adequate, long-term supply for each system.



Non-regulated Operations
- ------------------------

Non-regulated operations include full service operation and maintenance of water systems for cities and private owners, operation of recycled water systems, meter reading services, utility billing services, laboratory services, water rights brokering, sales of surplus properties, leases of antenna sites, and our Extended Service Protection program.

Non-regulated revenue received from water system operations is generally determined on a fee-per-customer basis. With the exception of the agreements for operation of the City of Hawthorne and City of Commerce water systems, revenue and expenses from non-regulated operations are accounted for in other income and expense on a pretax basis in the Consolidated Statements of Income. The Company reports revenue and expenses for the City of Hawthorne and City of Commerce leases in operating revenue and operating expenses because the Company is entitled to retain all customer billings and is generally responsible for all operating expenses.

The Company operates municipally owned water systems under contract for the various cities. Washington Water operates numerous private water systems under contract arrangements. The City of Hawthorne lease is a 15-year lease and expires in 2011. The City of Commerce lease is a 15-year lease and expires in 2018. The terms of other operating agreements range from one-year to three-year periods with provisions for renewals.

The Company provides meter reading and customer billing services for several municipalities in California. The Company also provides sewer and refuse billing services to several municipalities.

In February 1996, the Company entered into an agreement to operate the City of Hawthorne water system. The system, which is located near the Hermosa-Redondo district, serves about half of Hawthorne's population. The agreement required the Company to make an up-front $6.5 million lease payment to the city that is being amortized over the lease term. Additionally, annual lease payments of $0.1 million are made to the city and indexed to changes in water rates. Under the lease, the Company is responsible for all aspects of system operation and capital improvements, although title to the system and system improvements reside with the city. At the end of the lease, the city is required to reimburse the Company for the unamortized value of capital improvements made during the term of the lease. In exchange, the Company receives all revenue from the water system, which was $5.8 million and $5.9 million in 2005 and 2004, respectively.

In July 2003, an agreement was negotiated with the City of Commerce to lease and operate its water system. At this time, the lease has not been formally executed by the parties. Both parties are in agreement with substantially all terms and are operating as if the agreement was executed. The lease requires the Company to pay $0.8 million per year in monthly installments and pay $200 per acre-foot for water usage exceeding 2,000 acre-feet per year plus a percentage of certain operational savings that may be realized. Under the lease agreement, the Company is responsible for all aspects of the system's operations. The city is responsible for capital expenditures, and title to the system and system improvements resides with the city. The Company has risks of operation and collection of amounts billed to customers. The agreement includes a procedure to request rate changes for costs changes outside of the Company's control and other cost changes. In exchange, the Company receives all revenue from the system, which totaled $1.7 million for 2005 and $1.8 million for 2004.

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

The Company provides laboratory services to San Jose Water Company and Great Oaks Water Company and for the systems under operation and maintenance agreements.

In 2005, the Company implemented an Extended Service Protection program, which covers repairs to the customer's water line between the meter and the home.



## Utility Plant Construction

The Company has continually extended, enlarged, and replaced its facilities as required to meet increasing demands and to maintain the water systems. The Company obtains construction financing using funds from operations, short-term bank borrowings, long-term financing, advances for construction and contributions in aid of construction that are funded by developers. The amounts received from these sources are shown in the section captioned "Statements of Cash Flows" in the annual report, which is incorporated into this document by reference. Advances for construction are cash deposits from developers for construction of water facilities or water facilities deeded from developers. These advances are generally refundable without interest over a period of 40 years by equal annual payments. Contributions in aid of construction consist of nonrefundable cash deposits or facilities transferred from developers, primarily for fire protection and relocation projects. The Company cannot control the amount received from developers. This amount fluctuates from year-to-year as the level of construction activity carried on by developers varies. This activity is impacted by the demand for housing, commercial development, and general business conditions, including interest rates.

See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - LIQUIDITY AND CAPITAL RESOURCES" for additional information.

## Sale of Surplus Real Properties

When properties are no longer used and useful for public utility purposes, the Company is no longer allowed to earn a return on its investment in the property in the regulated business. The surplus property is transferred out of the regulated operations and some properties have been sold or offered for sale. As these sales are subject to local real estate market conditions and can take several months or years to close, income from the sale of surplus properties may or may not be consistent from year-to-year. The CPUC is currently reviewing the Company's handling of these surplus properties, which may adversely impact future sales, results of operations and cash flows. See item 3, "LEGAL PROCEEDINGS" for additional information.

## California Energy Situation

The business uses electrical power primarily to pump water from its sources and move it through the distribution systems. The California energy crisis was well publicized. Electricity rates stabilized during 2003 and the Company received credits from the electrical power companies. Electricity rates were lower in 2004 as compared to 2003. Electrical power costs are described in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - RESULTS OF OPERATIONS."

There is still uncertainty about the state's ability to avoid future rolling electric blackouts, although the Company did not experience any major electric blackouts during 2005 or 2004. The Company continues to use power efficiently to minimize the power expenses passed on to its customers. The Company maintains backup power systems to continue water service to its customers if the power companies' supplies are interrupted. Many of the Company's well sites are equipped with emergency electric generators designed to produce electricity to keep the wells operating during power outages. Storage tanks also provide customers with water during blackout periods.

## Security at Company Facilities

Due to terrorist and other risks, the Company has heightened security at its facilities over the past few years and has taken added precautions to protect its employees and the water delivered to customers. In 2002, federal legislation was enacted that resulted in new regulations concerning security of water facilities, including submitting vulnerability assessment studies to the federal government. The Company has complied with EPA regulations concerning vulnerability assessments and has made filings to the EPA as required. In addition, communication plans have been developed as a component of the Company's procedures. While the Company does not make public comments on its security programs, the Company has been in contact with federal, state, and local law enforcement agencies to coordinate and improve water delivery systems' security.



## Quality of Water Supplies

The Company operating practices are designed to produce potable water in accordance with accepted water utility practices. Water entering the distribution systems from surface sources is treated in compliance with federal and state Safe Drinking Water Acts (SWDA) standards. Most well supplies are chlorinated or chloraminated for disinfection. Water samples from each water system are analyzed on a regular, scheduled basis in compliance with regulatory requirements. The Company operates a state-certified water quality laboratory at the San Jose General Office that provides testing for most of its California operations. Certain tests in California are contracted with independent certified labs qualified under the Environmental Laboratory Accreditation Program. Local independent state certified labs provide water sample testing for the Washington, New Mexico and Hawaii operations.

In recent years, federal and state water quality regulations have continued to increase water testing requirements. The SDWA continues to be amended to reflect new public health concerns. The Company monitors water quality standard changes and upgrades its treatment capabilities to maintain compliance with the various regulations.

## Competition and Condemnation

The Company's principal operations are regulated by the Commission of each state. Under state laws, no privately owned public utility may compete within any service territory that the Company already serves without first obtaining a certificate of public convenience and necessity from the Commission. Issuance of such a certificate would only be made upon finding that the Company's service is deficient. To management's knowledge, no application to provide service to an area served by the Company has been made.

State law provides that whenever a public agency constructs facilities to extend a utility system into the service area of a privately owned public utility, such an act constitutes the taking of property and requires reimbursement to the utility for its loss. State statutes allow municipalities, water districts and other public agencies to own and operate water systems. These agencies are empowered to condemn properties already operated by privately owned public utilities. The agencies are also authorized to issue bonds, including revenue bonds, for the purpose of acquiring or constructing water systems. However, if a public agency were to acquire utility property by eminent domain action, the utility would be entitled to just compensation for its loss. To management's knowledge, no municipality, water district, or other public agency is contemplating or has any action pending to acquire or condemn any of the Company's systems.

In recent years, consolidation within the water industry has accelerated. A number of publicly traded water companies have been acquired or merged into larger domestic companies. Several acquisitions of publicly traded companies have also been completed by much larger foreign companies. The Company intends to continue the pursuit of opportunities to expand its business in the western United States.

### Environmental Matters

The Company's operations are subject to environmental regulation by various governmental authorities. Environmental affairs programs have been designed to provide compliance with water discharge regulations, underground and aboveground fuel storage tank regulations, hazardous materials management plans, hazardous waste regulations, air quality permitting requirements, wastewater discharge limitations and employee safety issues related to hazardous materials. Also, the Company actively investigates alternative technologies for meeting environmental regulations and continues the traditional practices of meeting environment regulations.



### Human Resources

At year-end 2005, the Company had 840 employees, including 41 at Washington Water, 15 at New Mexico Water and 7 at Hawaii Water. The Company had 837 and 813 employees in 2004 and 2003, respectively. In California, most non-supervisory employees are represented by the Utility Workers Union of America, AFL-CIO, except certain engineering and laboratory employees who are represented by the International Federation of Professional and Technical Engineers, AFL-CIO.

At December 31, 2005, there were 566 union employees. In December 2005 and January 2006, the Company negotiated two-year agreements with both unions. Improvements in tuition reimbursement, increase in 401k employee contributions, and wage increases were part of the agreement. Wage increases under the agreements are 3.5% for 2006. Wages for 2007 will be negotiated in October 2006. The Company maintains good relationships with the unions. Employees at Washington Water, New Mexico Water, and Hawaii Water do not belong to unions.

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

The Company does not have export sales.

## Item 1A. Risk Factors.

Readers and prospective investors in our securities should carefully consider the following risk factors as well as the other information contained or incorporated by reference in this report:

The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also impair our business operations. This report is qualified in its entirety by these risk factors.

If any of the following risks actually occur, the Company's financial condition and results of operations could be materially and adversely affected. If this were to happen, the value of the Company's securities could decline significantly, and you could lose all or part of your investment.

Our business is heavily regulated and decisions by state regulatory commissions and changes in laws and regulations can significantly affect our business.

California Water Service Company, New Mexico Water Service Company, Washington Water Service Company and Hawaii Water Service Company, Inc., are regulated public utilities which provide water service to our customers. The rates that the Companies charge their water customers are subject to the jurisdiction of the regulatory commission in the states in which we operate. These Commissions set water rates for each operating district independently because the systems are not interconnected. The Commissions authorize us to charge rates which they consider to be sufficient to recover our normal operating expenses, to provide funds for adding new or replacing water infrastructure, and to allow us to earn what the Commissions consider to be a fair and reasonable return on our invested capital.

Our ability to meet our financial objectives is dependent upon the rates authorized by the Commissions. We periodically file rate increase applications with the Commissions. The ensuing administrative and hearing process may be lengthy and costly. We can provide no assurances that our rate increase requests will be granted by the Commissions. Even if approved, there is no guarantee that approval will be given in a timely manner or at a sufficient level to cover our expenses and provide a reasonable return on our investment. If the authorized rates are insufficient to cover operating expenses and capital expenditure requirements, and allow a reasonable return on invested capital, or the rate increase decisions are delayed, our earnings may be adversely affected.

Our liquidity and earnings could be adversely affected by increases in electricity prices.

Purchased power expense represents electricity purchased to operate the wells and pumps which are needed to supply water to our customers. Purchased power is a significant operating expense. During 2005 and 2004, purchased power expense represented 7.9% and 8.5%, respectively, of our total operating costs. These costs can and do increase unpredictably and in substantial amounts, as occurred in California during 2001 when rates we paid for electricity increased 48%. The increases are beyond our control. California regulation regarding



recovery of increases in electric rates changed in 2001. For over 20 years prior to 2001, the California Public Utilities Commission allowed recovery of electric rate increases under its operating rules. However, in 2001, the Commission revised its rules and deferred our recovery of the higher electric costs until the filing of a general rate case. In 2003, the California Public Utilities Commission reinstated its policy to allow utilities to adjust their rates for rate changes by the power companies. Cash flows between general rate case filings and earnings of the Company maybe adversely impacted until the Commission authorizes a rate change. The Company is allowed to track the expense differences caused by the rate change and request future recovery which is subject to an earnings test.

Changes in water supply costs directly affect our earnings.

The cost to obtain water for delivery to our customers varies depending on the sources of supply, wholesale suppliers' prices and the quantity of water produced to supply customer water usage. Our source of supply varies by operating district. Certain districts obtain all of their supply from wells, some districts purchase all of the supply from wholesale suppliers and other districts obtain the supply from a combination of well and purchased sources. A small portion of the supply is from surface sources and processed through Company-owned water treatment plants. On average, slightly more than half of the water delivered to customers is pumped from wells or received from a surface supply with the remainder purchased from wholesale suppliers. During 2005 and 2004, the cost of purchased water for delivery to customers represented 33.5% and 34.9%, respectively, of our total operating costs.

Wholesaler water suppliers may increase their prices for water delivered to us based on factors that affect their operating costs. Purchased water rate increases are beyond our control. In California, our ability to recover increases in the cost of purchased water is subject to decisions by the regulatory commission. If we are not allowed to recover the higher costs, our cash flows and our capital resources and liquidity can be negatively impacted. Also, our profit margins may be adversely affected, unless the Commissions allow us to seek reimbursement of those costs from our customers.

Environmental regulation has increased, and is expected to continue to increase, our operating costs.

Our water and wastewater services are governed by various federal and state environmental protection and health and safety laws and regulations. These provisions establish criteria for drinking water and for discharges of water, wastewater and airborne substances. If we violate these provisions, we could be subject to substantial fines or otherwise sanctioned.

Environmental laws are complex and change frequently. They have tended to become more stringent over time. As new or stricter standards are introduced, they could increase our operating costs. There can be no assurance that the Commissions would approve rate increases to enable us to recover these additional compliance costs.

We are required to test our water quality for certain chemicals and potential contaminants on a regular basis. If the test results indicate that we exceed allowable limits, we may be required either to commence treatment to remove the contaminant or to develop an alternate water source. Either of these results may be costly, and there can be no assurance that the Commissions would approve rate increases to enable us to recover these additional compliance costs.

All of the above factors may have a material adverse effect on our business, financial position and results of operations.

The adequacy of our water supplies depends upon a variety of factors beyond our control. Interruption in the water supply may adversely affect our earnings.

We depend on an adequate water supply to meet the present and future needs of our customers. Whether we have an adequate supply varies depending upon a variety of factors, including: rainfall, the amount of water stored in



reservoirs, underground water supply from which well water is pumped, changes in the amount of water used by our customers, water quality, legal limitations on water use such as rationing restrictions during a drought, and population growth.

Also, the water business is seasonal. The normal water use pattern within our service territories sees the highest customer usage and highest revenue during the warmer summer months due primarily to increased usage for watering outside landscape, cooling and swimming pools. Customer usage and revenue are lower during the cool, rainy winter months. Demand also varies with rainfall levels. If summer temperatures are cooler than normal or the rainy season extends into the summer months or begins early in the fall months, any of these factors can cause a decline in customer usage and result in lower revenue.

Drought conditions may affect our ability to serve our current and future customers, and may affect our customers' use of water. Restrictions imposed on the amount of water customers are allowed to use during a drought may result in decreased customer billings. Customers may use less water even after a drought has passed because of conservation patterns developed during the drought. Lower use for any reason could lead to continued lower revenue.

Since the September 11, 2001, terrorist attacks, we have heightened security at our facilities and taken added precautions for the safety of our employees and water we deliver to our customers. We have also assigned a high priority to completing work necessary to comply with new Environmental Protection Agency requirements concerning security of water facilities. These actions have increased our costs.

The Company purchases its water supply from various governmental agencies and others. Water supply availability may be impacted by weather conditions, funding and other political and environmental considerations. The Company has entered into long-term agreements, which commit the Company to payments whether or not the Company purchases any water. For further information on Company commitments, see the Water Supply section (page 11).

All of these factors may adversely affect our earnings and financial condition:

Our business requires significant capital expenditures that are dependent on our ability to secure appropriate funding.

The water utility business is capital-intensive. We invest significant dollars to add or replace property, plant and equipment. We fund these projects from cash received from operations and funds received from developers. We also borrow funds from banks under short-term bank lending arrangements. We may seek to meet our long-term capital needs by raising equity through common or preferred stock issues or issuing debt obligations.

Water shortages may adversely affect us by causing us to rely on more purchased water. This could cause increases in capital expenditures needed to build pipelines to secure alternative water sources.

Our rate increase applications are designed to recover our investments in utility plant. We cannot assure you that the rates the Commissions will allow us to charge will be sufficient for this purpose.

Moody's Investor Services, Inc. and Standard & Poor's Ratings Services issue ratings on California Water Service Company's ability to repay debt obligations. The credit rating agencies could downgrade our credit rating based on reviews of our financial performance and projections or upon the occurrence of other events that could impact our business outlook. In 2002, Moody's and Standard & Poor's did lower the ratings on California Water Service Company's first mortgage bonds. In 2003, Moody's placed its rating on California Water Service Company's first mortgage bonds on review for possible downgrade. In February 2004, Moody's issued a report lowering California Water Service Company's senior secured debt from A1 to A2 and noted the rating as stable. In November 2003, Standard & Poor's issued a report keeping its rating of A+, but changed its outlook from stable to negative. Both cited concerns about the lack of timely rate relief from the California Public Utilities Commission and the projected capital expenditure requirements for water infrastructure and environmental compliance needs. Moody's also issued a report about the water industry, citing the difficulties small operators face in financing needed capital expenditures and delays in commission rulings as two main concerns. The rating actions were attributed to delays in receipt of decisions by the California Public Utilities Commission for rate increase applications and ongoing capital expenditures to maintain water infrastructure and meet environmental compliance requirements. A downgrade could increase our cost of capital by causing potential investors to require a higher interest rate due to a perceived risk increase related to our ability to repay outstanding debt obligations. Lower ratings by the agencies could also restrict our ability to access equity and debt capital. During 2005, management met separately with the two credit rating agencies during their annual rating reviews. Both agencies maintain their ratings of A2 for Moody's and A+ for S&P as of the filing date of this report. There is no assurance that the rating agencies will maintain ratings which allow us to borrow under advantageous conditions and at reasonable interest rates.

There is no assurance that our existing funding sources will continue to be adequate or that the cost of funds will remain at levels permitting us to remain profitable.

Any of these factors may have an adverse effect on our earnings and financial condition.

Risks associated with potential acquisitions or divestitures or restructuring may adversely affect us.

We may seek to acquire or invest in other companies, technologies, services or products that complement our business. There is no assurance that we will succeed in finding attractive acquisition candidates or investments. These transactions may result in the issuance of equity securities that could be dilutive if the acquisition or business opportunity does not develop in accordance with our business plan. They may also result in significant write-offs and an increase in our debt. The occurrence of any of these events could have a material adverse effect on our business, financial condition and results of operations.

Any of these transactions could involve numerous additional risks. For example, we may experience difficulty in getting required regulatory approvals. We may also have difficulty assimilating a new business or separating old businesses. Transactions such as these may also divert management's attention from other business concerns and otherwise disrupt our business. We might see a loss of key employees from our acquisition targets and as a result the integration of the new business opportunity into our existing business might be more difficult.

All of these events may have a material adverse effect on our business. There can be no assurance that we will be successful in overcoming these or any other significant risks encountered.

The accuracy of the Company's judgments and estimates about financial and accounting matters will impact operating results and financial condition.

The discussion under "Critical Accounting Policies and Estimates" in this report and the information referred to in that discussion is incorporated by reference in this paragraph. The Company makes certain estimates and judgments in preparing its financial statements. The quality and accuracy of those estimates and judgments will have an impact on the Company's operating results and financial condition.

The Company's controls and procedures may fail or be circumvented.

Management regularly reviews and updates the Company's internal control over financial reporting, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls and procedures, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of the Company's controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Company's business, results of operations and financial condition.

Item 1B. Unresolved Staff Comments. None



Item 2. Properties.

The Company's physical properties consist of offices and water facilities to accomplish the production, storage, treatment, and distribution of water. These properties are located in or near the Geographic Service Areas listed above in Item 1.c. "Narrative Description of the Business." The general office, which houses accounting, engineering, information systems, human resources, purchasing, regulatory, water quality, and executive staff, is located in San Jose, California. All properties are maintained in good operating condition.

The real properties owned are held in fee simple title. Properties owned by Cal Water are subject to the indenture securing first mortgage bonds of which $27 million remained outstanding at December 31, 2005. Washington Water has long-term bank loans that are secured primarily by utility plant. New Mexico Water has a long-term loan which is secured by utility plant.

Cal Water owns 628 wells and operates 5 leased wells. There were 387 owned storage tanks with a capacity of 252 million gallons, 43 managed storage tanks with a capacity of 35 million gallons, and 3 reservoirs with a capacity of 220 million gallons. There are 5,453 miles of supply and distribution mains in the various systems.

Washington Water owns 314 wells and manages 85 wells. There are 115 owned storage tanks and 28 managed storage tanks with a storage capacity of 6 million gallons. There are 309 miles of supply and distribution lines.

New Mexico Water owns 11 wells. There are 8 storage tanks with a storage capacity of 4 million gallons. There are 138 miles of supply and distribution lines.

Hawaii Water owns 6 wells. There are 3 storage tanks with a storage capacity of 5 million gallons. There are 35 miles of supply and distribution lines.

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

Water supply, security, environmental, condemnation and utility plant construction items are discussed in Item 1.c, "Narrative of the Business." Utility plant construction items are also discussed in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - LIQUIDITY AND CAPITAL RESOURCES."

## Item 3. Legal Proceedings.

In 1995, the State of California's Department of Toxic Substances Control (DTSC) named Cal Water as a potential responsible party for cleanup of a toxic contamination plume in the Chico groundwater. The toxic spill occurred when cleaning solvents, which were discharged into the city's sewer system by local dry cleaners, leaked into the underground water supply. The DTSC contends that Cal Water's responsibility stems from its operation of wells in the surrounding vicinity that caused the contamination plume to spread. While Cal Water is cooperating with the cleanup effort, Cal Water denies any responsibility for the contamination or the resulting cleanup and intends to vigorously resist any action that may be brought against Cal Water. In December 2002, Cal Water was named along with other defendants in two lawsuits filed by DTSC for the cleanup of the plume. The suits assert that the defendants are jointly and severally



liable for the estimated cleanup of $8.7 million. The parties have undertaken settlement negotiations. In response to Cal Water's request to participate in settlement negotiations, the insurance carrier threatened to exercise its reservation of right letter to seek reimbursement of past defense costs. Past defense costs approximate $0.6 million. Cal Water believes that the carrier clearly has a duty to defend and is not entitled to any defense cost reimbursement. Furthermore, Cal Water believes that insurance coverage exists for this claim. If Cal Water's claim is ultimately found to be excludable under its policies, Cal Water believes any damages will be covered by the ratepayer, as pump-and-treat is the most economical approach to the cleanup effort. Cal Water believes that there will not be a material adverse effect to its financial position or results of operations.

In 1995, the California Legislature enacted the Water Utility Infrastructure Improvement Act of 1995 (Infrastructure Act) to encourage water utilities to sell surplus properties and reinvest in needed water utility facilities. In September 2003, the CPUC issued decision D.03-09-021 in Cal Water's 2001 GRC filing. In this decision, the CPUC ordered Cal Water to file an application setting up an Infrastructure Act memorandum account with an up-to-date accounting of all real property that was at any time in rate base and that Cal Water had sold since the effective date of the Infrastructure Act. Additionally, the decision directed the CPUC staff to file a detailed report on its review of Cal Water's application. On January 11, 2005, the ORA issued a report expressing its opinion that Cal Water had not proven that surplus properties sold since 1996 were no longer used and useful. The ORA recommended that Cal Water be fined $160,000 and that gains from property sales should generally benefit ratepayers.

During the period under review, Cal Water's cumulative gains from surplus property sales were $19.2 million, which included an intercompany gain related to a transaction with Utility Services and a like-kind exchange with a third party.

On December 1, 2005, the CPUC issued its D.05-12-002. This decision finds that Cal Water appropriately reclassified all properties as non-utility property prior to being sold and that criteria Cal Water followed to reclassify its properties was reasonable and consistent with the requirements of the CPUC. Since the properties were properly reclassified, the CPUC found that approval of the property sales was not required and no penalty was warranted. Furthermore, the decision found that Cal Water should be allowed to include in rate base the remaining $1,182,462 of the Chico customer center.

Although the decision concluded that all gains for the property sales qualified for reinvestment in accordance with the Infrastructure Act, the decision defers the ratemaking issue regarding treatment of sale proceeds to its Order Instituting Rulemaking (R.) 04-09-003. On November 5, 2005, the CPUC mailed its draft decision (Draft Decision) regarding the allocation of proceeds from the sale of utility assets. The Draft Decision states that the CPUC has limited discretion in how it allocates gains on sale of real property that meets the criteria in the Infrastructure Act, provided that water companies reinvest the proceeds in new water infrastructure. If the Draft Decision is adopted, the Company will be entitled to earn its full authorized return on the proceeds reinvested in utility plant.

Based on the D. 05-12-002 and the Draft Decision, Cal Water has not accrued a liability in its financial statements. Cal Water does not know when the CPUC will issue its decision in the matter of R.04-09-003. If the CPUC finds any portion of the property sales should be allocated to the ratepayer, Cal Water's rate base could be reduced, which would lower future revenues, net income, and cash flows.

Periodically, the Company is involved in other proceedings or litigation arising in the ordinary course of business. Management does not believe that the ultimate resolution of these matters will materially affect the Company's financial position, results of operations, or cash flows.

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

No matters were submitted to a vote of security holders in the fourth quarter of 2005.

Executive Officers of the Registrant

<TABLE>
<CAPTION>

| Name | Positions and Offices with California Water Service Group | Age |
|---|---|---|
| <C> | <C> | <C> |
| Robert W. Foy (1) | Chairman of the Board since January 1, 1996. A director since 1977. Formerly President and Chief Executive Officer of Pacific Storage Company, a diversified transportation and warehousing company with operations in Stockton, Modesto, Sacramento, San Jose, Vallejo, Merced and Auburn, California, where he has been employed for 42 years | 69 |
| Peter C. Nelson (2) | President and Chief Executive Officer since February 1, 1996. Formerly Vice President, Division Operations (1994-1995) and Region Vice President (1989-1994), Pacific Gas & Electric Company, a gas and electric public utility | 58 |
| John S. Tootle (3) | Acting CFO and Treasurer since October 28, 2005; Formerly Corporate Counsel from 2000-2005 and previously CFO Dominguez Services Corporation | 51 |
| Dan Stockton (4) | Vice President, Corporate Development and Corporate Secretary since October 2005; Vice President, Information Systems from April 2001 to September 2005; from 1991 to 2001 he served as Chief Operating Officer of Great Oaks Water Company | 61 |
| Calvin L. Breed (5) | Controller, Assistant Secretary and Assistant Treasurer since Nov. 1994; previously Treasurer of TCI International, Inc. (1984-1994); a certified public accountant with Arthur Andersen & Co. (1980-1983) | 50 |

</TABLE>



(1) Holds the same position with California Water Service Company, New Mexico Water Service Company, Washington Water Service Company, Hawaii Water Service Company, Inc., and CWS Utility Services

(2) Holds the same position with California Water Service Company and CWS Utility Services; Chief Executive Officer of New Mexico Water Service Company, Washington Water Service Company and Hawaii Water Service Company, Inc.

(3) Holds the same position with California Water Service Company, New Mexico Water Service Company, Washington Water Service Company, Hawaii Water Service Company, Inc., and CWS Utility Services.

(4) Vice President, and Corporate Secretary of California Water Service Company, New Mexico Water Service Company, Washington Water Service Company, Hawaii Water Service Company, Inc., and CWS Utility Services

(5) Holds the same position with California Water Service Company



| Name | Positions and Offices with California Water Service Company | Age |
|---|---|---|
| Paul G. Ekstrom | Vice President Customer Service and Information Systems since October 2005; Corporate Secretary, 1996 to 2005; Operations Coordinator, 1993 to 1996; District Manager, Livermore, 1988 to 1993; previously served in various field management positions since 1979; an employee since 1972 | 54 |
| Francis S. Ferraro (1) | Vice President, Regulatory Matters and Corporate Relations since October 2005; Vice President, Regulatory Matters and Corporate Development, 2001 to 2005; Vice President, Regulatory Matters, 1989 to 2001. Employed by the California Public Utilities Commission for 16 years, including 1985 through 1989 as an Administrative Law Judge; an employee since 1989 | 56 |
| Robert R. Guzzetta | Vice President, Operations since October 2005; Vice President Engineering and Water Quality from 1996 to 2005; Assistant Chief Engineer, 1988 to 1990; various engineering department positions since 1977 | 51 |
| Christine L. McFarlane | Vice President, Human Resources since August 1996; Director of Human Resources, 1991 to 1996; Assistant Director of Personnel, 1989 to 1991; an employee since 1969 | 59 |
| Michael Rossi (2) | Vice President, Engineering and Water Quality since October 2005; Chief Engineer from 1997 to 2005; Assistant Chief Engineer from 1988 to 1997; an employee since 1977 | 52 |

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

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

| Name | Positions and Offices with Washington Water Service Company | Age |
|---|---|---|
| Michael P. Ireland | President since December 1999; previously President of Harbor Water Company, Gig Harbor, Washington from 1985 to 1999 | 52 |

No officer or director has any family relationship to any other executive officer or director. No executive officer is appointed for any set term. There are no agreements or understandings between any executive officer and any other person pursuant to which he/she was selected as an executive officer.



# PART II

## Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company's common stock is traded on the New York Stock exchange under the symbol "CWT." At December 31, 2005, there were 18,389,996 common shares and 139,000 preferred shares outstanding and 3,161 stockholders of record.

Additional information required by this Item is contained in the section captioned "Quarterly Financial Data" in the 2005 Annual Report to Stockholders and is incorporated herein by reference. The 2005 Annual Report to Stockholders is included with this report as Exhibit 13.1.

## Item 6. Selected Financial Data.

The information required by this Item is contained in the section captioned "Ten-Year Financial Review" in the 2005 Annual Report to Stockholders and is incorporated herein by reference. The 2005 Annual Report to Stockholders is included with this report as Exhibit 13.1.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The information required by this Item is contained in the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations," in the 2005 Annual Report to Stockholders and is incorporated herein by reference. The 2005 Annual Report to Stockholders is included with this report as Exhibit 13.1.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The information required by this Item is contained in the section captioned "Financial Risk Management" in the 2005 Annual Report to Stockholders and is incorporated herein by reference. The 2005 Annual Report to Stockholders is included with this report as Exhibit 13.1.

Item 8. Financial Statements and Supplementary Data.

The information required by this Item is contained in the 2005 Annual Report to Stockholders and is incorporated herein by reference. The 2005 Annual Report to Stockholders is included with this report as Exhibit 13.1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None



Item 9A. Controls and Procedures

The information required by this Item is contained in the sections "Controls and Procedures" and "Report of Independent Registered Public Accounting Firm" in the 2005 Annual Report to Stockholders and is incorporated herein by reference. The 2005 Annual Report to Stockholders is included with this report as Exhibit 13.1.

Item 9B. Other Information

None.

PART III

Item 10. Directors and Executive Officers of the Registrant.

The information required by this Item as to directors of the Company is contained in the sections captioned "Board Structure," "Proposals of the Board; Proposal No. 1 - Election of Directors" and "Other Matters - Code of Ethics" of the 2006 Proxy Statement, and is incorporated herein by reference. Information regarding executive officers is included in a separate section captioned "Executive Officers of the Registrant" contained in Part I of this report.

Effective March 13, 2006, the Company appointed Martin (Marty) A. Kropelnicki as Vice President, Chief Financial Officer and Treasurer. Prior to joining the Company, Mr. Kropelnicki was the Chief Financial Officer of PowerLight Corporation.

Item 11. Executive Compensation.

The information required by this Item as to directors of the Company is included under the caption "Director Compensation Arrangements" of the 2006 Proxy Statement and is incorporated herein by reference. The information required by this Item as to compensation of executive officers, including officers who are directors, is included under the caption "Executive Compensation" of the 2006 Proxy Statement and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by this Item is contained in the section captioned "Stock Ownership of Management and Certain Beneficial Owners" of the 2006 Proxy Statement and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions.

Cal Water provides laboratory services to a subsidiary of SJW Corp., which has ownership of over 5% of the Company's common stock outstanding. The rates charged are comparable to rates charged to other third parties. The revenue for 2005 was less than $0.1 million. The revenue and income from these activities are not significant to the business.



Item 14. Principal Accountant Fees and Services

The information required by this Item is contained in the section captioned "Relationship with the Independent Registered Public Accounting Firm" of the 2006 Proxy Statement and is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

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

1. Financial Statements:

Consolidated Balance Sheets as of December 31, 2005 and 2004

Consolidated Statements of Income for the years ended December 31, 2005, 2004 and 2003

Consolidated Statements of Common Stockholders' Equity and Comprehensive Income for the years ended December 31, 2005, 2004 and 2003

Consolidated Statements of Cash Flows for the years ended December 31, 2005, 2004 and 2003

Notes to Consolidated Financial Statements, December 31, 2005, 2004 and 2003

Reports of Independent Registered Public Accounting Firm

Controls and Procedures

The above financial statements are contained in sections bearing the same captions in the 2005 Annual Report to Stockholders which is filed with this Form 10-K and incorporated herein by reference. Refer to Exhibit 13.1 of this Form 10-K.

2. Financial Statement Schedules: No financial statement schedules are being included since the information otherwise required is included in the financial statements and the notes thereto.

3. Exhibits required to be filed by Item 601 of Regulation S-K: The Exhibit Index on page 30 of this Form 10-K is incorporated herein by reference.

   (a) The exhibits filed as part of this Form 10-K are attached, unless otherwise indicated. The exhibits listed in the Exhibit Index that are not filed with this Form 10-K were previously filed with the Securities and Exchange Commission as indicated and are hereby incorporated by reference.

   (b) Exhibits required to be filed by Item 601 of Regulation S-K. Refer to Item (a) 3 above and the Exhibit Index on page 30 of this Form 10-K.

   (c) Additional Financial Statement Schedules. No filings are required under this Item.



SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CALIFORNIA WATER SERVICE GROUP

Date: February 22, 2006

By /s/ Peter C. Nelson
PETER C. NELSON,
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Date: February 22, 2006

/s/ Robert W. Foy

ROBERT W. FOY
Chairman, Board of Directors

| | |
|---|---|
| Date: February 22, 2006 | /s/ Douglas M. Brown<br>DOUGLAS M. BROWN<br>Member, Board of Directors |
| Date: February 22, 2006 | /s/ Edward D. Harris, Jr.<br>EDWARD D. HARRIS, JR., M.D.<br>Member, Board of Directors |
| Date: February 22, 2006 | /s/ Bonnie G. Hill<br>BONNIE G. HILL<br>Member, Board of Directors |
| Date: February 22, 2006 | /s/ David N. Kennedy<br>DAVID N. KENNEDY<br>Member, Board of Directors |
| Date: February 22, 2006 | /s/ Richard P. Magnuson<br>RICHARD P. MAGNUSON<br>Member, Board of Directors |
| Date: February 22, 2006 | /s/ Linda R. Meier<br>LINDA R. MEIER<br>Member, Board of Directors |
| Date: February 22, 2006 | /s/ Peter C. Nelson<br>PETER C. NELSON<br>President and Chief Executive Officer,<br>Principal Executive Officer<br>Member, Board of Directors |
| Date: February 22, 2006 | /s/ George A. Vera<br>GEORGE A. VERA<br>Member, Board of Directors |



| | |
|---|---|
| Date: February 22, 2006 | /s/ John S. Tootle<br>JOHN S. TOOTLE<br>Acting Chief Financial<br>Officer and Treasurer;<br>Principal Financial Officer |
| Date: February 22, 2006 | /s/ Calvin L. Breed<br>CALVIN L. BREED<br>Controller, Assistant Secretary and<br>Assistant Treasurer;<br>Principal Accounting Officer |



EXHIBIT INDEX

Exhibit
Number
- ------

Unless filed with this Form 10-K, the documents listed are incorporated by reference to the filings referred to:

3. Articles of Incorporation and Bylaws:

   3.1 Certificate of Incorporation of California Water Service Group (Filed as Exhibit B of the California Water Service Group Proxy Statement dated March 18, 1999)

   3.2 Restated Bylaws of California Water Service Group as amended on January 26, 2000 (Exhibit E-2 to Current Report on Form 8-K filed February 3, 2000)

4. Instruments Defining the Rights of Security Holders of California Water Service Group, including Indentures:

   4.1 Shareholder Rights Plan; an agreement between California Water Service Group and BankBoston, N.A., rights agent, dated January 28, 1998 (Exhibit 1 to Registration Statement on Form 8-A filed February 13, 1998)

   4.2 Certificate of Designations regarding Series D Participating Preferred Stock, as filed with Delaware Secretary of State on September 16, 1999 (Exhibit 4.2 to Annual Report on Form 10-K for the year ended December 31, 2003)

4.3 Thirty-fourth Supplemental Indenture dated as of November 1, 1990, covering First Mortgage 9.86% Bonds, Series CC. (Exhibit 4 to Annual Report on Form 10-K for the year ended December 31, 1990)

4.4 [reserved]

4.5 [reserved]

4.6 [reserved]

4.7 Note Agreement dated August 15, 1995, pertaining to issuance of $20,000,000, 7.28% Series A Unsecured Senior Notes, due November 1, 2025 (Exhibit 4 to Quarterly Report on Form 10-Q for the quarter ended September 30, 1995)

4.8 Note Agreement dated March 1, 1999, pertaining to issuance of $20,000,000, 6.77% Series B Unsecured Senior Notes, due November 1, 2028 (Exhibit 4.1 to Annual Report on Form 10-K for the year ended December 31, 1999)



4.9 First Supplement dated October 1, 2000, to Note Agreement of March 1, 1999, pertaining to issuance of $20,000,000, 8.15% Series C Unsecured Senior Notes, due November 1, 2030 (Exhibit 4.12 to Annual Report on Form 10-K for year ended December 31, 2000)

4.10 Second Supplement dated September 1, 2001, to Note Agreement of March 1, 1999, pertaining to issuance of $20,000,000, 7.13% Series D Unsecured Senior Notes, due November 1, 2031 (Exhibit 4.1 to Quarterly Report on Form 10-Q for the quarter ended September 30, 2001)

4.11 Third Supplement dated May 1, 2002, to Note Agreement of March 1, 1999, pertaining to issuance of $20,000,000, 7.11% Series E Unsecured Senior Notes, due May 1, 2032 (Exhibit 4.1 to Quarterly Report on Form 10-Q for the quarter ended June 30, 2002)

4.12 Fourth Supplement dated August 15, 2002, to Note Agreement of March 1, 1999, pertaining to issuance of $20,000,000, 5.90% Series F Unsecured Senior Notes, due November 1, 2017 (Exhibit 4.14 to Annual Report on Form 10-K for the year ended December 31, 2002)

4.13 Fifth Supplement dated November 1, 2002, to Note Agreement of March 1, 1999, pertaining to issuance of $20,000,000, 5.29% Series G Unsecured Senior Notes, due November 1, 2022 (Exhibit 4.15 to Annual Report on Form 10-K for the year ended December 31, 2002)

4.14 Sixth Supplement dated December 1, 2002, to Note Agreement of March 1, 1999, pertaining to issuance of $20,000,000, 5.29% Series H Unsecured Senior Notes, due December 1, 2022 (Exhibit 4.16 to Annual Report on Form 10-K for the year ended December 31, 2002)

4.15 Ninth Supplement dated February 15, 2003, to Note Agreement of March 1, 1999, pertaining to issuance of $10,000,000, 4.58% Series K Unsecured Senior Notes, due June 30, 2010 (Exhibit 4.17 to Annual Report on Form 10-K for the year ended December 31, 2002)

4.16 Tenth Supplement dated February 15, 2003, to Note Agreement of March 1, 1999, pertaining to issuance of $10,000,000, 5.48% Series L Unsecured Senior Notes, due March 1, 2018 (Exhibit 4.18 to Annual Report on Form 10-K for the year ended December 31, 2002)

4.17 Thirteenth Supplemental Trust Indenture whereby California Water Service Company became the successor to Dominguez Water Corporation in the original trust indenture for Dominguez Water Corporation dated August 1, 1954 (Exhibit 4.13 to Annual Report on Form 10-K for the year ended December 31, 2000 [included within Exhibit 4.12 to such report])

4.18 Eleventh Supplemental Trust Indenture dated as of December 8, 1992, covering First Mortgage 8.86% Bonds, Series J (Exhibit 10.2 to Annual Report on Form 10-K for the year ended December 31, 1997, of Dominguez Services Corporation)



4.19 Twelfth Supplemental Indenture dated as of December 1, 1997, covering First Mortgage 6.94% Bonds, Series K due 2012 (Exhibit 10.3 to Annual Report on Form 10-K for the year ended December 31, 1997, of Dominguez Services Corporation)

4.20 Seventh Supplement dated May 1, 2003, to Note Agreement of March 1, 1999, pertaining to issuance of $10,000,000, 5.54% Series I

Unsecured Senior Notes, due May 1, 2023 (Exhibit 4.22 to Quarterly Report on Form 10-Q for the quarter ended March 31, 2003)

4.21 Amended and Restated Eighth Supplement dated May 1, 2003, to Note Agreement of March 1, 1999, pertaining to issuance of $10,000,000, 5.44% Series J Unsecured Senior Notes, due May 1, 2018 (Exhibit 4.23 to Quarterly Report on Form 10-Q for the quarter ended March 31, 2003)

4.22 Twelfth Supplement dated October 24, 2003, to Note Agreement of March 1, 1999, pertaining to the issuance of $20,000,000, 5.55%, Series N Unsecured Senior Notes due December 1, 2013, (Exhibit 4.24 to Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)

4.23 Eleventh Supplement dated November 3, 2003, to Note Agreement of March 1, 1999, pertaining to the issuance of $20,000,000, 5.52%, Unsecured Series M Senior Notes due November 1, 2013 (Exhibit 4.25 to Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)

10. Material Contracts.

10.1 Water Supply Contract between Cal Water and County of Butte relating to Cal Water's Oroville District; Water Supply Contract between Cal Water and the Kern County Water Agency relating to Cal Water's Bakersfield District; Water Supply Contract between Cal Water and Stockton East Water District relating to Cal Water's Stockton District. (Exhibits 5(g), 5(h), 5(i), 5(j), Registration Statement No. 2-53678, which exhibits are incorporated by reference to Annual Report on Form 10-K for the year ended December 31, 1974)

10.2 Settlement Agreement and Master Water Sales Contract between the City and County of San Francisco and Certain Suburban Purchasers dated August 8, 1984; Supplement to Settlement Agreement and Master Water Sales Contract, dated August 8, 1984; Water Supply Contract between Cal Water and the City and County of San Francisco relating to Cal Water's Bear Gulch District dated August 8, 1984; Water Supply Contract between Cal Water and the City and County of San Francisco relating to the Cal Water's San Carlos District dated August 8, 1984; Water Supply Contract between Cal Water and the City and County of San Francisco relating to Cal Water's San Mateo District dated August 8, 1984; Water Supply Contract between Cal Water and the City and County of San Francisco relating to Cal Water's South San Francisco District dated August 8, 1984. (Exhibit 10.2 to Annual Report on Form 10-K for the year ended December 31,1984)



10.3 Water Supply Contract dated January 27, 1981, between Cal Water and the Santa Clara Valley Water District relating to Cal Water's Los Altos District (Exhibit 10.3 to Annual Report on Form 10-K for the year ended December 31, 1992)

10.4 Amendments No. 3, 6 and 7 and Amendment dated June 17, 1980, to Water Supply Contract between Cal Water and the County of Butte relating to Cal Water's Oroville District. (Exhibit 10.5 to Annual Report on Form 10-K for the year ended December 31, 1992)

10.5 Amendment dated May 31, 1977, to Water Supply Contract between Cal Water and Stockton East Water District relating to Cal Water's Stockton District. (Exhibit 10.6 to Annual Report on Form 10-K for the year ended December 31, 1992)

10.6 Second Amended Contract dated September 25, 1987, among Stockton East Water District, California Water Service Company, the City of Stockton, the Lincoln Village Maintenance District, and the Colonial Heights Maintenance District Providing for the Sale of Treated Water. (Exhibit 10.7 to Annual Report on Form 10-K for the year ended December 31, 1987)

10.7 Water Supply Contract dated April 19, 1927, and Supplemental Agreement dated June 5, 1953, between Cal Water and Pacific Gas and Electric Company relating to Cal Water's Oroville District. (Exhibit 10.9 to Annual Report on Form 10-K for the year ended December 31, 1992)

10.8 [reserved]

10.9 [reserved]

10.10 Agreement between the City of Hawthorne and California Water Service Company for the 15-year lease of the City's water system. (Exhibit 10.17 to Quarterly Report on Form 10-Q for the quarter ended March

31, 1996)

10.11 Water Supply Agreement dated September 25, 1996, between the City of Bakersfield and California Water Service Company. (Exhibit 10.18 to Quarterly Report on Form 10-Q for the quarter ended September 30, 1996)

10.12 Water Supply Contract dated November 16, 1994, between California Water Service Company and Alameda County Flood Control and Water Conservation District relating to Cal Water's Livermore District (Exhibit 10.15 to Annual Report on Form 10-K for the year ended December 31, 1994)

10.13 [reserved]

10.14 California Water Service Group Directors' Retirement Plan (As amended and restated on February 22, 2006)*



10.15 [reserved]

10.16 $10,000,000 Business Loan Agreement between Bank of America and California Water Service Group and CWS Utility Services dated February 28, 2003 (Exhibit 10.17 to Annual Report on Form 10-K for the year ended December 31, 2002)

10.17 $55,000,000 Business Loan Agreement between Bank of America and California Water Service Company dated February 28, 2003 (Exhibit 10.18 to Annual Report on Form 10-K for the year ended December 31, 2002)

10.18 Executive Severance Plan (Exhibit 10.24 to Annual Report on Form 10-K for the year ended December 31, 1998) *

10.19 California Water Service Group Long-Term Incentive Plan (filed as Appendix A of the California Water Service Group proxy statement dated March 17, 2000) *

10.20 California Water Service Group Deferred Compensation Plan effective January 1, 2001 (Exhibit 10.22 to Annual Report on Form 10-K for the year ended December 31, 2000) *

10.21 California Water Service Company Supplemental Executive Retirement Plan effective January 1, 2001 (Exhibit 10.23 to Annual Report on Form 10-K for the year ended December 31, 2000) *

10.22 Amendment No. 1 to California Water Service Company Supplemental Executive Retirement Plan effective January 1, 2001 (Exhibit 10.22 to Quarterly Report on Form 10-Q for the quarter ended September 30, 2004)*

10.23 Amendment No. 1 effective June 25, 2003, to agreement with Bank of America dated February 28, 2003 (Exhibit 10.24 to Quarterly Report on Form 10-Q for the quarter ended June 30, 2003)

10.24 Water Supply Contract 99-73 between the City of Bakersfield and California Water Service Company, dated March 31, 1999 (Exhibit 10.25 to Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)

10.25 Amendment No. 1 to Water Supply Contract between the City of Bakersfield and California Water Service Company, dated October 3, 2001 (Exhibit 10.26 to Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)

10.26 Amendment No. 2 effective February 18, 2004, to agreement with Bank of America dated February 28, 2003 (Exhibit 10.26 to Annual Report on Form 10-K for the year ended December 31, 2003)

10.27 Amendment No. 2 to California Water Service Company Supplemental Executive Retirement Plan effective January 1, 2001 (Exhibit 10.27 to Quarterly Report on Form 10-Q for the quarter ended September 30, 2004)*

10.28 $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. (Exhibit 10.1 to Current Report on Form 8-K filed on February 8, 2005)

10.29 $45,000,000 Business Loan Agreement between Bank of America, N.A. and California Water Service Company dated December 23, 2004. (Exhibit 10.2 to Current Report on Form 8-K filed on February 8, 2005)

10.30 California Water Service Group Equity Incentive Plan (filed as Appendix B of the California Water Service Group proxy statement dated March 25, 2005, for its Annual Meeting of Stockholders to be held on April 27, 2005, as filed with the SEC on March 22, 2005 (File No. 1-13883))*

10.31 The registrant's policy on option repricing under its Equity Incentive Plan (incorporated by reference to Item 8.01 Other Events in the registrant's Current Report on Form 8-K dated April 7, 2005) *

10.32 Water Supply Contract dated September 21, 2005, between Cal Water and the Kern County Water Agency. (Exhibit 10.1 to Current Report on Form 8-K filed on September 21, 2005)

10.33 Separation Agreement between California Water Service Group and Richard D. Nye. (Exhibit 10 to Current Report on Form 8-K filed on December 22, 2005)*

10.34 Form of Stock Appreciation Right Grant Notice under the California Water Service Group Equity Incentive Plan*

10.35 Form of Stock Appreciation Right Agreement under the California Water Service Group Equity Incentive Plan with Notice of Exercise*

10.36 Form of Restricted Stock Award Grant Notice under the California Water Service Group Equity Incentive Plan*

10.37 [reserved]

10.38 Form of Restricted Stock Award Agreement under the California Water Service Group Equity Incentive Plan with Assignment Separate From Certificate and Joint Escrow Instructions*

10.39 Form of Stock Option Grant Notice for outside director under the California Water Service Group Equity Incentive Plan*

10.40 Form of Stock Option Grant Notice under the California Water Service Group Equity Incentive Plan*

10.41 Form of Stock Option Agreement (Incentive Stock Option or Nonstatutory Stock Option) under the California Water Service Group Equity Incentive Plan with Notice of Exercise*

10.42 Offer Letter between the registrant and Martin A. Kropelnicki, dated February 15, 2006 (incorporated by reference to Exhibit 10.1 to Amendment No. 1 to Current Report on Form 8-K of the registrant, dated February 22, 2006)*



13. Annual Report to Security Holders:

13.1 2005 Annual Report. Certain sections of the 2005 Annual Report to Stockholders are incorporated by reference in this 10-K filing and filed with this Form 10-K as Exhibit 13. This includes those sections referred to in Part I, Item 1, Business; Part I, Item 2, Properties; Part II, Item 5, Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Repurchases of Equity Securities; Part II, Item 6, Selected Financial Data; Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations; Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk; Part II, Item 8, Financial Statements and Supplementary Data; and Item 9A, Controls and Procedures

21. Subsidiaries of the Registrant

23. Consents of Experts and Counsel

23.1 Consent of Independent Registered Public Accounting Firm

31. Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.1 Chief Executive Officer certification of financial statements pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Chief Financial Officer certification of financial statements pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32. Chief Executive Officer and Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Management contract or compensatory plan or arrangement

EXHIBIT 10.14

# CALIFORNIA WATER SERVICE GROUP

## DIRECTORS RETIREMENT PLAN
(as amended on February 22, 2006)

This document summarizes the California Water Service Group ("Group") Retirement Plan ("Plan") for members of the Board of Directors. The Plan is effective January 1, 1998. It replaces the former California Water Service Company Directors Retirement Plan (the "Former Plan"). The Plan is intended to recognize a director's service commitment to the Group by providing retirement income.

1. The Group has established a mandatory retirement age for directors. A director must retire no later than the Annual Meeting that follows the date of the director's 75th birthday. An employee director must retire as an employee or a director no later that the Annual Meeting that follows the date of the director's 70th birthday.

2. Any current non-employee director who retires subsequent to February 22, 2006, after serving on the Board for a total of five or more years will receive a retirement benefit equivalent to $22,000 per year. This benefit will be paid for the number of years the director served on the Board, up to 10 years. Retirement benefit payments will be made monthly at the same time as retainer payments are made to active directors. In December 2005, the Director Retirement Plan was cancelled for future Directors.

3. The Board reserves the right to adopt resolutions which alter, amend, modify, or terminate the Plan at any time. However, future resolutions may not, in any way, reduce the benefits to which a director shall have become entitled prior to adoption of the resolution.

4. In the event of a Director's death prior to retirement who has served on the Board for a period of at least five years, the Director's designated beneficiary will receive annual benefits to which the director was entitled. The benefit will be determined under terms of the Plan as if the Director had retired on the date of his or her death. Benefit payments will be made to the beneficiary in accordance with the provisions of Paragraph 2. Benefits will be payable for a period equal to the number of years the Director served on the Board, including service on the Board of California Water Service Company prior to January 1, 1998, up to a maximum of 10 years. Payment of the survivor benefit will commence the month following the Director's death.

5. In the event of a Director's death following retirement, the balance of his or her retirement benefit, if any, will be paid to the retired Director's designated beneficiary, or in accordance with his or her will or the laws of descent and distribution.

6. A Director may, from time to time, revoke his or her beneficiary designation and file a new beneficiary designation with the Board.

7. Benefits earned under the former Plan and for which payment had commenced as of the adoption date of this Plan will continue to be paid in accordance with provisions of the former plan.

8. This Plan is a nonqualified, nonfunded plan. In the event of bankruptcy of the Group, the participants will be general creditors of the Group.

Exhibit 10.34

CALIFORNIA WATER SERVICE GROUP
STOCK APPRECIATION RIGHT GRANT NOTICE
EQUITY INCENTIVE PLAN

California Water Service Group (the "Company"), pursuant to its Equity Incentive Plan (the "Plan"), hereby grants to Participant a stock appreciation right ("SAR") to receive the Appreciation in the value of the number of shares of the Company's Common Stock set forth below ("Shares"). This SAR is subject to all of the terms and conditions as set forth herein and in the SAR Agreement, the Plan and the notice of exercise, all of which are attached hereto and incorporated herein in their entirety.

Participant: ----------------------------------------------

Date of Grant: ----------------------------------------------

Vesting Commencement Date: ----------------------------------------------

Number of Shares Subject to SAR: ----------------------------------------------

Grant Value per Share: ----------------------------------------------

Expiration Date:

Vesting Schedule:

[ ] 100% of the Shares vest ___ years after the Vesting Commencement Date

[ ] The Shares vest annually over ___ years after the Vesting Commencement Date

[ ] The Shares vest quarterly over ___ years after the Vesting Commencement Date

[ ] The Shares vest monthly over ___ years after the Vesting Commencement Date

[ ] ___% of the Shares vest on the first anniversary of the Vesting Commencement Date; thereafter, the Shares vest monthly quarterly annually, over ___ years

Vesting is contingent upon completion of Continuous Service; annual, quarterly or monthly vesting is at an equal rate over the vesting period.

Additional Terms/Acknowledgements: The undersigned Participant acknowledges receipt of, and understands and agrees to, this Grant Notice, the SAR Agreement, the Plan and the notice of exercise. Participant further acknowledges that as of the Date of Grant, this Grant Notice, the SAR Agreement, the Plan and the notice of exercise set forth the entire understanding between Participant and the Company regarding the SAR regarding the acquisition of stock in the Company and supersede all prior oral and written agreements on that subject with the exception of (i) SARs previously granted and delivered to Participant under the Plan, and (ii) the following agreements only:

OTHER AGREEMENTS: -----------------------------------

-----------------------------------

| CALIFORNIA WATER SERVICE GROUP | PARTICIPANT: |
|---|---|
| By: -------------------------------- | -------------------------------- |
| Signature | Signature |
| Title: -------------------------------- | Date: -------------------------------- |
| Date: ------------------------------ | |

ATTACHMENTS: Stock Appreciation Right Agreement, Equity Incentive Plan and Notice of Exercise

EXHIBIT 10.35

CALIFORNIA WATER SERVICE GROUP
EQUITY INCENTIVE PLAN

STOCK APPRECIATION RIGHT AGREEMENT

Pursuant to your Stock Appreciation Right Grant Notice ("Grant Notice") and this Stock Appreciation Right Agreement (the "SAR Agreement"), California Water Service Group (the "Company") has granted you a stock appreciation right ("SAR") under its Equity Incentive Plan (the "Plan") with respect to the number of shares of the Company's Common Stock indicated in your Grant Notice at the grant value ("Grant Value") indicated in your Grant Notice. Defined terms not explicitly defined in this SAR Agreement but defined in the Plan have the same definitions as in the Plan.

1. VESTING. Subject to the limitations contained herein, your SAR will vest as provided in your Grant Notice, provided that vesting will cease upon the termination of your Continuous Service.

2. NUMBER OF SHARES AND GRANT VALUE. The Grant Value of each share of Common Stock subject to your SAR will be not less than 100% of the Fair Market Value of such share of Common Stock on the Date of Grant. The number of shares of Common Stock subject to your SAR and the Grant Value per share may be adjusted from time to time for Capitalization Adjustments.

3. WHOLE SHARES. You may exercise your SAR only for whole shares of Common Stock.

4. SECURITIES LAW COMPLIANCE. Notwithstanding anything to the contrary contained herein, you may not exercise your SAR unless the shares of Common Stock issuable upon such exercise are then registered under the Securities Act. The exercise of your SAR also must comply with other applicable laws and regulations governing your SAR, and you may not exercise your SAR if the Company determines that such exercise would not be in material compliance with such laws and regulations.

5. TERM. You may not exercise your SAR before the commencement of its term or after its term expires. The term of your SAR commences on the Date of Grant and expires upon the earliest of the following:

(a) 30 days after the termination of your Continuous Service for any reason, provided that if during any part of such 30-day period you may not exercise your SAR solely because of the condition set forth in the preceding paragraph relating to "Securities Law Compliance," your SAR will not expire until the earlier of the Expiration Date indicated in your Grant Notice or until it has been exercisable for an aggregate period of 30 days after the termination of your Continuous Service;

(b) the Expiration Date indicated in your Grant Notice; or

(c) the day before the 10th anniversary of the Date of Grant.

6. EXERCISE.

(a) You may exercise the vested portion of your SAR during its term by delivering a Notice of Exercise (in a form designated by the Company) together with the exercise price to the Secretary of the Company, or to such other person as the Company may designate, during regular business hours, together with such additional documents as the Company may then require.

(b) By exercising your SAR you agree that, as a condition to any exercise of your SAR, the Company may require you to enter into an arrangement providing for the payment by you to the Company of any tax withholding obligation of the Company arising by reason of (1) the exercise of your SAR, (2) the lapse of any substantial risk of forfeiture to which the shares of Common Stock are subject at the time of exercise, or (3) the disposition of shares of Common Stock acquired upon such exercise.

7. VALUE OF SAR. Upon exercise of your SAR, you will be entitled to receive from the Company an amount equal to the Appreciation in the shares of Common Stock covered by the SAR that are exercised. For this purpose, "Appreciation" means the excess of (i) the aggregate Fair Market Value (on the date of the exercise of the Stock Appreciation Right) of the shares of Common Stock covered by the SAR that are exercised, over (ii) the aggregate Grant Value for such shares.

8. PAYMENT. The Company shall satisfy its obligation to pay amounts owed upon exercise of this SAR in shares of Common Stock. Payment of such amounts will commence as soon as administratively practicable after the date of exercise

of such SAR.

9. TRANSFERABILITY. Your SAR is not transferable, except (i) by will or by the laws of descent and distribution, and (ii) with the prior written approval of the Company, by instrument to an inter vivos or testamentary trust, in a form accepted by the Company, in which the SAR is to be passed to beneficiaries upon the death of the trustor (settlor).

10. SAR NOT A SERVICE CONTRACT. Your SAR is not an employment or service contract, and nothing in your SAR will be deemed to create in any way whatsoever any obligation on your part to continue in the employ of the Company or an Affiliate, or of the Company or an Affiliate to continue your employment. In addition, nothing in your SAR will obligate the Company or an Affiliate, their respective stockholders, Boards of Directors, Officers or Employees to continue any relationship that you might have as a Director or Consultant for the Company or an Affiliate.

11. WITHHOLDING OBLIGATIONS.

(c) At the time your SAR is exercised, in whole or in part, or at any time thereafter as requested by the Company, you hereby authorize withholding from payroll and any other amounts payable to you, and otherwise agree to make adequate provision as instructed by the Company, for any sums required to satisfy the federal, state, local and foreign tax withholding obligations of the Company or an Affiliate, if any, which arise in connection with the exercise of your SAR.

(d) The Company may, in its sole discretion, and in compliance with any applicable legal conditions or restrictions, withhold from the amounts otherwise payable to you upon the exercise of your SAR an amount not exceeding the minimum amount of tax required to be withheld by law.

12. NOTICES. Any notices provided for in your SAR or the Plan will be given in writing and will be deemed effectively given upon receipt or, in the case of notices delivered by mail by the Company to you, five days after deposit in the United States mail, postage prepaid, addressed to you at the last address you provided to the Company.

13. GOVERNING PLAN DOCUMENT. Your SAR is subject to all the provisions of the Plan, the provisions of which are hereby made a part of your SAR, and is further subject to all interpretations, amendments, rules and regulations, which may from time to time be promulgated and adopted pursuant to the Plan. In the event of any conflict between the provisions of your SAR and those of the Plan, the provisions of the Plan will control.

## NOTICE OF EXERCISE

California Water Service Group
c/o California Water Service Company
1720 N. First St.
San Jose, CA 95112 Date of Exercise: ___________

Ladies and Gentlemen:

This constitutes notice that I elect to exercise my stock appreciation right ("SAR"), dated _________________, under the California Water Service Group Equity Incentive Plan (the "Plan") with respect to ______ shares of common stock of California Water Service Group (the "Company") that are subject to the SAR.

By this exercise, I agree (i) to provide such additional documents as you may require pursuant to the terms of the Plan, and (ii) to provide for the payment by me to you (in the manner designated by you) of your withholding obligation, if any, relating to the exercise of this SAR.

Very truly yours,

----------------------------------

Exhibit 10.36

# CALIFORNIA WATER SERVICE GROUP
## RESTRICTED STOCK AWARD GRANT NOTICE
## EQUITY INCENTIVE PLAN

California Water Service Group (the "Company"), pursuant to its Equity Incentive Plan (the "Plan"), hereby awards to Participant the number of shares of the Company's Common Stock set forth below ("Award"). This Award is subject to all of the terms and conditions as set forth herein and in the Restricted Stock Award Agreement, the Plan, the form of Assignment Separate from Certificate and the form of Joint Escrow Instructions, all of which are attached hereto and incorporated herein in their entirety.

Participant:
Date of Grant:
Vesting Commencement Date:
Number of Shares Subject to Award:
Consideration: Participant's Past Services

Vesting Schedule:

[ ] 100% of the shares vest ___ years after the Vesting Commencement Date

[ ] The shares vest annually over ___ years after the Vesting Commencement Date

[ ] The shares vest quarterly over ___ years after the Vesting Commencement Date

[ ] The shares vest monthly over ___ years after the Vesting Commencement Date

[ ] ___% of the shares vest on the first anniversary of the Vesting Commencement Date; thereafter, the shares vest monthly quarterly annually, over ___ years

Vesting is contingent upon completion of Continuous Service; annual, quarterly or monthly vesting is at an equal rate over the vesting period.

Additional Terms/Acknowledgements: The undersigned Participant acknowledges receipt of, and understands and agrees to, this Grant Notice, the Restricted Stock Award Agreement and the Plan. Participant further acknowledges that as of the Date of Grant, this Grant Notice, the Restricted Stock Agreement and the Plan set forth the entire understanding between Participant and the Company regarding the acquisition of stock in the Company and supersede all prior oral and written agreements on that subject with the exception of (i) Awards previously granted and delivered to Participant under the Plan, and (ii) the following agreements only:

OTHER AGREEMENTS:
---------------------------------------

---------------------------------------

| CALIFORNIA WATER SERVICE GROUP | PARTICIPANT: |
|---|---|
| By: ---------------------------------- | ------------------------------------ |
| Signature | Signature |
| Title: ---------------------------------- | Date: ------------------------------------ |
| Date: ---------------------------------- | |

ATTACHMENTS: Restricted Stock Award Agreement, Equity Incentive Plan, form of Assignment Separate from Certificate and form of Joint Escrow Instructions

Exhibit 10.38

# CALIFORNIA WATER SERVICE GROUP

## EQUITY INCENTIVE PLAN

## RESTRICTED STOCK AWARD AGREEMENT

Pursuant to the Restricted Stock Award Grant Notice ("Grant Notice") and this Restricted Stock Award Agreement (collectively, the "Award") and in consideration of your past services, California Water Service Group (the "Company") has awarded you restricted stock under its Equity Incentive Plan (the "Plan") for the number of shares of the Company's Common Stock subject to the Award as indicated in the Grant Notice. Defined terms not explicitly defined in this Restricted Stock Award Agreement but defined in the Plan have the same definitions as in the Plan.

The details of your Award are as follows:

1. VESTING. Subject to the limitations contained herein, your Award will vest as provided in the Grant Notice, provided that vesting will cease upon the termination of your Continuous Service.

2. NUMBER OF SHARES. The number of shares subject to your Award may be adjusted from time to time for Capitalization Adjustments, as provided in the Plan.

3. SECURITIES LAW COMPLIANCE. You may not be issued any shares under your Award unless the shares are either (i) then registered under the Securities Act or (ii) the Company has determined that such issuance would be exempt from the registration requirements of the Securities Act. Your Award must also comply with other applicable laws and regulations governing the Award, and you will not receive such shares if the Company determines that such receipt would not be in material compliance with such laws and regulations.

4. RIGHT OF FIRST REFUSAL. Shares that are received under your Award are subject to any right of first refusal that may be described in the Company's bylaws in effect at such time the Company elects to exercise its right.

5. RIGHT OF REACQUISITION.

(a) To the extent provided in the Company's bylaws, as amended from time to time, the Company will have the right to reacquire all or any part of the shares received pursuant to your Award (a "Reacquisition Right").

(b) To the extent a Reacquisition Right is not provided in the Company's bylaws, as amended from time to time, the Company will have a Reacquisition Right as to the shares you received pursuant to your Award that have not as yet vested in accordance with the Vesting Schedule on the Grant Notice ("Unvested Shares") on the following terms and conditions:

(i) The Company will, simultaneously with termination of your Continuous Service, automatically reacquire for no consideration all of the Unvested Shares, unless the Company agrees to waive its Reacquisition Right as to some or all of the Unvested Shares. Any such waiver shall be exercised by the Company by written notice to you or your representative (with a copy to the Escrow Holder as defined below) within 90 days after the termination of your Continuous Service, and the Escrow Holder may then release to you the number of Unvested Shares not being reacquired by the Company. If the Company does not waive its Reacquisition Right as to all of the Unvested Shares, then upon such termination of your Continuous Service, the Escrow Holder shall transfer to the Company the number of shares the Company is reacquiring.

(ii) The Company will have the right to reacquire Unvested shares for no monetary consideration (that is, for $0.00).

(iii) The shares issued under your Award will be held in escrow pursuant to the terms of the Joint Escrow Instructions attached to the Grant Notice as Attachment IV. You agree to execute two Assignment Separate From Certificate forms (with date and number of shares blank) substantially in the form attached to the Grant Notice as Attachment III and deliver the same, along with the certificate or certificates evidencing the shares, for use by the escrow agent pursuant to the terms of the Joint Escrow Instructions.

(iv) Subject to the provisions of your Award, you shall, during the term of your Award, exercise all rights and privileges of a shareholder of the Company with respect to the shares deposited in escrow. You will be deemed to be the holder of the shares for purposes of receiving any dividends which may be paid with respect to such shares and for purposes of exercising any voting rights relating to such shares, even if some or all of such shares have not yet vested and been released from the Company's Reacquisition Right.

(v) If, from time to time, there is any stock dividend, stock split or other change in the character or amount of any of the outstanding stock of the corporation the stock of which is subject to the provisions of your Award, then in such event any and all new, substituted or additional securities to which you is entitled by reason of your ownership of the shares acquired under your Award will be immediately subject to the Reacquisition Right with the same force and effect as the shares subject to this Reacquisition Right immediately before such event.

6. RESTRICTIVE LEGENDS. The shares issued under your Award will be endorsed with appropriate legends determined by the Company.

7. AWARD NOT A SERVICE CONTRACT. Your Award is not an employment or service contract, and nothing in your Award will be deemed to create in any way whatsoever any obligation on your part to continue in the employ of the Company or an Affiliate, or on the part of the Company or an Affiliate to continue your employment. In addition, nothing in your Award will obligate the Company or an Affiliate, their respective shareholders, boards of directors, Officers or Employees to continue any relationship that you might have as a Director or Consultant for the Company or an Affiliate.

8. WITHHOLDING OBLIGATIONS.

(a) At the time your Award is made, or at any time thereafter as requested by the Company, you hereby authorize withholding from payroll and any other amounts payable to you, and otherwise agree to make adequate provision for any sums required to satisfy the federal, state, local and foreign tax withholding obligations of the Company or an Affiliate, if any, which arise in connection with your Award.

(b) Unless the tax withholding obligations of the Company and/or any Affiliate are satisfied, the Company will have no obligation to issue a certificate for such shares or release such shares from any escrow provided for herein.

9. TAX CONSEQUENCES. The acquisition and vesting of the shares may have adverse tax consequences to you that may avoided or mitigated by filing an election under Section 83(b) of the Internal Revenue Code, as amended (the "Code"). Such election must be filed within 30 days after the date of your Award. YOU ACKNOWLEDGE THAT IT IS YOUR OWN RESPONSIBILITY, AND NOT THE COMPANY'S, TO FILE A TIMELY ELECTION UNDER CODE SECTION 83(B), EVEN IF YOU REQUEST THE COMPANY TO MAKE THE FILING ON YOUR BEHALF.

10. NOTICES. Any notices provided for in your Award or the Plan will be given in writing and will be deemed effectively given upon receipt or, in the case of notices delivered by the Company to you, five days after deposit in the United States mail, postage prepaid, addressed to you at the last address you provided to the Company.

11. MISCELLANEOUS.

(a) The rights and obligations of the Company under your Award will be transferable to any one or more persons or entities, and all covenants and agreements hereunder will inure to the benefit of, and be enforceable by the Company's successors and assigns. Your rights and obligations under your Award may only be assigned with the prior written consent of the Company.

(b) You agree upon request to execute any further documents or instruments necessary or desirable in the sole determination of the Company to carry out the purposes or intent of your Award.

(c) You acknowledge and agree that you have reviewed your Award in its entirety, have had an opportunity to obtain the advice of counsel prior to executing and accepting your Award and fully understand all provisions of your Award.

12. GOVERNING PLAN DOCUMENT. Your Award is subject to all the provisions of the Plan, the provisions of which are hereby made a part of your Award, and is further subject to all interpretations, amendments, rules and regulations which may from time to time be promulgated and adopted pursuant to the Plan. In the event of any conflict between the provisions of your Award and those of the Plan, the provisions of the Plan will control.

## ASSIGNMENT SEPARATE FROM CERTIFICATE

FOR VALUE RECEIVED and pursuant to that certain Restricted Stock Award

Grant Notice and Restricted Stock Award Agreement (the "Award"), [Participant's Name] hereby assigns and transfers unto California Water Service Group, a Delaware corporation ("Assignee"), __________ shares of the common stock of the Assignee, standing in the undersigned's name on the books of said corporation represented by Certificate No. ____ herewith and do hereby irrevocably appoint _________________________ as attorney-in-fact to transfer the said stock to the Assignee with full power of substitution in the premises. This Assignment may be used only in accordance with and subject to the terms and conditions of the Award, in connection with the reacquisition of shares of common stock of the Assignee issued to the undersigned pursuant to the Award, and only to the extent that such shares remain subject to the Assignee's reacquisition right under the Award.

Dated:
---------------------

Signature:
--------------------------------
[Participant's Name], Recipient

JOINT ESCROW INSTRUCTIONS

[date]

Corporate Secretary
California Water Service Group
c/o California Water Service Company
1720 N. First St.
San Jose, CA 95112

Dear Sir/Madam:

As Escrow Agent for both California Water Service Group, a Delaware corporation (the "Company"), and the undersigned recipient of stock of the Company ("Recipient"), you are hereby authorized and directed to hold the documents delivered to you pursuant to the terms of that certain Restricted Stock Award Grant Notice (the "Grant Notice"), dated ________________ to which a copy of these Joint Escrow Instructions is attached as Attachment IV, and pursuant to the terms of that certain Restricted Stock Award Agreement ("Agreement"), which is Attachment I to the Grant Notice, in accordance with the following instructions:

1. In the event Recipient ceases to render services to the Company or an affiliate of the Company during the vesting period set forth in the Grant Notice, the Company or its assignee will give to Recipient and you a written notice specifying that the shares of stock will be transferred to the Company. Recipient and the Company hereby irrevocably authorize and direct you to close the transaction contemplated by such notice in accordance with the terms of said notice.

2. At the closing you are directed (a) to date any stock assignments necessary for the transfer in question, (b) to fill in the number of shares being transferred, and (c) to deliver same, together with the certificate evidencing the shares of stock to be transferred, to the Company.

3. Recipient irrevocably authorizes the Company to deposit with you any certificates evidencing shares of stock to be held by you hereunder and any additions and substitutions to said shares as specified in the Grant Notice. Recipient does hereby irrevocably appoint you as Recipient's attorney-in-fact and agent for the term of this escrow to execute with respect to such securities and other property all documents of assignment and/or transfer and all stock certificates necessary or appropriate to make all securities negotiable and complete any transaction herein contemplated.

4. This escrow will terminate upon vesting of the shares or upon the earlier return of the shares to the Company.

5. If at the time of termination of this escrow you should have in your possession any documents, securities, or other property belonging to Recipient, you shall deliver all of same to any pledgee entitled thereto or, if none, to Recipient and will be discharged of all further obligations hereunder.

6. Your duties hereunder may be altered, amended, modified or revoked only by a writing signed by all of the parties hereto.

7. You shall be obligated only for the performance of such duties as are specifically set forth herein and may rely and will be protected in relying or refraining from acting on any instrument reasonably believed by you to be genuine and to have been signed or presented by the proper party or parties or

their assignees. You will not be personally liable for any act you may do or omit to do hereunder as Escrow Agent or as attorney-in-fact for Recipient while acting in good faith and any act done or omitted by you pursuant to the advice of your own attorneys will be conclusive evidence of such good faith.

8. You are hereby expressly authorized to disregard any and all warnings given by any of the parties hereto or by any other person or corporation, excepting only orders or process of courts of law, and are hereby expressly authorized to comply with and obey orders, judgments or decrees of any court. In case you obey or comply with any such order, judgment or decree of any court, you will not be liable to any of the parties hereto or to any other person, firm or corporation by reason of such compliance, notwithstanding any such order, judgment or decree being subsequently reversed, modified, annulled, set aside, vacated or found to have been entered without jurisdiction.

9. You will not be liable in any respect on account of the identity, authority or rights of the parties executing or delivering or purporting to execute or deliver the Grant Notice or any documents or papers deposited or called for hereunder.

10. You will not be liable for the outlawing of any rights under any statute of limitations with respect to these Joint Escrow Instructions or any documents deposited with you.

11. You will be entitled to employ such legal counsel, including but not limited to Hanson, Bridgett, Marcus, Vlahos & Rudy, LLP, and other experts as you may deem necessary properly to advise you in connection with your obligations hereunder, may rely upon the advice of such counsel, and may pay such counsel reasonable compensation therefor.

12. Your responsibilities as Escrow Agent hereunder will terminate if you cease to be Secretary of the Company or if you resign by written notice to each party. In the event of any such termination, the Company may appoint any officer or assistant officer of the Company as successor Escrow Agent and Recipient hereby confirms the appointment of such successor or successors as his attorney-in-fact and agent to the full extent of your appointment.

13. If you reasonably require other or further instruments in connection with these Joint Escrow Instructions or obligations in respect hereto, the necessary parties hereto shall join in furnishing such instruments.

14. It is understood and agreed that should any dispute arise with respect to the delivery and/or ownership or right of possession of the securities, you may (but are not obligated to) retain in your possession without liability to anyone all or any part of said securities until such dispute has settled either by mutual written agreement of the parties concerned or by a final order, decree or judgment of a court of competent jurisdiction after the time for appeal has expired and no appeal has been perfected, but you will be under no duty whatsoever to institute or defend any such proceedings.

15. Any notice required or permitted hereunder will be given in writing and will be deemed effectively given upon personal delivery or upon deposit in any United States Post Box, by registered or certified mail with postage and fees prepaid, addressed to each of the other parties hereunto entitled at the following addresses, or at such other addresses as a party may designate by 10 days' written notice to each of the other parties hereto:

COMPANY: California Water Service Group
c/o California Water Service Company
1720 N. First St.
San Jose, CA 95112
Attn: General Counsel / Chief Financial Officer

RECIPIENT:
---------------------------------------------

---------------------------------------------

---------------------------------------------

---------------------------------------------

ESCROW AGENT: California Water Service Group
c/o California Water Service Company
1720 N. First St.
San Jose, CA 95112
Attn: Corporate Secretary

16. By signing these Joint Escrow Instructions you become a party hereto only for the purpose of said Joint Escrow Instructions; you do not become a party to the Grant Notice.

17. This instrument will be binding upon and inure to the benefit of the

parties hereto, and their respective successors and permitted assigns. It is understood and agreed that references to "you" or "your" herein refer to the original Escrow Agent and to any and all successor Escrow Agents. It is understood and agreed that the Company may at any time or from time to time assign its rights under the Grant Notice and these Joint Escrow Instructions in whole or in part.

Very truly yours,

CALIFORNIA WATER SERVICE GROUP

By: -------------------------------------

RECIPIENT

----------------------------------------
[Participant's Name]

ESCROW AGENT: -------------------------------------

EXxhibit 10.39

# CALIFORNIA WATER SERVICE GROUP
# OUTSIDE DIRECTOR
# STOCK OPTION GRANT NOTICE
# EQUITY INCENTIVE PLAN

California Water Service Group (the "Company"), pursuant to its Equity Incentive Plan (the "Plan"), hereby grants to Optionholder, an Outside Director of the Company, an option to purchase the number of shares of the Company's Common Stock set forth below ("Shares"). This option is subject to all of the terms and conditions as set forth herein and in the Stock Option Agreement, the Plan and the Notice of Exercise, all of which are attached hereto and incorporated herein in their entirety.

| | |
|---|---|
| Optionholder: | ---------------------------------------- |
| Date of Grant: | ---------------------------------------- |
| Vesting Commencement Date: | ---------------------------------------- |
| Number of Shares Subject to Option: | ---------------------------------------- |
| Exercise Price (Per Share): | ---------------------------------------- |
| Total Exercise Price: | ---------------------------------------- |
| Expiration Date: | ---------------------------------------- |
| Type of Grant: | Nonstatutory Stock Option |
| Exercise Schedule: | Vested Shares exercisable only after termination of Continuous Service, subject to the exercise term specified in the Stock Option Agreement |

Vesting Schedule:

[ ] 100% of the Shares vest ___ years after the Vesting Commencement Date

[ ] The Shares vest annually over ___ years after the Vesting Commencement Date

[ ] The Shares vest quarterly over ___ years after the Vesting Commencement Date

[ ] The Shares vest monthly over ___ years after the Vesting Commencement Date

[ ] ___% of the Shares vest on the first anniversary of the Vesting Commencement Date; thereafter, the Shares vest [ ] monthly [ ] quarterly [ ] annually, over ___ years

Vesting is contingent upon completion of Continuous Service; annual, quarterly or monthly vesting is at an equal rate over the vesting period.

Payment: By one or a combination of the following items (described in the Stock Option Agreement): (i) by cash or check, (ii) pursuant to a Regulation T Program if the Shares are publicly, or (iii) by delivery of already-owned shares if the Shares are publicly traded

Additional Terms/Acknowledgements: The undersigned Optionholder acknowledges receipt of, and understands and agrees to, this Grant Notice, the Stock Option Agreement and the Plan. Optionholder further acknowledges that as of the Date of Grant, this Grant Notice, the Stock Option Agreement and the Plan set forth the entire understanding between Optionholder and the Company regarding the acquisition of stock in the Company and supersede all prior oral and written agreements on that subject with the exception of (i) options previously granted and delivered to Optionholder under the Plan, and (ii) the following agreements only:

OTHER AGREEMENTS:

CALIFORNIA WATER SERVICE GROUP                OPTIONHOLDER:

By:

---------------------------------     -------------------------------------
Signature                              Signature

Title: ---------------------------------     Date: -------------------------------------

Date: ---------------------------------

ATTACHMENTS: Stock Option Agreement, Equity Incentive Plan, and Notice of Exercise

Exhibit 10.40

# CALIFORNIA WATER SERVICE GROUP
## STOCK OPTION GRANT NOTICE
## EQUITY INCENTIVE PLAN

California Water Service Group (the "Company"), pursuant to its Equity Incentive Plan (the "Plan"), hereby grants to Optionholder an option to purchase the number of shares of the Company's Common Stock set forth below ("Shares"). This option is subject to all of the terms and conditions as set forth herein and in the Stock Option Agreement, the Plan and the Notice of Exercise, all of which are attached hereto and incorporated herein in their entirety.

Optionholder: ------------------------------------

Date of Grant: ------------------------------------

Vesting Commencement Date: ------------------------------------

Number of Shares Subject to Option: ------------------------------------

Exercise Price (Per Share): ------------------------------------

Total Exercise Price: ------------------------------------

Expiration Date: ------------------------------------

Type of Grant: [ ] Incentive Stock Option(1)
[ ] Nonstatutory Stock Option

Exercise Schedule: Same as Vesting Schedule

Vesting Schedule:

[ ] 100% of the Shares vest ___ years after the Vesting Commencement Date

[ ] The Shares vest annually over ___ years after the Vesting Commencement Date

[ ] The Shares vest quarterly over ___ years after the Vesting Commencement Date

[ ] The Shares vest monthly over ___ years after the Vesting Commencement Date

[ ] ___% of the Shares vest on the first anniversary of the Vesting Commencement Date; thereafter, the Shares vest monthly quarterly annually, over ___ years

Vesting is contingent upon completion of Continuous Service; annual, quarterly or monthly vesting is at an equal rate over the vesting period.

Payment: By one or a combination of the following items (described in the Stock Option Agreement): (i) by cash or check, (ii) pursuant to a Regulation T Program if the Shares are publicly, or (iii) by delivery of already-owned shares if the Shares are publicly traded

Additional Terms/Acknowledgements: The undersigned Optionholder acknowledges receipt of, and understands and agrees to, this Grant Notice, the Stock Option Agreement and the Plan. Optionholder further acknowledges that as of the Date of Grant, this Grant Notice, the Stock Option Agreement and the Plan set forth the entire understanding between Optionholder and the Company regarding the acquisition of stock in the Company and supersede all prior oral and written agreements on that subject with the exception of (i) options previously granted and delivered to Optionholder under the Plan, and (ii) the following agreements only:

OTHER AGREEMENTS:

| CALIFORNIA WATER SERVICE GROUP | OPTIONHOLDER: |
|---|---|
| By: ---------------------------------- | ---------------------------------- |
| Signature | Signature |
| Title: ---------------------------------- | Date: ---------------------------------- |
| Date: | |

ATTACHMENTS: Stock Option Agreement, Equity Incentive Plan, and Notice of Exercise

- --------------------

(1) If this is an incentive stock option, it (plus your other outstanding incentive stock options) cannot be first exercisable for more than $100,000 in any calendar year. Any excess over $100,000 is a nonstatutory stock option.

EXHIBIT 10.41

CALIFORNIA WATER SERVICE GROUP

EQUITY INCENTIVE PLAN

STOCK OPTION AGREEMENT
(INCENTIVE STOCK OPTION OR NONSTATUTORY STOCK OPTION)

Pursuant to your Stock Option Grant Notice ("Grant Notice") and this Stock Option Agreement, California Water Service Group (the "Company") has granted you an option under its Equity Incentive Plan (the "Plan") to purchase the number of shares of the Company's Common Stock indicated in your Grant Notice at the exercise price indicated in your Grant Notice. Defined terms not explicitly defined in this Stock Option Agreement but defined in the Plan have the same definitions as in the Plan.

The details of your option are as follows:

1. VESTING. Subject to the limitations contained herein, your option will vest as provided in your Grant Notice, provided that vesting will cease upon the termination of your Continuous Service.

2. NUMBER OF SHARES AND EXERCISE PRICE. The number of shares of Common Stock subject to your option and your exercise price per share referenced in your Grant Notice may be adjusted from time to time for Capitalization Adjustments.

3. METHOD OF PAYMENT. Payment of the exercise price is due in full upon exercise of all or any part of your option. You may elect to make payment of the exercise price in cash or by check or in any other manner permitted by your Grant Notice, which may include one or more of the following:

a) In the Company's sole discretion at the time your option is exercised and provided that at the time of exercise the Common Stock is publicly traded and quoted regularly in The Wall Street Journal, pursuant to a program developed under Regulation T as promulgated by the Federal Reserve Board that, prior to the issuance of Common Stock, results in either the receipt of cash (or check) by the Company or the receipt of irrevocable instructions to pay the aggregate exercise price to the Company from the sales proceeds.

b) Provided that at the time of exercise the Common Stock is publicly traded and quoted regularly in The Wall Street Journal, by delivery of already-owned shares of Common Stock either that you have held for the period required to avoid a charge to the Company's reported earnings (generally six months) or that you did not acquire, directly or indirectly from the Company, that are owned free and clear of any liens, claims, encumbrances or security interests, and that are valued at Fair Market Value on the date of exercise. "Delivery" for these purposes, in the sole discretion of the Company at the time you exercise your option, include delivery to the Company of your attestation of ownership of such shares of Common Stock in a form approved by the Company. Notwithstanding the foregoing, you may not exercise your option by tender to the Company of Common Stock to the extent such tender would violate the provisions of any law, regulation or agreement restricting the redemption of the Company's stock.

4. WHOLE SHARES. You may exercise your option only for whole shares of Common Stock.

5. SECURITIES LAW COMPLIANCE. Notwithstanding anything to the contrary contained herein, you may not exercise your option unless the shares of Common Stock issuable upon such exercise are then registered under the Securities Act or, if such shares of Common Stock are not then so registered, the Company has determined that such exercise and issuance would be exempt from the registration requirements of the Securities Act. The exercise of your option also must comply with other applicable laws and regulations governing your option, and you may not exercise your option if the Company determines that such exercise would not be in material compliance with such laws and regulations.

6. TERM. You may not exercise your option before the commencement of its term or after its term expires. The term of your option commences on the Date of Grant and expires upon the earliest of the following:

a) 30 days after the termination of your Continuous Service for any reason other than death, Disability or Normal Retirement, provided that if during any part of such 30-month period you may not exercise your option solely because of the condition set forth in the preceding paragraph relating to "Securities Law Compliance," your option will not expire until the earlier of the Expiration Date or until it has been exercisable for an aggregate period of three months after the termination of your Continuous

Service;

b) five years after the termination of your Continuous Service due to your death, Disability or Normal Retirement;

c) the Expiration Date indicated in your Grant Notice; or

d) the day before the 10th anniversary of the Date of Grant.

If your option is an Incentive Stock Option, in order to obtain the federal income tax advantages associated with an Incentive Stock Option, the Code requires that at all times beginning on the date of grant of your option and ending on the day three months before the date of your option's exercise, you must be an employee of the Company or an Affiliate, except in the event of your death or your permanent and total disability, as defined in Section 22(e) of the Code. The Company has provided for extended exercisability of your option under certain circumstances for your benefit but cannot guarantee that your option will necessarily be treated as an Incentive Stock Option if you continue to provide services to the Company or an Affiliate as a Consultant or Director after your employment terminates or if you otherwise exercise your option more than three months after the date your employment with the Company or an Affiliate terminates.

7. EXERCISE.

a) You may exercise the vested portion of your option during its term by delivering a Notice of Exercise (in a form designated by the Company) together with the exercise price to the Secretary of the Company, or to such other person as the Company may designate, during regular business hours, together with such additional documents as the Company may then require.

b) By exercising your option you agree that, as a condition to any exercise of your option, the Company may require you to enter into an arrangement providing for the payment by you to the Company of any tax withholding obligation of the Company arising by reason of (1) the exercise of your option, (2) the lapse of any substantial risk of forfeiture to which the shares of Common Stock are subject at the time of exercise, or (3) the disposition of shares of Common Stock acquired upon such exercise.

c) If your option is an Incentive Stock Option, by exercising your option you agree that you will notify the Company in writing within 15 days after the date of any disposition of any of the shares of the Common Stock issued upon exercise of your option that occurs within two years after the date of your option grant or within one year after such shares of Common Stock are transferred upon exercise of your option.

8. TRANSFERABILITY.

a) If your option is an Incentive Stock Option, your option is not transferable, except by will or by the laws of descent and distribution, and is exercisable during your life only by you. Notwithstanding the foregoing, by delivering written notice to the Company, in a form satisfactory to the Company, you may designate a third party who, in the event of your death, will thereafter be entitled to exercise your option.

b) If your option is a Nonstatutory Stock Option, your option is not transferable, except (i) by will or by the laws of descent and distribution, (ii) with the prior written approval of the Company, by instrument to an inter vivos or testamentary trust, in a form accepted by the Company, in which the option is to be passed to beneficiaries upon the death of the trustor (settlor) and (iii) with the prior written approval of the Company, by gift, in a form accepted by the Company, to a permitted transferee under Rule 701 of the Securities Act.

9. OPTION NOT A SERVICE CONTRACT. Your option is not an employment or service contract, and nothing in your option will be deemed to create in any way whatsoever any obligation on your part to continue in the employ of the Company or an Affiliate, or of the Company or an Affiliate to continue your employment. In addition, nothing in your option will obligate the Company or an Affiliate, their respective stockholders, Boards of Directors, Officers or Employees to continue any relationship that you might have as a Director or Consultant for the Company or an Affiliate.

10. WITHHOLDING OBLIGATIONS.

a) At the time you exercise your option, in whole or in part, or at any time thereafter as requested by the Company, you hereby authorize withholding from payroll and any other amounts payable to you, and otherwise agree to make adequate provision as instructed by the Company (including by means of a "cashless exercise" pursuant to a program developed under Regulation T as promulgated by the Federal Reserve Board to the extent instructed by the Company), for any sums required to satisfy the federal, state, local and foreign tax withholding obligations of the Company or an Affiliate, if any, which arise in connection with the exercise of your option.

b) The Company may, in its sole discretion, and in compliance with any applicable legal conditions or restrictions, withhold from fully vested shares of Common Stock otherwise issuable to you upon the exercise of your option a number of whole shares of Common Stock having a Fair Market Value, determined by the Company as of the date of exercise, not in excess of the minimum amount of tax required to be withheld by law (or such lower amount as may be necessary to avoid variable award accounting). Any adverse consequences to you arising in connection with such share withholding procedure will be your sole responsibility.

c) You may not exercise your option unless the tax withholding obligations of the Company and/or any Affiliate are satisfied. Accordingly, you may not be able to exercise your option when desired even though your option is vested, and the Company will have no obligation to issue a certificate for such shares of Common Stock or release such shares of Common Stock from any escrow provided for herein unless such obligations are satisfied.

11. NOTICES. Any notices provided for in your option or the Plan will be given in writing and will be deemed effectively given upon receipt or, in the case of notices delivered by mail by the Company to you, five days after deposit in the United States mail, postage prepaid, addressed to you at the last address you provided to the Company.

12. GOVERNING PLAN DOCUMENT. Your option is subject to all the provisions of the Plan, the provisions of which are hereby made a part of your option, and is further subject to all interpretations, amendments, rules and regulations, which may from time to time be promulgated and adopted pursuant to the Plan. In the event of any conflict between the provisions of your option and those of the Plan, the provisions of the Plan will control.

NOTICE OF EXERCISE

California Water Service Group
c/o California Water Service Company
1720 N. First St.
San Jose, CA 95112

Date of Exercise: ___________

Ladies and Gentlemen:

This constitutes notice that I elect to exercise my stock option under the California Water Service Group Equity Incentive Plan by purchasing the number of shares for the price set forth below.

| | | |
|---|---|---|
| Type of option (check one): | Incentive [ ] | Nonstatutory [ ] |
| Stock option dated: | _________________ | _________________ |
| Number of shares as to which option is exercised ("Shares"): | _________________ | _________________ |
| Certificates to be issued in name of: | _________________ | _________________ |
| Total exercise price: | $_________________ | $_________________ |
| Cash payment delivered herewith: | $_________________ | $_________________ |
| Value of _____ shares of California Water Service Group common stock delivered herewith(2): | $_________________ | $_________________ |

By this exercise, I agree (i) to provide such additional documents as you may require pursuant to the terms of the California Water Service Group Equity Incentive Plan, (ii) to provide for the payment by me to you (in the manner designated by you) of your withholding obligation, if any, relating to the exercise of this option, and (iii) if this exercise relates to an incentive stock option, to notify you in writing within 15 days after the date of any disposition of any of the shares of Common Stock issued upon exercise of this option that occurs within two years after the date of grant of this option or within one year after such shares of Common Stock are issued upon exercise of this option.

Very truly yours,

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(2) Shares must meet the public trading requirements set forth in the option. Shares must be valued in accordance with the terms of the option being exercised, must have been owned for the minimum period required in the option, and must be owned free and clear of any liens, claims, encumbrances or security interests. Certificates must be endorsed or accompanied by an executed assignment separate from certificate.

Ten-Year Financial Review

<TABLE>
<CAPTION>

<C> <C> <C> <C>

| Dollars in thousands, except common share data | 2005 | 2004 | 2003 |
|---|---|---|---|
| **Summary of Operations** | | | |
| Operating Revenue | | | |
| Residential | $222,634 | $221,323 | $194,903 |
| Business | 56,962 | 55,803 | 49,666 |
| Industrial | 14,241 | 13,592 | 11,255 |
| Public authorities | 14,965 | 15,118 | 12,789 |
| Other | 11,926 | 9,731 | 8,515 |
| Total operating revenue | 320,728 | 315,567 | 277,128 |
| Operating expenses | 280,918 | 274,084 | 246,894 |
| Interest expense, other income and expenses, net | 12,587 | 15,457 | 10,817 |
| Net income | $ 27,223 | $ 26,026 | $ 19,417 |
| **Common Share Data** | | | |
| Earnings per share - diluted | $ 1.47 | $ 1.46 | $ 1.21 |
| Dividend declared | 1.140 | 1.130 | 1.125 |
| Dividend payout ratio | 78% | 77% | 93% |
| Book value | $ 15.98 | $ 15.66 | $ 14.44 |
| Market price at year-end | 38.23 | 37.65 | 27.40 |
| Common shares outstanding at year-end (in thousands) | 18,390 | 18,367 | 16,932 |
| Return on average common stockholders' equity | 9.3% | 9.8% | 9.1% |
| Long-term debt interest coverage | 3.61 | 3.38 | 2.78 |
| **Balance Sheet Data** | | | |
| Net utility plant | $862,731 | $800,305 | $759,498 |
| Utility plant expenditures (Company-funded and developer-funded) | 94,517 | 68,573 | 74,253 |
| Total assets | 996,945 | 942,853 | 873,035 |
| Long-term debt including current portion | 275,275 | 275,921 | 273,130 |
| Capitalization ratios: | | | |
| Common stockholders' equity | 51.4% | 50.8% | 47.0% |
| Preferred stock | 0.6% | 0.6% | 0.7% |
| Long-term debt | 48.0% | 48.6% | 52.3% |
| **Other Data** | | | |
| Water production (million gallons) | | | |
| Wells and surface supply | 68,162 | 72,279 | 68,416 |
| Purchased | 64,028 | 66,760 | 63,264 |
| Total water production | 132,190 | 139,039 | 131,680 |
| Metered customers | 402,191 | 395,286 | 387,579 |
| Flat-rate customers | 76,810 | 77,869 | 78,843 |
| Customers at year-end | 479,001 | 473,155 | 466,422 |
| New customers added | 5,846 | 6,733 | 7,434 |
| Revenue per customer | $ 670 | $ 667 | $ 594 |
| Utility plant per customer | 2,578 | 2,418 | 2,313 |
| Employees at year-end | 840 | 837 | 813 |

</TABLE>
<TABLE>
<CAPTION>

<S> <C> <C> <C> <C> <C> <C> <C>

| Dollars in thousands, except common share data | 2002 | 2001 | 2000 | 1999 | 1998 | 1997 | 1996 |
|---|---|---|---|---|---|---|---|
| **Summary of Operations** | | | | | | | |
| Operating Revenue | | | | | | | |
| Residential | $184,894 | $173,823 | $171,234 | $163,681 | $150,491 | $158,210 | $148,313 |
| Business | 46,404 | 44,944 | 44,211 | 41,246 | 38,854 | 40,520 | 37,605 |
| Industrial | 11,043 | 9,907 | 11,014 | 12,695 | 10,150 | 10,376 | 9,748 |
| Public authorities | 12,706 | 11,860 | 11,609 | 10,898 | 9,654 | 11,173 | 10,509 |
| Other | 8,104 | 6,286 | 6,738 | 6,417 | 5,777 | 4,886 | 4,083 |
| Total operating revenue | 263,151 | 246,820 | 244,806 | 234,937 | 214,926 | 225,165 | 210,258 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Operating expenses | 232,404 | 221,116 | 211,610 | 201,890 | 183,245 | 188,020 | 177,356 |
| Interest expense, other income and expenses, net | 11,674 | 10,739 | 13,233 | 11,076 | 11,821 | 11,388 | 11,502 |
| Net income | $ 19,073 | $ 14,965 | $ 19,963 | $ 21,971 | $ 19,860 | $ 25,757 | $ 21,400 |
| Common Share Data | | | | | | | |
| Earnings per share - diluted | $ 1.25 | $ 0.97 | $ 1.31 | $ 1.44 | $ 1.31 | $ 1.71 | $ 1.42 |
| Dividend declared | 1.120 | 1.115 | 1.100 | 1.085 | 1.070 | 1.055 | 1.040 |
| Dividend payout ratio | 90% | 115% | 84% | 75% | 82% | 62% | 73% |
| Book value | $ 13.12 | $ 12.95 | $ 13.13 | $ 12.89 | $ 12.49 | $ 12.15 | $ 11.47 |
| Market price at year-end | 23.65 | 25.75 | 27.00 | 30.31 | 31.31 | 29.53 | 21.00 |
| Common shares outstanding at year-end (in thousands) | 15,182 | 15,182 | 15,146 | 15,094 | 15,015 | 15,015 | 15,015 |
| Return on average common stockholders' equity | 9.7% | 7.6% | 10.1% | 11.5% | 10.8% | 14.5% | 12.8% |
| Long-term debt interest coverage | 2.73 | 2.64 | 3.31 | 3.79 | 3.64 | 4.37 | 3.81 |
| Balance Sheet Data | | | | | | | |
| Net utility plant | $696,988 | $624,342 | $582,782 | $564,390 | $538,741 | $515,917 | $495,985 |
| Utility plant expenditures (Company-funded and developer-funded) | 88,361 | 62,049 | 37,161 | 48,599 | 41,061 | 37,511 | 40,310 |
| Total assets | 798,478 | 710,214 | 666,605 | 645,507 | 613,143 | 594,444 | 569,745 |
| Long-term debt including current portion | 251,365 | 207,981 | 189,979 | 171,613 | 152,674 | 153,271 | 151,725 |
| Capitalization ratios: | | | | | | | |
| Common stockholders' equity | 44.0% | 48.8% | 51.1% | 53.0% | 54.6% | 53.8% | 52.7% |
| Preferred stock | 0.7% | 0.9% | 0.9% | 0.9% | 1.0% | 1.0% | 1.1% |
| Long-term debt | 55.3% | 50.3% | 48.0% | 46.1% | 44.4% | 45.2% | 46.2% |
| Other Data | | | | | | | |
| Water production (million gallons) | | | | | | | |
| Wells and surface supply | 69,414 | 65,283 | 65,408 | 65,144 | 57,482 | 63,736 | 60,964 |
| Purchased | 62,811 | 61,343 | 62,237 | 58,618 | 54,661 | 59,646 | 56,769 |
| Total water production | 132,225 | 126,626 | 127,645 | 123,762 | 112,143 | 123,382 | 117,733 |
| Metered customers | 380,087 | 371,281 | 366,242 | 361,235 | 354,832 | 350,139 | 345,307 |
| Flat-rate customers | 78,901 | 79,146 | 78,104 | 77,892 | 77,568 | 77,878 | 77,991 |
| Customers at year-end | 458,988 | 450,427 | 444,346 | 439,127 | 432,400 | 428,017 | 423,298 |
| New customers added | 8,561 | 6,081 | 5,219 | 6,727 | 4,383 | 4,719 | 9,730 |
| Revenue per customer | $ 579 | $ 552 | $ 554 | $ 539 | $ 500 | $ 529 | $ 502 |
| Utility plant per customer | 2,182 | 2,020 | 1,916 | 1,851 | 1,768 | 1,694 | 1,632 |
| Employees at year-end | 802 | 783 | 797 | 790 | 759 | 752 | 740 |

</TABLE>

Management's Discussion and Analysis of
Results of Operations and Financial Condition

Forward-Looking Statements

This annual report, including the Letter to Stockholders and Management's Discussion and Analysis, (including, but not limited to, the section entitled "Critical Accounting Policies and Estimates" found below, and the section entitled "Risk Factors" in Item 1A on Form 10-K filed with the Securities and Exchange Commission), contains forward-looking statements within the meaning established by the Private Securities Litigation Reform Act of 1995 (Act). The forward-looking statements are intended to qualify under provisions of the federal securities laws for "safe harbor" treatment established by the Act. Forward-looking statements are based on currently available information, expectations, estimates, assumptions, projections, and management's judgment about the Company, the water utility industry, and general economic conditions. Such words as expects, intends, plans, believes, estimates, assumes, anticipates, projects, predicts, forecasts, or variations of such words or similar expressions are intended to identify forward-looking statements. The forward-looking statements are not guarantees of future performance. They are subject to uncertainty and changes in circumstances. Actual results may vary materially from what is contained in a forward-looking statement.

Factors that may cause a result different than expected or anticipated include: governmental and regulatory commissions' decisions, including decisions on proper disposition of property and collection of regulatory assets; changes in regulatory commissions' policies and procedures; the timeliness of regulatory commissions' actions concerning rate relief; new legislation; changes in accounting valuations and estimates; the ability to satisfy requirements related to the Sarbanes-Oxley Act and other regulations on internal controls; electric power interruptions; increases in suppliers' prices and the availability of supplies, including water and power; fluctuations in interest rates; changes in environmental compliance and water quality requirements; acquisitions and the ability to successfully integrate acquired companies; the ability to successfully implement business plans; changes in customer water use patterns; the impact of weather on water sales and operating results; access to sufficient capital on satisfactory terms; civil disturbances or terrorist threats or acts, or apprehension about the possible future occurrences of acts of this type; the involvement of the United States in war or other hostilities; restrictive covenants in or changes to the credit ratings on current or future debt that could increase financing costs or affect the ability to borrow, make payments on debt, or pay dividends; and other risks and unforeseen events. When considering forward-looking statements, the reader should keep in mind the cautionary statements included in this paragraph. The Company assumes no obligation to provide public updates on forward-looking statements.

Overview

California Water Service Group (Company) provides water utility services to customers in California, Washington, New Mexico, and Hawaii. The majority of the business is regulated by the respective state's public utility commission. The Company's California water utility service operations comprise the majority of the business and contributed 96% of revenues and 95% of net income in 2005. The Company also has a regulated wastewater business in New Mexico. Non-regulated activities relate primarily to the water utility business and include operating, maintenance, billing, meter reading, water testing services, and a new Extended Service Protection (ESP) Program covering repairs to the customer water line between the meter and the home. Further information on the Company's operations may be found in the Company's Form 10-K filed with the Securities and Exchange Commission (SEC). See page 68 of this Annual Report for information on how to obtain a copy of Form 10-K.

The state regulatory entities governing the Company's regulated operations are referred to as "Commission(s)" in this report. Revenues, income, and cash flows are earned primarily through delivering potable water through pipes to homes, businesses, industries, and public authorities. Rates charged to customers for the regulated business are determined by the Commissions, which also set operating and customer service standards. The rates are intended to allow recovery of operating costs and a reasonable rate of return on invested capital.

Major risk factors affecting the financial performance of the Company are: extensive regulation, decisions by state regulatory commissions, and changes in laws and regulations; increased costs, such as electricity, not recoverable from ratepayers; operating costs affected by increased environmental regulations; lack of control over water supply; inability to finance capital expenditures; acquisitions, divestitures, or restructuring; failure and circumvention of controls and procedures; and judgments and estimates regarding financial and accounting matters. For additional information on "Risk Factors," see Item 1A of the Form 10-K on file with the SEC. See page 68 of this Annual Report for information on how to obtain Form 10-K.

The most significant risk and challenge to the business during the past several years has been obtaining timely rate relief to cover increased costs and investments. The Company addresses this risk by having an experienced team dedicated solely to pursuing rate increases and managing Commission issues. The business can also be impacted by weather. Weather risk is partially mitigated by having operations in both northern and southern California, as well as in three other states. Another risk in the water industry is obtaining adequate financing, as the capital expenditures needed for infrastructure replacements and improvements may significantly exceed the cash flow generated by operations. Management believes that the Company has a strong balance sheet and is capable of supporting the financing needs of the business through use of debt and equity. Finally, the water industry is highly regulated and must comply with a multitude of standards related to water quality and service. To address the compliance issues, the Company has a highly trained, focused team that uses state-of-the-art technology and works closely with government agencies to monitor supplies and operations.

For 2005, net income was $27.2 million compared to $26.0 million in 2004, an increase of 4.6%. Diluted earnings per share for 2005 were $1.47 compared to $1.46 in 2004, an increase of 0.7%. The increase in earnings per share was primarily due to higher rates approved by the Commissions, sales to new customers, and increased gains from property sales. Partially offsetting increased earnings were decreased sales to existing customers due to wetter than normal weather conditions, higher maintenance costs, higher depreciation, higher income taxes, and the dilutive effect of having more weighted average shares outstanding than the prior year. The Company plans to continue to seek additional rate increases to recover its operating cost increases and receive reasonable returns on invested capital. For each of the five years subsequent to 2005, capital expenditures are expected to continue to increase generally at the same rate as inflation and remain at much higher levels than depreciation expense. Cash from operations is not expected to be sufficient to fund the cash needs of the Company (capital expenditures, dividends, and other cash requirements); therefore, the Company expects to fund anticipated cash shortfalls through a combination of debt and common stock offerings in the next five years.

In 2005 and 2004, the Company received many different types of rate increases, some of which were temporary in nature. As such, the growth in earnings due solely to rate relief in 2005 and 2004 is not expected to recur in 2006. A significant factor in 2006 affecting earnings will be the timing and the amount of the General Rate Case (GRC) filings that are expected to be approved in the second quarter of 2006. See the "Rates and Regulation" section of this report for more information on regulatory activity occurring in 2004, 2005, and through February 21, 2006.

Business

California Water Service Group is a holding company incorporated in Delaware with five operating subsidiaries: California Water Service Company (Cal Water), CWS Utility Services (Utility Services), New Mexico Water Service Company (New Mexico Water), Washington Water Service Company (Washington Water), and Hawaii Water Service Company, Inc. (Hawaii Water). Cal Water, New Mexico Water, Washington Water, and Hawaii Water are regulated public utilities. The regulated utility entities also provide some non-regulated services. Utility Services provides non-regulated water operations and related services to private companies and municipalities.

California water operations are conducted by Cal Water and Utility Services, which serve 456,674 customers in 75 California communities through 26 separate districts. Of these 26 districts, 24 districts are regulated water systems, subject to regulation by the California Public Utilities Commission (CPUC). The other two districts, the City of Hawthorne and the City of Commerce, are governed through their respective city councils and are considered non-regulated because they are outside of the CPUC's jurisdiction. Their activities are reflected in operating revenue and operating costs, as the risks and rewards of these operations are similar to those of the regulated activities. California water operations account for 95% of the total customers and 96% of the total operating revenue.

Washington Water provides domestic water service to 15,311 customers in the Tacoma and Olympia areas. Washington Water's utility operations are regulated by the Washington Utilities and Transportation Commission. Washington Water accounts for 3% of the total customers and 2% of the total operating revenue.

New Mexico Water provides service to 6,480 water and wastewater customers in the Belen, Los Lunas, and Elephant Butte areas in New Mexico. Its regulated operations are subject to the jurisdiction of the New Mexico Public Regulation Commission. New Mexico Water accounts for 1% of the total customers and 1% of the total operating revenue.

Hawaii Water provides water service to 537 customers on the island of Maui, including several large resorts and condominium complexes. Its regulated operations are subject to the jurisdiction of the Hawaii Public Utilities Commission. Hawaii Water accounts for less than 1% of the total customers and 1% of the total operating revenue.

Other non-regulated activities consist primarily of operating water systems owned by other entities; providing meter reading and billing services; leasing communication antenna sites on the Company's properties; operating recycled water systems; providing brokerage services for water rights; providing lab services; selling non-utility property; and ESP. These activities are reported below operating net income on the income statement, gross of income taxes; therefore, the revenue is not included in operating revenue. Due to the variety of services provided and the fact that the activities are outside of the Company's core business, the number of customers is not tracked for these non-regulated activities. Non-regulated activities, excluding gain on sale of non-utility property, comprised 6% of the total net income in 2005.

Rates and operations for regulated customers are subject to the jurisdiction of the respective state's regulatory commission. The Commissions require that water and wastewater rates for each regulated district be independently determined. The Commissions are expected to authorize rates sufficient to recover normal operating expenses, and allow the utility the opportunity to earn a fair and reasonable return on invested capital. Rates for the City of Hawthorne and City of Commerce water systems are established in accordance with operating agreements and are subject to ratification by the respective city councils. Fees for other non-regulated activities are based on contracts negotiated between the parties.

## Results of Operations

Earnings and Dividends Net income in 2005 was $27.2 million compared to $26.0 million in 2004 and $19.4 million in 2003. Diluted earnings per common share were $1.47 in 2005, $1.46 in 2004, and $1.21 in 2003. The weighted average number of common shares outstanding used in the diluted earnings per share calculation was 18,402,000 in 2005, 17,674,000 in 2004, and 15,893,000 in 2003. As explained below, the increase in 2005 earnings per share resulted from these primary factors: receiving rate relief on GRC filings and balancing accounts; customer growth; and gains on sale of non-utility properties. Partially offsetting these positive factors were: higher maintenance costs; higher depreciation costs; decreased water usage by existing customers due to wetter than normal weather; higher income taxes; and increased common shares outstanding.

At the January 2006 meeting, the Board of Directors declared the quarterly dividend, increasing it for the 39th consecutive year. The quarterly dividend was raised from $0.2850 to $0.2875 per common share, an annual rate of $1.15 per common share. Dividends have been paid for 61 consecutive years. The annual dividends paid per common share in 2005, 2004, and 2003 were $1.14, $1.13, and $1.125, respectively. The dividend increases were based on projections that the higher dividend could be sustained while still providing adequate financial resources and flexibility. Earnings not paid as dividends are reinvested in the business for the benefit of stockholders. In its long-term consideration, the Board of Directors plan to achieve a payout ratio in the range of 60%. The dividend payout ratio was 78% in 2005, 77% in 2004, and 93% in 2003, an average of 83% over the three-year period.

Operating Revenue Operating revenue in 2005 was $320.7 million, an increase of $5.1 million, or 1.6%, over 2004. Operating revenue in 2004 was $315.6 million, an increase of $38.5 million, or 14%, above 2003. The estimated sources of changes in operating revenue were:

| Dollars in millions | 2005 | 2004 |
|---|---|---|
| Customer usage | $(10.9) | $ 3.3 |
| Rate increases | 12.2 | 29.8 |
| Usage by new customers | 3.8 | 5.4 |
| Net change | $ 5.1 | $ 38.5 |
| Average revenue per customer per year (in dollars) | $ 670 | $ 667 |
| New customers added | 5,846 | 6,733 |

Overall, temperatures in our service areas for 2005 were comparable to 2004; however, rainfall was significantly higher, particularly in the first half of the year. Southern California had one of its wettest years on record. For 2004, rainfall was lower than 2003 in our California service areas, which positively impacted the Company's revenues and earnings. For Washington Water service areas, rainfall was significantly lower in 2005. As a result, state officials mandated water conservation, resulting in decreased revenues compared to 2004.

In 2005, rate relief increased revenues by $12.2 million. See the "Rates and Regulation" section of this report for more information on regulatory activity occurring in 2004, 2005, and through February 21, 2006.

The number of customers in 2005 increased by 5,846, or 1.2%, from 2004 levels. This increase includes 645 customers in New Mexico, 37 customers in Hawaii, 296 customers in Washington, and 4,868 additional customers in California. Approximately 350, 270, and 169 were added through acquisitions in New Mexico, California, and Washington, respectively, with the remaining new customers resulting from growth in existing service areas. In 2004, customer growth was 6,733, which included approximately 1,700 new customers added through an acquisition in New Mexico.

Water Production Expenses Water production expenses, which consist of purchased water, purchased power, and pump taxes, comprise the largest segment of total operating expenses. Water production costs accounted for 41.2%, 43.5%, and 44.2% of total operating costs in 2005, 2004, and 2003, respectively. The rates charged for wholesale water supplies, electricity, and pump taxes are established by various public agencies. As such, these rates are beyond our control. The table below provides the amount of increases (decreases), and percentage changes in water production costs during the past two years:
<TABLE>
<CAPTION>

| | 2005 | | | 2004 | | |
|---|---|---|---|---|---|---|
| Dollars in millions | Amount | Change | % Change | Amount | Change | % Change |
| <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| Purchased water | $ 87.5 | $ (2.2) | (3%) | $ 89.7 | $ 8.9 | 11% |
| Purchased power | 20.5 | (1.3) | (6%) | 21.8 | (0.1) | (1%) |
| Pump taxes | 7.6 | -- | -- | 7.6 | 1.3 | 20% |
| Total water production expenses | $115.6 | $ (3.5) | (3%) | $119.1 | $ 10.1 | 9% |

</TABLE>

Two of the principal factors affecting water production expenses are the amount of water produced and the source of the water. Generally, water from wells costs less than water purchased from wholesale suppliers. The table below provides the amounts, percentage change, and source mix for the respective years:

<TABLE>
<CAPTION>

| | 2005 | | 2004 | | 2003 | |
|---|---|---|---|---|---|---|
| Millions of gallons (MG) | MG | % of Total | MG | % of Total | MG | % of Total |
| <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| Source: | | | | | | |
| Wells | 63,101 | 47.7% | 66,951 | 48.2% | 66,009 | 50.0% |
| % change from prior year | (6%) | | 1% | | (4%) | |
| Purchased | 64,028 | 48.5% | 66,760 | 48.0% | 63,264 | 48.2% |
| % change from prior year | (4%) | | 6% | | 1% | |
| Surface | 5,061 | 3.8% | 5,328 | 3.8% | 2,407 | 1.8% |
| % change from prior year | (5%) | | 121% | | 221% | |
| Total | 132,190 | 100.0% | 139,039 | 100.0% | 131,680 | 100.0% |
| % change from prior year | (5%) | | 6% | | (1%) | |

</TABLE>

Purchased water expenses are affected by changes in quantities purchased, supplier prices, and cost differences between wholesale suppliers. For 2005, the $2.2 million decrease in purchased water costs is due to a 4% decrease in quantities purchased, partially offset by overall higher wholesale water rates. On an overall blended basis, wholesale water rates increased 1.4% on a cost-per-million-gallon basis. In 2004, purchased water expenses included an additional adjustment of $0.9 million, which related to the settlement of a meter malfunction issue in the Stockton district. Purchased power expenses are affected by the quantity of water pumped from wells and moved through the distribution system, rates charged by electric utility companies, and rate structures applied to usage during peak and non-peak times of the day or season. The purchased power expense decrease of $1.3 million was primarily due to decreased well production. Pump taxes were the same in 2005 as in 2004, as higher rates offset the decreased pumping.

Administrative and General Expenses Administrative and general expenses include payroll related to administrative and general functions, all Company benefits charged to expense accounts, insurance expenses, legal fees, audit fees, regulatory utility commissions' expenses, board of directors' fees, and general corporate expenses.



During 2005, administrative and general expenses increased $1.6 million, or 3.4%, compared to 2004. Payroll expense charged to administrative and general expense remained constant due to a decrease in the number of employees offset by higher wages. Employee/retiree health care costs increased $1.6 million, or 19%, due to increased medical claims. The Company is self-insured and experienced several large-dollar medical claims (claims over $200,000), which primarily caused the increase. Increases in other costs, including legal and outside services, were substantially offset by a decrease in workers' compensation of $1.1 million, which was due to fewer claims and a refund from the Company's stop-loss insurance carrier.

During 2004, administrative and general expenses increased $6.1 million, or 15%, compared to 2003. Payroll expense charged to administrative and general expense increased $1.0 million, or 13%, due to the addition of new employees and wage increases. Employee benefits increased $1.4 million, due primarily to increases in employee/retiree health care expenses. The Company also experienced higher costs for workers' compensation, general liability claims, and insurance premiums, which increased $1.3 million, or 40%. Higher expenses were incurred to comply with Sarbanes-Oxley Section 404 on internal controls, which increased expenses by $0.9 million for consultants and auditors. Fees to the CPUC increased $0.5 million due to the increased revenue, as these fees are calculated as a percentage of revenue. Other expense elements contributed to the balance of the change, but none were individually significant.

Other Operations Expenses The components of other operations expenses include payroll, material and supplies, and contract services costs of operating the regulated water systems, including the costs associated with water transmission and distribution, pumping, water quality, meter reading, billing, and operations of district offices.

For 2005, other operating expenses increased $0.1 million, or 0.2%, from 2004. Payroll costs charged to other operating expenses increased $0.7 million, or 2.2%, due to general wage increases. Expenses were offset by a decrease of $0.5 million, or 64%, for changing the process for disposing of by-products for the Bakersfield Treatment Plant. Other expense elements contributed to the balance of the change, but none were individually significant.

For 2004, other operating expenses increased $2.5 million, or 7%, from 2003. Payroll costs charged to other operating expenses increased $1.3 million, or 6%, due to general wage increases and increases in the number of employees. Other major cost increases were operations of the Bakersfield Treatment Plant of $0.6 million and additional lease cost of $0.4 million for the City of Commerce operation. Other expense elements contributed to the balance of the change, but none were individually significant.

Maintenance Maintenance expenses increased $2.0 million, or 15%, in 2005 compared to 2004. For 2004, maintenance expenses increased $0.5 million, or 4%, compared to 2003. In 2005, maintenance expense increased due to repairs of water treatment equipment, water main, and wells. In 2004, expenses increased primarily for service line repairs, which are pipes from the main to the meter box.

Depreciation and Amortization Depreciation and amortization increased due to the level of Company-funded capital expenditures and a higher depreciation rate authorized by the CPUC.

Income Taxes For 2005, income taxes increased $2.9 million. The significant items include provision for taxes on gain on sale of non-utility properties of $0.9 million, provision for taxes on increased income from operations of $0.5 million, and $0.7 million for the reversal of federal tax depreciation on pre-1982 assets, which was previously flowed-through to ratepayers. The Company anticipates the reversal of federal tax depreciation on pre-1982 assets to continue in future years; however, its effect on the Company's tax provision is uncertain due to the offsetting flow-through of state tax depreciation, which continues to increase with capital additions.

Property and Other Taxes For 2005, expenses increased $1.1 million, or 10%, compared to 2004. For 2004, expenses increased $1.0 million, or 9%. Increased property taxes were the primary cause for the increase in both years.

Non-Regulated Income,

Net The major components of non-regulated income are revenue and operating expenses related to the following activities: operating and maintenance services (O&M), meter reading and billing services, antenna site leases, water rights brokering, and design and construction services. For 2005, non-regulated income increased $0.5 million, or 18%, compared to 2004, with increases primarily from O&M contracts, antenna site leases, and reduced expenses related to business development. For 2004, non-regulated income increased compared to 2003, with increases primarily from O&M and antenna site leases offset by decreases in water rights brokerage income. Water rights brokerage income is sporadic and is affected by market opportunities and price volatility. See Note 3 of the Notes to Consolidated Financial Statements for additional information.

Gain on Sale of Non-Utility Property For 2005, pretax gains from non-utility property sales were $2.2 million compared to insignificant gains in 2004. The 2005 gains were primarily from three properties sold in the Los Altos and Chico districts. Earnings and cash flow from these transactions are sporadic and may or may not continue in future periods, depending upon market conditions. The Company has other non-utility properties that may be marketed in the future based on real estate market conditions.

In 2005, interest expenses decreased by $0.1 million, or 1%, as there were no short-term borrowings in 2005. In 2004, interest expense increased $0.3 million, or 2%, due to a decrease in capitalized interest, which was a result of lower value of capitalized projects. Capitalized interest in 2005 was comparable to 2004. See the "Liquidity and Capital Resources" section for more information.

Rates and Regulation

The state regulatory commissions have plenary powers setting rates and operating standards. As such, state commission decisions significantly impact revenues, earnings, and cash flow of the Company. The amounts discussed are generally annual amounts, unless specifically stated, and the financial impact to recorded revenue is expected to occur over a 12-month period from the effective date of the decision. In California, water utilities are required to make several different types of filings. Most filings result in rate changes that remain in place until the next GRC. As explained below, surcharges and surcredits to recover balancing and memorandum accounts as well as the catch-up are temporary rate changes, which have specific time frames for recovery.

General Rate Cases (GRCs)

GRCs, step rate increase filings, and offset filings change rates to amounts that will remain in effect until the next GRC. The CPUC follows a rate case plan, which requires Cal Water to file a GRC for each of its 24 regulated operating districts every three years. In a GRC proceeding, the CPUC not only considers the utility's rate-setting requests, but may consider other issues that affect the utility's rates and operations. Effective in 2004, Cal Water's GRC schedule was shifted from a calendar year to a fiscal year with test years commencing July 1. The CPUC is generally required to issue its GRC decision prior to the first day of the test year or authorize interim rates. As such, Cal Water's GRC decisions, which prior to 2005 were generally issued in the fourth quarter, are expected to be issued in the second quarter of each year. Cal Water expects decisions on the eight GRCs filed in August of 2005 to be issued in June of 2006.

Step Rate Increases

Between GRC filings, utilities may file step rate increases, which allow the utility to recover cost increases, primarily from inflation and incremental investment, during the second and third years of the rate case cycle. However, step rate increases are subject to a weather-normalized earnings test. Under the earnings test, the CPUC may reduce the step rate increase to prevent the utility from earning in excess of the authorized rate of return for that district. Step rate increases, which were previously approved in January, should be approved in July under the new rate case schedule.

Offset Filings

In addition, utilities are entitled to file offset filings. Offset filings may be filed to adjust revenues for construction projects authorized in GRCs when the plant is placed in service or for rate changes charged to the Company for purchased water, purchased power, and pump taxes (referred to as "offsettable expenses"). Such rate changes approved in offset filings remain in effect until a GRC is approved.

Surcharges and Surcredits

Surcharges and surcredits, which are usually effective for a 12-month period, are authorized by the CPUC to recover the memorandum and balancing accounts under- and over-collections usually due to changes in offsettable expenses. However, significant under-collections may be authorized over multiple years. Currently, filings to recover offsettable expenses are subject to a non-weather-adjusted earnings test. Under the earnings test, the CPUC may reduce recovery of an offsettable expense to prevent the utility from earning in excess of its authorized rate of return. Typically, an expense difference occurs during the time period from when an offsettable expense changes and the Company is allowed to adjust its water rates. Expense changes for this regulatory lag period, which is about two months, are booked into memorandum and balancing accounts for later recovery. However, in 2001, the CPUC changed its procedures and did not permit water companies to immediately adjust water rates for offsettable expense changes. As a result, the amount accrued in memorandum and balancing accounts, due primarily to the major increases in electric power costs in 2001, grew to $9.2 million at the end of 2004. Beginning in November 2002, the CPUC allowed water companies to file for recovery of memorandum and balancing account under-collections subject to a non-weather-adjusted earnings test. However, the Company did not receive authorization to collect a significant portion of the under-collection from its ratepayers until the fourth quarter of 2004.

Timing of Expense Balancing and Memorandum Accounts

The Company does not record an asset (or liability) for the recovery (or refund) of expense balancing or memorandum accounts in its financial statements as revenue (refunds), nor as a receivable (or payable), until the CPUC and other regulators have authorized recovery and the customer is billed. Therefore, a timing difference may occur between when costs are recorded as an expense and the associated revenues are received (or refunds are made) and booked.

Management's Discussion and Analysis of Results of Operations and Financial Condition

Summary of Rate Decisions and Resolutions

The following is a summary of rate filings and the anticipated annual impact on revenues. California decisions and resolutions may be found on the CPUC website at www.cpuc.ca.gov.

| Type of Filing | Decision/ Resolution | Approval Date | Increase (Decrease) Annual Revenue | CA District/ Subsidiary |
|---|---|---|---|---|
| GRC, Step Rate, and Offset Filings | | | | |
| Offset | AL1748A | February 2006 | $0.2 million | Selma |
| Step Rate | Various1 | January 2006 | $1.9 million | 13 districts |
| GRC 2004 | D.05-07-022 | July 2005 | $7.6 million | 8 districts |
| Offset | AL 1732 | July 2005 | $0.6 million | Westlake |
| Offset | AL 1708 | May 2005 | $0.8 million | Stockton |
| GRC 2004 | 04-00247-UT | April 2005 | $0.3 million | New Mexico |
| GRC 2004 | 21644 | August 2005 | ($0.05 million) | Hawaii |
| Step Rate | Various2 | January 2005 | $4.8 million | 19 districts |
| Offset | Res. W-4495 | October 2004 | $0.5 million | Los Altos |
| GRC 2003 | D.04-09-038 | September 2004 | $0.4 million | 2 districts |
| Step Rate | D.04-04-041 | August 2004 | $0.5 million | 4 districts |
| GRC 2001 | D.04-07-033 | July 2004 | $1.1 million | Salinas |
| GRC 2002 | D.04-04-041 | April 2004 | $3.6 million | 4 districts |
| Offset | Res. W-4458 | February 2004 | $0.7 million | Stockton |
| Step Rate | Various3 | January-April 2004 | $4.4 million | 14 districts |
| Surcharges and Surcredits | | | | |
| Memorandum | AL1734A | February 2006 | $1.1 million | Salinas |
| Balancing | AL1711A | February 2006 | ($0.3 million) | Visalia |
| Balancing | AL1718A | February 2006 | ($0.4 million) | Hermosa-Redondo |
| Balancing | AL1710 | September 2005 | $0.9 million | Stockton |
| Balancing | Various4 | 4th Quarter 2004 | $9.2 million | 15 districts |
| Balancing | AL 1622 | September 2004 | $0.4 million | Salinas |
| Balancing | Various4 | May 2004 | ($1.5 million) | 2 districts |

During 2005 and 2004, no rate filings were approved for Washington Water. In 2004 and 2003, Cal Water collected a catch-up surcharge for its 2001 GRC. In Cal Water's 2001 GRC, the CPUC-authorized effective date for rates was April 2003; however, a final decision was not approved until September 2003. As a result, the Company was authorized to collect approximately $4.5 million of the revenue not billed between April and September of 2003. In 2005, revenues dropped compared to the prior year, due in part to the discontinuance of the catch-up surcharge. In 2005 and 2004, the Company's revenues were favorably impacted by approximately $3.9 million and $0.4 million, respectively, from the net recovery of memorandum and balancing accounts.

1. Step rate increases were granted in compliance with D.03-09-021, D.03-10-005, D.04-04-041, and D.04-09-038.

2. Step rate increases were granted in compliance with D.03-09-021, D.03-10-005, D.04-04-041, D.04-07-033, and D.04-09-038.

3. Step rate increases were granted in compliance with D.01-08-039, D.03-09-021, and D.03-10-005.

4. Various advice letters are approved in aggregate.

The Company expects that the net effect of surcharges and surcredits will reduce revenue by approximately $2.3 million in 2006, assuming similar usage. The estimated impact of rate changes compared to the prior years is listed in the following table:

| Dollars in millions | 2005 | 2004 | 2003 |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Step rate increases | $ 4.8 | $ 4.4 | $ 2.2 |
| Bakersfield Treatment Plant | -- | 4.2 | 2.3 |
| General Rate Case (GRC) | 5.8 | 13.3 | 3.7 |
| Offset (purchased water/pump taxes) | 1.2 | 4.7 | 0.9 |
| Balancing accounts, net | 3.9 | 0.4 | 1.9 |
| Catch-up surcharge, net | (3.5) | 2.2 | 1.3 |
| Other | -- | 0.6 | 0.3 |
| Rate increases | $ 12.2 | $ 29.8 | $ 12.6 |

Remaining Unrecorded Balances from Previously Authorized Balancing Account Recoveries/Refunds

For the balancing accounts authorized in May 2004, the amount remaining to be refunded as of December 2005 was $0.2 million and December 2004 was $0.6 million. The balance is expected to be refunded by May 2006.

For the balancing accounts authorized in September 2004, the amount remaining to be collected in rates as of December 2005 was $0.2 million and December 2004 was $0.3 million. The balance is expected to be recovered by June 2006.

For the balancing accounts authorized in the fourth quarter of 2004, the net amount remaining to be collected in rates as of December 2005 was $3.1 million and December 2004 was $8.3 million. The net balance is expected to be fully recovered by January 2008.

For the balancing accounts authorized in September 2005, the amount remaining to be collected in rates as of December 2005 was $0.8 million. The balance is expected to be recovered by the third quarter of 2006.

The total amount of unrecorded, under-collected memorandum and balancing accounts was $2.6 million and $8.5 million, as of December 31, 2005 and 2004, respectively. Included in this amount, Cal Water has pending memorandum account filings for 2005 and previously authorized balancing accounts approved for collection as stated above.

Pending Filings as of February 21, 2006

Cal Water has pending its 2005 GRC filings covering eight districts. Cal Water expects decisions regarding its 2005 GRCs to be issued in the second quarter of 2006. The amount requested in the 2005 GRCs is approximately $10.6 million in 2006/2007, $5.5 million in 2007/2008, and $5.5 million in 2008/2009. The amounts granted may vary due to a variety of factors. Over the past few years, the amount approved by the CPUC has been substantially less than the requested amount. The GRCs also requested the CPUC to consider several modifications to CPUC rate-setting procedures. The GRCs request a water revenue adjustment mechanism that would allow the Company to recover (refund) water revenues when actual water sales are below (above) adopted water sales in the GRCs. This proposal would decouple the Company's revenues from conservation efforts and inaccurate weather forecasts, putting in place a mechanism similar to that employed by California's investor-owned electric utilities. The GRCs also request a full-cost balancing account that would allow the Company to recover changes in source of supply mix as well as price changes under current procedures. The Company requested a rate base equalization account to minimize the impact on rates of large capital projects in small water systems. Finally, the Company requested that the Commission adjust its authorized rate of return if modifications are not adopted to change certain rate-setting procedures. The Company is unable to predict the timing and final outcome of the filings at this time.

2006 Regulatory Activity

In accordance with the rate case plan, Cal Water will file a GRC for eight districts in May of 2006. At this time, Cal Water does not know the amounts to be requested. In January 2006, the Company was granted step rate increases for 13 districts and was authorized an increase of $1.9 million. In February 2006, Cal Water received authorization to recover (refund) various balancing and memorandum accounts. Memorandum account decision AL1734A will be collected over a 36-month period. Cal Water also intends to file for step rate increases in July for eight districts. Cal Water is authorized to request up to $5.5 million; however, the request may be adjusted downward by the weather-adjusted earnings test.



In the first quarter of 2006, Cal Water will file an advice letter to allow it to track in a memorandum account additional funding associated with its retiree health care plan. Currently, Cal Water funds and recognizes expenses associated with the plan on a pay-as-you-go basis. The excess expense between pay-as-you-go and accrual during the employees' expected service period has been recognized as a regulatory asset. As of December 31, 2005, the regulatory asset was approximately $9.8 million. Cal Water intends to increase its funding so the plan is funded during the employee's service period. Cal Water has established two Voluntary Employee Beneficiary Associations (VEBAs) to allow for increased funding and a current-period income tax deduction. Cal Water will also file an application to recover its regulatory asset. Cal Water believes that the CPUC will recognize in rates the recovery of the regulatory asset and the additional funding of the plan. If the CPUC does not permit the Company to recover the full amount of its regulatory asset, the regulatory asset, to the extent not allowed in recovery, will be written off. If the CPUC does not approve the memorandum account, the Company will not be able to recover the higher expenses of approximately $0.6 million per year until such expenses are recognized in its GRC applications.

Washington Water is planning to submit a rate filing in the first quarter of 2006, but has not filed as of the date of this report.

Review of Property Sales by CPUC

In 1995, the California Legislature enacted the Water Utility Infrastructure Improvement Act of 1995 (Infrastructure Act) to encourage water utilities to sell surplus properties and reinvest in needed water utility facilities. In September 2003, the CPUC issued Decision (D.) 03-09-021 in Cal Water's 2001 GRC filing. In this decision, the CPUC ordered Cal Water to file an application setting up an Infrastructure Act memorandum account with an up-to-date accounting of all real property that was at any time in rate base and that Cal Water had sold since the effective date of the Infrastructure Act. The decision also ordered Cal Water to file an application for approval to replace the operations and customer centers in its Chico district and for treatment of the gain on sale proceeds.

D.03-09-021 also directed the CPUC staff to file a detailed report on its review of Cal Water's application. On January 11, 2005, the Office of Ratepayer Advocates (ORA) issued a report expressing its opinion that Cal Water had not proven that surplus properties sold since 1996 were no longer necessary and useful to provide utility service. ORA also recommended that Cal Water be fined $160,000 and that gains from property sales should generally benefit ratepayers. During the period under review, Cal Water's cumulative gains from surplus property sales were $19.2 million.

On December 1, 2005, the CPUC issued its D.05-12-002. This decision found that Cal Water appropriately reclassified all properties as non-utility property prior to being sold and the criteria Cal Water followed to reclassify its properties were reasonable and consistent with the requirements of the CPUC. Since the properties were properly reclassified, the CPUC found that approval of the property sales was not required and no penalty was warranted. Furthermore, the decision found that Cal Water should be allowed to include in rate base the full cost of the Chico customer center.

Although the decision concluded that all gains for the property sales qualified for reinvestment in accordance with the Infrastructure Act, the decision deferred the rate-making issue regarding treatment of sale proceeds to its Order Instituting Rulemaking (R.) 04-09-003. On November 5, 2005, the Commission issued its draft decision regarding the allocation of proceeds from the sale of utility assets. The draft decision states that the CPUC has limited discretion in how it allocates between ratepayers and utility shareholders the gains on sale of real property that meet the criteria in the Infrastructure Act, provided that water utilities reinvest the proceeds in new water infrastructure. If the draft decision is adopted, the Company will be entitled to earn its full authorized return on the proceeds reinvested in utility plant from the gains on surplus property sales that were under review.

Based on D.05-12-002 and the draft decision, Cal Water has not recorded any adjustments in its financial statements. Cal Water does not know when the CPUC will issue its decision in the matter of R.04-09-003. If the CPUC rules that any portion of the property sales should be allocated to the ratepayers, Cal Water's rate base could be reduced, which would lower future revenues, net income, and cash flows.

Elimination of the Earnings Test on Balancing Accounts

On January 23, 2006, the CPUC issued a draft decision to suspend, until further notice, the non-weather-adjusted earnings test that applies to memorandum and balancing account recovery for water utilities. The elimination of the earnings test should significantly improve Cal Water's opportunity to earn its authorized rate of return. Over the past three years, Cal Water has been unable to recover $3.5 million in offsettable expenses. The draft decision does not address the weather-adjusted earnings test, which is required for step rate increases.

Water Supply

Our source of supply varies among our operating districts. Certain districts obtain all of their supply from wells; some districts purchase all of their supply from wholesale suppliers; and other districts obtain supply from a combination of wells and wholesale suppliers. A small portion of supply comes from surface sources and is processed through Company-owned water treatment plants. The Company is meeting water quality, environmental, and other regulatory standards.

California's normal weather pattern yields little precipitation between mid-spring and mid-fall. The Washington Water service areas receive precipitation in all seasons, with the heaviest amounts during the winter. New Mexico Water's rainfall is heaviest in the summer monsoon season. Hawaii Water receives precipitation throughout the year, with the largest amounts in the winter months. Water usage in all service areas is highest during the warm and dry summers and declines in the cool winter months. Rain and snow during the winter months replenish underground water aquifers and fill reservoirs, providing the water supply for subsequent delivery to customers. To date, snow and rainfall accumulation during the 2005-2006 water year has been above average. Precipitation in the prior year was also above average. Water storage in California's reservoirs at the end of 2005 was at above-average levels. Management believes that supply pumped from underground aquifers and purchased from wholesale suppliers will be adequate to meet customer demand during 2006 and beyond. Long-term water supply plans are developed for each of the Company's districts to help assure an adequate water supply under various operating and supply conditions. Some districts have unique challenges in meeting water quality standards, but management believes that supplies will meet current standards using current treatment processes. The Company is in compliance with the new Environmental Protection Agency (EPA) standard related to arsenic, which became effective in January 2006.

## Liquidity and Capital Resources

### Short-Term Financing

Short-term liquidity is provided by bank lines of credit and internally generated funds. Long-term financing is accomplished through use of both debt and equity. Short-term bank borrowings were zero at December 31, 2005 and 2004. Cash and cash equivalents were $9.5 million at December 31, 2005 and $18.8 million at December 31, 2004. In January 2005, the Company received a $7.2 million tax refund due to federal bonus depreciation allowed one time in 2004. The Company does not expect to receive a similar refund in 2006. Given the Company's ability to access its lines of credit on a daily basis, cash balances are managed to levels required for daily cash needs, and excess cash is invested in short-term or cash equivalent instruments. Minimal operating levels of cash are maintained for Washington Water, New Mexico Water, and Hawaii Water.

The water business is seasonal. Revenue is lower in the cool, wet winter months when less water is used compared to the warm, dry summer months when water use is higher. During the winter period, the need for short-term borrowings under the bank lines of credit increases. The increase in cash flow during the summer allows short-term borrowings to be paid down. In years when more than normal precipitation falls in the Company's service areas or temperatures are lower than normal, especially in the summer months, customer water usage can be lower than normal. The reduction in water usage reduces cash flow from operations and increases the need for short-term bank borrowings. In addition, short-term borrowings are used to finance capital expenditures until long-term financing is arranged.

Cal Water has a $45 million credit facility. The term of the current agreement expires in April 2007. The agreement requires a 30-day out-of-debt consecutive period during any 24 consecutive months and that outstanding balances be below $10 million for a 30-day consecutive period during any 12-consecutive-month period. In addition, the agreement requires debt as a percentage of total capitalization to be less than 67%. The Company has met all covenant requirements and is eligible to use the full amount of the commitment. In addition to borrowings, the credit facility allows for letters of credit up to $10 million. One letter of credit was outstanding at December 31, 2005, for $0.5 million related to an insurance policy, which reduces the amount available to borrow. Interest is charged on a variable basis and fees are charged for unused amounts. As of December 31, 2005, there were no borrowings against the credit facility.

A $10 million credit facility exists for the Company, Utility Services, Washington Water, New Mexico Water, and Hawaii Water. The term of the current agreement expires in April 2007. The agreement requires a 30-day out-of-debt consecutive period during any 24 consecutive months and that outstanding balances be below $5 million for a 30-day consecutive period during any 12-consecutive-month period. In addition, the agreement requires debt as a percentage of total capitalization to be less than 67%. The Company has met all covenant requirements and is eligible to use the full amount of the commitment. In addition to borrowings, the credit facility allows for letters of credit up to $5 million, which would reduce the amount available to borrow. No letters of credit were outstanding at December 31, 2005. Interest is charged on a variable basis and fees are charged for unused amounts. As of December 31, 2005, there were no borrowings against the credit facility.

Credit Ratings

Cal Water's first mortgage bonds are rated by Moody's Investors Service (Moody's) and Standard & Poor's (S&P). Previously, the two major credit facility agreements contained covenants related to these debt ratings. The current agreements do not contain such covenants. During 2005, management met separately with the two credit rating agencies, and both agencies have maintained their ratings of A2 for Moody's and A+ for S&P as of the filing date of this report. The last time ratings were changed was in February 2004, when Moody's issued a report lowering Cal Water's senior secured debt from A1 to A2 and characterizing the rating as stable. In November 2003, S&P did not change its rating of A+, but changed its outlook from stable to negative. Although the Company's financial performance and capitalization structure improved in 2004 compared to 2003, which was recognized by both agencies, both agencies noted concerns related to the rate-setting process and decisions by the CPUC. Also, concerns were raised about the Company's level of capital expenditures, which will need to be partially financed through long-term borrowings or equity offerings. Management believes the Company would be able to meet financing needs even if ratings were downgraded, but a rating change could result in a higher interest rate on new debt.

Long-Term Financing

Long-term financing, which includes senior notes, other debt securities, and common stock, has been used to replace short-term borrowings and fund capital expenditures. Internally generated funds, after making dividend payments, provide positive cash flow, but have not been at a level to meet all of the Company's capital expenditure needs. Management expects this trend to continue given the Company's capital expenditures plan for the next five years. In addition to Company-funded capital expenditures, some capital expenditures are funded by developers' Contributions in Aid of Construction, which are not refundable, and Advances for Construction, which are refundable. Management believes long-term financing is available to meet the Company's cash flow needs through issuances in both debt and equity markets. The Company did not issue any significant long-term debt or additional stock in 2005.

In June 2004, the Company issued 1,409,700 shares of its common stock at $27.25 per share. The net proceeds were $36.8 million and the transaction was closed on June 29, 2004. The funds were used to pay down short-term borrowings and invest in short-term money market instruments, pending their use for general corporate purposes. After issuance of these shares, $35.6 million remains in securities under the Company's shelf registration, which are available for future issuance.

In September 2004, the CPUC issued a decision granting Cal Water authority to complete up to $250 million of equity and debt financing through 2010, subject to certain restrictions. No financing had been applied against this authorization as of December 31, 2005.

In November 2004, New Mexico Water entered into a long-term debt arrangement for $3.4 million. The interest rate is 5.65%, the loan terminates in May 2014, and principal payments are required during the term of the loan. The funds were used to retire debt of $2.3 million, fund an acquisition, fund capital expenditures, and for general corporate purposes.

Washington Water has long-term debt primarily from two banks to meet its operating and capital equipment purchase requirements at interest rates negotiated with the banks. Both Washington Water and Hawaii Water have inter-company debt with the holding company, which is eliminated at consolidation. Hawaii Water does not have any debt with third parties.

The Company does not utilize off-balance-sheet financing or utilize special purpose entity arrangements for financing. The Company does not have equity ownership through joint ventures or partnership arrangements.

Additional information regarding the bank borrowings and long-term debt is presented in Notes 8 and 9 of the Notes to Consolidated Financial Statements.

Dividend Reinvestment and Stock Purchase Plan

The Company's transfer agent offers stockholders a Dividend Reinvestment and Stock Purchase Plan (Plan). Under the Plan, stockholders may reinvest dividends to purchase additional Company common stock without brokerage fees. The Plan also allows existing stockholders and other interested investors to purchase Company common stock without brokerage fees through the transfer agent up to certain limits. Our transfer agent operates the Plan and purchases shares on the open market to provide shares for the Plan.

2006 Financing Plan

The Company's 2006 financing plan includes raising approximately $40-$50 million of new capital. The plan includes issuance of long-term debt and additional equity, although this may change depending on a variety of factors. Beyond 2006, management intends to fund capital needs through a relatively balanced approach between long-term debt and equity.

Contractual Obligations

The Company's contractual obligations are summarized in the following table. Long-term debt payments include annual sinking fund payments on first mortgage bonds, maturities of long-term debt, and annual payments on other long-term obligations. Advances for Construction represent annual contract refunds to developers for the cost of water systems paid for by the developers. The contracts are non-interest bearing, and refunds are generally on a straight-line basis over a 40-year period. System and Office leases include obligations associated with leasing water systems and rents for office space.

| Contractual Obligations (In thousands) | Total | Less Than 1 Year | 1-3 Years | 3-5 Years | After 5 Years |
|---|---|---|---|---|---|
| Long-term debt | $275,275 | $ 1,133 | $ 2,210 | $ 1,991 | $269,941 |
| Advances for Construction | 141,842 | 5,077 | 9,777 | 9,588 | 117,400 |
| Office leases | 1,880 | 662 | 844 | 309 | 65 |
| System leases | 11,232 | 961 | 1,922 | 1,922 | 6,427 |
| Water Supply Contracts | 403,124 | 12,731 | 26,671 | 27,880 | 335,842 |

Cal Water has water supply contracts with wholesale suppliers in 16 of its operating districts. For each contract, the cost of water is established by the wholesale supplier and is generally beyond our control. The amount paid annually to the wholesale suppliers is charged to purchased water expense on our statement of income. Most contracts do not require minimum annual payments and vary with the volume of water purchased.

The Company has a contract with the Santa Clara Water District that contains minimal purchase provisions. The contract payment varies with the volume of water purchased above the minimal level. Management plans to continue to purchase and use at least the minimum water requirement under this contract in the future. The total paid under this contract was $4,763 in 2005, $4,610 in 2004, and $4,452 in 2003.

The water supply contract with Stockton East Water District (SEWD) requires a fixed, annual payment and does not vary during the year with the quantity of water delivered by the district. Because of the fixed price arrangement, the Company operates to receive as much water as possible from SEWD in order to minimize the cost of operating Company-owned wells used to supplement SEWD deliveries. The total paid under the contract was $4,300 in 2005, $4,392 in 2004, and $3,779 in 2003. Pricing under the contract varies annually. Estimated annual contractual obligations in the table above are based on the same payment levels as 2005. Future increased costs by SEWD are expected to be offset by a decline in the allocation of costs to the Company, as other customers of SEWD are expected to receive a larger allocation based upon growth of their service areas.

On September 21, 2005, the Company entered into an agreement with Kern County Water Agency (Agency) to obtain treated water for the Company's operations. The term of the agreement is to January 1, 2035, or until the repayment of the Agency's bonds (described below) occurs. Under the terms of the agreement, the Company is obligated to purchase 20,500 acre-feet of treated water per year. The Company is obligated to pay a Capital Facilities Charge and a Treated Water Charge, both of which will be expensed as invoiced, regardless of whether it can use the water in its operation, and is obligated for these charges even if the Agency cannot produce an adequate amount to supply the 20,500 acre-feet in the year. (This agreement supersedes a prior agreement with Kern County Water Agency for the supply of 11,500 acre-feet of water per year. The total paid, under the prior agreement, was $3,288 in 2005, $3,308 in 2004, and $2,691 in 2003.)

Three other parties, including the City of Bakersfield, are also obligated to purchase a total of 32,500 acre-feet per year under separate agreements with the Agency. Furthermore, the Agency has the right to proportionally reduce the water supply provided to all of the participants if it cannot produce adequate supplies. The participation of all parties in the transaction for expansion of the Agency's facilities, including the Water Purification Plant, purchase of the water, and payment of interest and principal on the bonds being issued by the Agency to finance the transaction, is required as a condition to the obligation of the Agency to proceed with expansion of the Agency's facilities. If any of the other parties does not use its allocation, that party is obligated to pay its contracted amount.

The Agency is planning to issue bonds to fund the project and will use the payments of the Capital Facilities Charges by the Company and the other contracted parties to meet the Agency's obligations to pay interest and repay principal on the bonds. If any of the parties were to default on making payments of the Capital Facilities Charge, then the other parties are obligated to pay for the defaulting party's share on a pro-rata basis. If there is a payment default by a party and the remaining parties have to make payments, they are also entitled to a pro-rata share of the defaulting party's water allocation.

The Company expects to use all its contracted amount of water in its operations every year. In addition, if the Company were to pay for and receive additional amounts of water due to a default of another participating party, the Company believes it could use this additional water in its operations without



incurring substantial incremental cost increases. If additional treated water is available, all parties have an option to purchase this additional treated water, subject to the Agency's right to allocate the water among the parties.

The total obligation of all parties, excluding the Company, is approximately $108 million to the Agency. Based on the creditworthiness of the other participants, which are government entities, it is believed to be highly unlikely that the Company would be required to assume any other party's obligations under the contract due to its default. In the event of default by a party, the Company would receive entitlement to the additional water for assuming the additional obligation.

Once the project is complete, the Company is obligated to pay a Capital Facilities Charge and a Treated Water Charge that together total $4.7 million annually, which equates to $231 per acre-foot. Annual payments of $2.0 million for the Capital Facilities Charge will begin when the Agency issues bonds to fund the project. Some of the Treated Water Charge of $2.8 million is expected to begin July 1, 2007, when a portion of the planned capacity is expected to be available. The expanded water treatment plant is expected to be at full capacity by July 1, 2008, and at that time, the full annual payments of $4.7 million would be made and continue through the term of the agreement. Once treated water is being delivered, the Company will also be obligated for its portion of the operating costs; that portion is currently estimated to be $69 per acre-foot. The actual amount will vary due to variations from estimates, inflation, and other changes in the cost structure. The Company's overall estimated cost of $300 per acre-foot is less than the estimated cost of procuring untreated water (assuming water rights could be obtained) and then providing treatment.

Capital Requirements Capital requirements consist primarily of new construction expenditures for expanding and replacing utility plant facilities and the acquisition of water systems. They also include refunds of Advances for Construction.

Company-funded utility plant expenditures were $77.6 million, $50.4 million, and $53.9 million in 2005, 2004, and 2003, respectively. A majority of capital expenditures was associated with mains and water treatment equipment.

For 2006, Company-funded capital expenditures are budgeted at approximately $85 million. The 2006 capital budget is the same as the 2005 capital budget. For the years 2006 through 2010, capital expenditures are estimated at $75-$85 million per year, and will be primarily for mains, related water distribution equipment, water quality equipment, and pumping.

Other capital expenditures are funded through developer Advances and Contributions in Aid of Construction (non-Company funded). The expenditure amounts were $16.9 million, $18.2 million, and $20.4 million in 2005, 2004, and 2003, respectively. The changes from year to year reflect expansion projects by developers in our service areas.

Management expects the Company to incur non-Company funded expenditures in 2006. These expenditures will be financed by developers through refundable Advances for Construction and non-refundable Contributions in Aid of Construction. Developers are required to deposit the cost of a water construction project with the Company prior to our commencing construction work, or the developers may construct the facilities themselves and deed the completed facilities to the Company. Funds are generally received in advance of incurring costs for these projects. Advances are normally refunded over a 40-year period without interest. Future payments for Advances received are listed under contractual obligations above. Because non-Company-funded construction activity is solely at the discretion of developers, management cannot predict the level of future activity. The cash flow impact is expected to be minor due to the structure of the arrangements.

Capital Structure In 2005, common stockholders' equity increased by $6.3 million, due primarily to an increase in retained earnings. In 2004, common stockholders' equity increased $43.1 million, or 18%, due primarily to earnings and the issuance of new shares of common stock. The long-term debt decreased by $0.7 million, due primarily to sinking fund payments. See the "Long-Term Financing" section above for additional information.

Total capitalization at December 31, 2005 was $571.5 million and at December 31, 2004 was $565.9 million. The Company intends to issue common stock and long-term debt to maintain the Company's current capitalization structure, taking into account reinvestment of earnings above dividends. At December 31, capitalization ratios were:

| | 2005 | 2004 |
|---|---|---|
| Common equity | 51.4% | 50.8% |
| Preferred stock | 0.6% | 0.6% |
| Long-term debt | 48.0% | 48.6% |

The return (from both regulated and non-regulated operations) on average common equity was 9.3% in 2005 compared to 9.8% in 2004.

### Acquisitions

Although there were no significant acquisitions in the periods presented, the following acquisitions were completed in 2005 and 2004:

In April 2005, the Company acquired the water system assets of the Los Trancos Water District for $125,000 in cash. The Los Trancos water system and its 270 customers were merged into Cal Water's Bear Gulch district. The purchase price was approximately equal to rate base and no goodwill was recorded in the transaction.

In June 2005, the Company acquired the water system assets of Gamble Bay for $370,000. The Company assumed net liabilities of $336,000 and the balance was paid in cash. The Company merged the water system and its 169 customers into Washington Water. The Company recorded an acquisition adjustment of $18,000, which it believes will be included in rate base. As such, the purchase price is approximately equal to rate base and no goodwill was recorded.

In June 2005, the Company acquired the water system assets of the Cypress Gardens Water Company for $312,000 in cash. The Company merged the water system and its 350 customers into New Mexico Water. The purchase price is approximately equal to rate base and no goodwill was recorded.

In April 2004, the Company acquired the stock of National Utility Company (NUC) and land from owners of NUC for $0.9 million in cash. The Company retired NUC's stock and merged it into New Mexico Water. Revenue for NUC for the eight-month period in 2004 was $0.4 million and net income was zero. The purchase price is approximately equal to rate base and an immaterial amount of goodwill was recorded in the transaction.

### Real Estate Program

The Company owns a certain amount of real estate. From time to time, certain parcels are deemed unnecessary for and are not used in water utility operations. Most surplus properties have a low cost basis. A program was developed to realize the value of certain surplus properties through sale or lease of those properties. The program will be ongoing for a period of several years. Property sales produced pretax gains of $2.2 million in 2005, minimal pretax gains were recorded in 2004, and $4.6 million was recorded in 2003. As sales are dependent on real estate market conditions, future sales, if any, may or may not be at prior year levels. As discussed in the "Rates and Regulation" section, future sales may be impacted by the CPUC ruling in its proceeding regarding sales of utility assets.

## Critical Accounting Policies and Estimates

The Company maintains its accounting records in accordance with accounting principles generally accepted in the United States of America and as directed by the Commissions to which its operations are subject. The process of preparing financial statements requires the use of estimates on the part of management. The estimates used by management are based on historic experience and an understanding of current facts and circumstances. A summary of our significant accounting policies is listed in Note 2 of the Notes to Consolidated Financial Statements and other Notes provide additional information. The following sections describe the level of subjectivity, judgment, and variability of estimates that could have a material impact on the financial condition, operating performance, and cash flows of the business.

### Regulated Utility Accounting

Because the Company operates extensively in a regulated business, it is subject to the provisions of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." Application of SFAS No. 71 requires accounting for certain transactions in accordance with regulations defined by the respective Commission of that state. Under SFAS No. 71, a utility may defer certain costs of providing services if the rates established by its regulators are designed to recover the utility's specific costs and the economic environment gives reasonable assurance that those rates can be charged and collected throughout the periods necessary to recover the costs. In the event that a portion of the Company's operations were no longer subject to the provisions of SFAS No. 71, the Company would be required to write off related regulatory assets and liabilities that are not specifically recoverable and determine if other assets might be impaired. If a Commission determined that a portion of the Company's assets were not recoverable in customer rates, the Company would be required to determine if it had suffered an asset impairment that would require a write-down in the assets' valuation. There was no such asset impairment as of December 31, 2005. Additional information relating to regulatory assets and liabilities are listed in Note 2 of the Notes to Consolidated Financial Statements.

Unbilled Revenue

Unbilled revenue is estimated for metered customers for water used between the last reading of the customer's meter and the end of the accounting period. This estimate is based on the usage from the last bill to the customer, which



normally covers a 30-day period, and is prorated from the last meter-read date to the end of the accounting period. The amount of variability is low at December 31, as this is one of the lowest usage months of the year and usage for the previous 30-day period is relatively consistent during this time of the year. Actual usage may vary from this estimate.

Flat-rate customers are billed in advance at the beginning of the service period. Since these are constant amounts, appropriate adjustments can be calculated to determine the revenue related to the applicable period.

Estimated Expenses Some expenses are recorded using estimates, as actual payments are not known or processed by the accounting deadline. Estimates are made for unbilled purchased water, unbilled purchased power, unbilled pump taxes, payroll, and other types of similar expenses. While management believes its estimates are reasonable, actual results could vary. Differences between actual results and estimates are recorded in the period when the information is known.

Expense Balancing and Memorandum Accounts Expense balancing accounts and memorandum accounts (offsettable expenses) represent recoverable costs incurred but not billed to customers. The amounts included in these accounts relate to rate changes charged to the Company for purchased water, purchased power, and pump taxes that are different from amounts incorporated into the rates approved by the CPUC. The Company does not record expense balancing or memorandum accounts in its financial statements as revenue, nor as a receivable, until the CPUC and other regulators have authorized recovery of the higher costs and customers have been billed. Therefore, a timing difference may occur between when costs and associated revenues are recognized. The balancing and memorandum accounts are only used to track the specific costs outside of the financial statements. The cost changes, which are beyond the Company's control, are referred to as "offsettable expenses" because under certain circumstances, they are recoverable from customers in future offset rate increases. During 2004 and 2005, the CPUC gave approval to charge customers for a portion of the offsettable expenses. Additionally, the Company may file with the CPUC for its offsettable expenses incurred in 2005. The amounts requested may not be ultimately collected through rates, as amounts may be disallowed during the review process or subject to a non-weather-adjusted earnings test. While the adjustments would not impact previously recorded amounts, the adjustments may change future earnings and cash flows. At this time, the Company cannot predict the actual recovery (refund) associated with 2005 offsettable expenses to be requested in 2006. (See "Rates and Regulation.")

Washington Water, New Mexico Water, and Hawaii Water did not have material amounts in expense balancing or memorandum accounts.

Income Taxes Significant judgment is required in determining the provision for income taxes. The process involves estimating current tax exposure and assessing temporary differences resulting from treatment of certain items, such as depreciation, for tax and financial statement reporting. These differences result in deferred tax assets and liabilities, which are reported in the consolidated balance sheet. Management must also assess the likelihood that deferred tax assets will be recovered in future taxable income. To the extent recovery is unlikely, a valuation allowance would be required. If a valuation allowance was required, it could significantly increase income tax expense. In management's view, a valuation allowance was not required at December 31, 2005. Detailed schedules relating to income taxes are provided in Note 11 of the Notes to Consolidated Financial Statements.

Employee Benefit Plans The Company incurs costs associated with its pension and postretirement health care benefit plans. To measure the expense of these benefits, management must estimate compensation increases, mortality rates, future health cost increases, and discount rates used to value related liabilities and to determine appropriate funding. Management works with independent actuaries to measure these benefits. Different estimates and/or actual amounts could result in significant variances in the costs and liabilities recognized for these benefit plans. The estimates used are based on historical experience, current facts, future expectations, and recommendations from independent advisors and actuaries.

The Company uses an investment advisor to provide expert advice for managing investments in these plans. To diversify investment risk, the plan's goal is to invest 40%-60% of the assets in domestic equity mutual funds, 5%-15% in foreign equity mutual funds, and 35%-45% in bond funds. At December 31, 2005, 51.9% of the assets were invested in domestic equity mutual funds, 11.7% in foreign equity mutual funds, and 36.4% in bond funds. Based on the market values of the investment funds for the year ended December 31, 2005, the total return on the pension plan assets was 6.0%. For 2004 and 2003, returns were 13% and 19%, respectively. Future returns on investments could vary significantly from estimates and could impact earnings and cash flows. Management expects any changes to these costs to be recovered in future rate filings, mitigating the financial impact.

For measurement in 2005, management estimated the discount rate at 5.60%, which approximates the average return on long-term corporate bonds as of year-end. Using the interest rate curve developed by Citigroup as of December 31, 2004 and 2005, the equivalent level discount rates were 5.74% and 5.58%, respectively. Accordingly, the discount rate was lowered in 2005 from 6% to 5.60%. Management assumed the rate of compensation to increase 3% in its 2005

calculation. Any change in these assumptions would have an effect on the service costs, interest costs, and accumulated benefit obligations. Additional information related to employee benefit plans is listed in Note 12 of the Notes to Consolidated Financial Statements.

Workers' Compensation, General Liability, and Other Claims The Company is self-insured for a portion of workers' compensation and general liability claims. Excess amounts are covered by insurance policies. For workers' compensation, the Company utilizes an actuary firm to estimate the discounted liability associated with claims submitted and claims not yet submitted based on historical data. These estimates could vary significantly from actual claims paid, which could impact earnings and cash flows. For general liability claims and other claims, management estimates the cost incurred but not yet paid using historical information. Actual costs could vary from these estimates. Management believes actual costs incurred would be allowed in future rates, mitigating the financial impact.

Contingencies The Company did not record any provisions relating to the contingencies reported in Note 15 of the Notes to Consolidated Financial Statements, as these did not qualify for recording under SFAS No. 5 or other accounting standards. If management's assessment is incorrect, these items could have a material impact on the financial condition, results of operations, and cash flows of the Company.

Financial Risk Management

The Company does not participate in hedge arrangements, such as forward contracts, swap agreements, options, or other contractual agreements relative to the impact of market fluctuations on its assets, liabilities, production, or contractual commitments. The Company operates only in the United States and, therefore, is not subject to foreign currency exchange rate risks.

Terrorism Risk Due to terrorist risks, the Company has heightened security at its facilities over the past few years and has taken added precautions to protect its employees and the water delivered to customers. The Company has complied with EPA regulations concerning vulnerability assessments and has made filings to the EPA as required. In addition, communication plans have been developed as a component of the Company's procedures related to this risk. While the Company does not make public comments on its security programs, the Company has been in contact with federal, state, and local law enforcement agencies to coordinate and improve water delivery systems' security.

Interest Rate Risk The Company is subject to interest rate risk, although this risk is lessened because the Company operates in a regulated industry. If interest rates were to increase, management believes customer rates would increase accordingly, subject to Commission approval in future GRC filings. The majority of debt is long-term, fixed rate. Interest rate risk does exist on short-term borrowings within the Company's credit facilities, as these interest rates are variable. The Company also has interest rate risk on new financing, as higher interest cost may occur on new debt if interest rates increase.

Stock Price Risk Because the Company operates primarily in a regulated industry, its stock price risk is somewhat lessened; however, regulated parameters also can be recognized as limitations to operations, earnings, and the ability to respond to certain business condition changes. For example, prior to 2004, the Company believes its stock price was adversely affected by analyst reports, which stated the Company's earnings were negatively impacted by the delays of certain CPUC decisions. An adverse change in the stock price could make issuance of common stock less attractive in the future.

Stock Market Performance Risk The Company's stock price could be impacted by changes in the general market. This could impact the costs of obtaining funds through the equity markets. Stock market performance could also impact the Company through the investments by the Company's defined benefit plan and postretirement medical benefit plan. The Company is responsible for funding these plans. Plan investments are made in stock market equities using mutual funds and in corporate bonds. Poor performance of the equity and bond markets could result in increased costs and additional funding requirements due to lower investment returns. Management believes the Company would be able to recover these higher costs in customer rates.

Equity Risk The Company does not have equity investments and, therefore, does not have equity risks.

Recent Accounting Pronouncements and Law Changes

The description and impact of recent accounting pronouncements that are effective for the period reported are described in Note 2 of the Notes to Consolidated Financial Statements.

As of the filing date, there were no other accounting pronouncements affecting future periods that are expected to have a material impact on the Company's financial condition, results of operations, or cash flows.

Consolidated Balance Sheets

<TABLE>
<CAPTION>

| In thousands, except per share data<br>December 31, | 2005 | 2004 |
|---|---|---|
| **Assets** | | |
| Utility plant: | | |
| Land | $ 14,274 | $ 13,070 |
| Depreciable plant and equipment | 1,171,218 | 1,102,932 |
| Construction work in progress | 35,372 | 13,248 |
| Intangible assets | 14,226 | 14,824 |
| Total utility plant | 1,235,090 | 1,144,074 |
| Less accumulated depreciation and amortization | 372,359 | 343,769 |
| Net utility plant | 862,731 | 800,305 |
| Current assets: | | |
| Cash and cash equivalents | 9,533 | 18,820 |
| Receivables, net of allowance for uncollectible accounts | | |
| Customers | 16,061 | 15,867 |
| Income taxes | -- | 7,298 |
| Other | 4,700 | 3,147 |
| Unbilled revenue | 11,445 | 9,307 |
| Materials and supplies at weighted average cost | 4,182 | 3,161 |
| Prepaid pension expense | 1,696 | 3,671 |
| Taxes and other prepaid expenses | 4,607 | 9,122 |
| Total current assets | 52,224 | 70,393 |
| Other assets: | | |
| Regulatory assets | 58,213 | 53,477 |
| Unamortized debt premium and expense | 7,746 | 8,411 |
| Other | 16,031 | 10,267 |
| Total other assets | 81,990 | 72,155 |
| | $ 996,945 | $ 942,853 |

</TABLE>

<TABLE>
<CAPTION>

| | 2005 | 2004 |
|---|---|---|
| **Capitalization and Liabilities** | | |
| Capitalization: | | |
| Common stock, $0.01 par value; 25,000 shares authorized, 18,390 and 18,367, outstanding in 2005 and 2004, respectively | $ 184 | $ 184 |
| Additional paid-in capital | 131,991 | 131,271 |
| Retained earnings | 162,968 | 156,851 |
| Accumulated other comprehensive loss | (1,202) | (701) |

| | | |
|---|---|---|
| Total common stockholders' equity | 293,941 | 287,605 |
| Preferred stock without mandatory redemption provision, $25 par value; 380 shares authorized, 139 shares outstanding | 3,475 | 3,475 |
| Long-term debt, less current maturities | 274,142 | 274,821 |
| Total capitalization | 571,558 | 565,901 |
| Current liabilities: | | |
| Current maturities of long-term debt | 1,133 | 1,100 |
| Accounts payable | 36,120 | 19,745 |
| Accrued taxes | 1,791 | 1,912 |
| Accrued interest | 2,715 | 2,676 |
| Other accrued liabilities | 35,057 | 31,779 |
| Total current liabilities | 76,816 | 57,212 |
| Unamortized investment tax credits | 2,615 | 2,721 |
| Deferred income taxes | 63,920 | 54,826 |
| Regulatory liabilities | 18,782 | 18,811 |
| Advances for Construction | 141,842 | 131,292 |
| Contributions in Aid of Construction | 99,958 | 94,915 |
| Other long-term liabilities | 21,454 | 17,175 |
| Commitments and contingencies | -- | -- |
| | $ 996,945 | $ 942,853 |

</TABLE>

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Income

<TABLE>
<CAPTION>

| In thousands, except per share data<br>For the years ended December 31, | 2005 | 2004 | 2003 |
|---|---|---|---|
| Operating revenue | $320,728 | $315,567 | $277,128 |
| <C> | <C> | <C> | <C> |
| Operating expenses: | | | |
| Operations | | | |
| Purchased water | 87,504 | 89,787 | 80,831 |
| Purchased power | 20,541 | 21,801 | 21,921 |
| Pump taxes | 7,620 | 7,555 | 6,272 |
| Administrative and general | 48,655 | 47,078 | 40,969 |
| Other | 40,032 | 39,929 | 37,476 |
| Maintenance | 15,216 | 13,228 | 12,717 |
| Depreciation and amortization | 28,731 | 26,114 | 23,256 |
| Income taxes | 20,006 | 17,084 | 12,898 |
| Property and other taxes | 12,613 | 11,508 | 10,554 |
| Total operating expenses | 280,918 | 274,084 | 246,894 |
| Net operating income | 39,810 | 41,483 | 30,234 |
| Other income and expenses: | | | |
| Non-regulated income, net | 2,863 | 2,375 | 2,097 |
| Gain on the sale of non-utility property | 2,250 | 8 | 4,603 |
| Total other income and expenses | 5,113 | 2,383 | 6,700 |
| Interest expense: | | | |
| Interest expense | 18,600 | 18,664 | 19,512 |
| Less capitalized interest | 900 | 824 | 1,995 |
| Net interest expense | 17,700 | 17,840 | 17,517 |
| Net income | $ 27,223 | $ 26,026 | $ 19,417 |
| Earnings per share: | | | |
| Basic | $ 1.47 | $ 1.46 | $ 1.21 |
| Diluted | $ 1.47 | $ 1.46 | $ 1.21 |
| Weighted average number of common shares outstanding: | | | |
| Basic | 18,379 | 17,652 | 15,882 |
| Diluted | 18,402 | 17,674 | 15,893 |

See accompanying Notes to Consolidated Financial Statements.
</TABLE>

Consolidated Statements of Common Stockholders' Equity
and Comprehensive Income

In thousands
For the years ended December 31, 2005, 2004, and 2003
<TABLE>
<CAPTION>

| | Common Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Total Stockholders' Equity |
|---|---|---|---|---|---|
| <C> | <C> | <C> | <C> | <C> | <C> |
| Balance at December 31, 2002 | $ 152 | $ 49,984 | $149,215 | $ (134) | $199,217 |
| Net income | -- | -- | 19,417 | -- | 19,417 |
| Net other comprehensive loss | -- | -- | -- | (167) | (167) |
| Comprehensive income | -- | -- | -- | -- | 19,250 |
| Issuance of common stock | 17 | 43,764 | -- | -- | 43,781 |
| Dividends paid: | | | | | |
| Preferred stock | -- | -- | (153) | -- | (153) |
| Common stock | -- | -- | (17,571) | -- | (17,571) |
| Total dividends paid | -- | -- | (17,724) | -- | (17,724) |
| Balance at December 31, 2003 | 169 | 93,748 | 150,908 | (301) | 244,524 |
| Net income | -- | -- | 26,026 | -- | 26,026 |
| Net other comprehensive loss | -- | -- | -- | (400) | (400) |
| Comprehensive income | -- | -- | -- | -- | 25,626 |
| Issuance of common stock | 15 | 37,523 | -- | -- | 37,538 |
| Dividends paid: | | | | | |
| Preferred stock | -- | -- | (153) | -- | (153) |
| Common stock | -- | -- | (19,930) | -- | (19,930) |
| Total dividends paid | -- | -- | (20,083) | -- | (20,083) |
| Balance at December 31, 2004 | 184 | 131,271 | 156,851 | (701) | 287,605 |
| Net income | -- | -- | 27,223 | -- | 27,223 |
| Net other comprehensive loss | -- | -- | -- | (501) | (501) |
| Comprehensive income | -- | -- | -- | -- | 26,722 |
| Issuance of common stock | -- | 720 | -- | -- | 720 |
| Dividends paid: | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Preferred stock | -- | -- | (153) | -- | (153) |
| Common stock | -- | -- | (20,953) | -- | (20,953) |
| Total dividends paid | -- | -- | (21,106) | -- | (21,106) |
| Balance at December 31, 2005 | $ 184 | $131,991 | $162,968 | $(1,202) | $293,941 |

</TABLE>

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

<TABLE>
<CAPTION>

| In thousands For the years ended December 31, | 2005 | 2004 | 2003 |
|---|---|---|---|
| Operating activities: | | | |
| Net income | $ 27,223 | $ 26,026 | $ 19,417 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 28,731 | 26,114 | 23,256 |
| Net change in deferred income taxes, investment tax credits, regulatory assets and liabilities | 3,908 | 17,637 | 2,834 |
| Gain on sale of non-utility property | (2,250) | (8) | (4,603) |
| Changes in operating assets and liabilities: | | | |
| Receivables | 5,545 | (2,720) | 1,292 |
| Unbilled revenue | (2,138) | (771) | (554) |
| Taxes and other prepaid expenses | 6,491 | (7,168) | (2,876) |
| Accounts payable | 16,374 | (4,042) | (301) |
| Other current assets | (1,021) | (203) | (197) |
| Other current liabilities | 3,841 | 2,713 | 7,537 |
| Other changes, net | (445) | (2,167) | (1,374) |
| Net adjustments | 59,036 | 29,385 | 25,014 |
| Net cash provided by operating activities | 86,259 | 55,411 | 44,431 |
| Investing activities: | | | |
| Utility plant expenditures: | | | |
| Company-funded | (77,569) | (50,388) | (53,884) |
| Developer advances and contributions in aid of construction | (16,948) | (18,185) | (20,369) |
| Proceeds from sale of non-utility assets | 2,316 | 14 | 4,803 |
| Acquisitions | (471) | (900) | (6,094) |
| Net cash used in investing activities | (92,672) | (69,459) | (75,544) |
| Financing activities: | | | |
| Net changes in short-term borrowings | -- | (6,454) | (29,925) |

| | | | |
|---|---|---|---|
| Issuance of common stock, net of expenses | 720 | 37,538 | 43,781 |
| Issuance of long-term debt, net of expenses | 227 | 3,501 | 80,114 |
| Advances for construction | 15,389 | 14,388 | 13,248 |
| Refunds of advances for construction | (4,840) | (5,049) | (4,838) |
| Contributions in aid of construction | 7,924 | 6,882 | 9,311 |
| Retirement of long-term debt | (1,188) | (711) | (61,061) |
| Dividends paid | (21,106) | (20,083) | (17,724) |
| Net cash (used in) provided by financing activities | (2,874) | 30,012 | 32,906 |
| Change in cash and cash equivalents | (9,287) | 15,964 | 1,793 |
| Cash and cash equivalents at beginning of year | 18,820 | 2,856 | 1,063 |
| Cash and cash equivalents at end of year | $ 9,533 | $ 18,820 | $ 2,856 |
| Supplemental disclosures of cash flow information: | | | |
| Cash paid during the year for | | | |
| Interest (net of amounts capitalized) | $ 16,811 | $ 17,202 | $16,873 |
| Income taxes | 12,411 | 8,026 | 6,188 |

</TABLE>

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

December 31, 2005, 2004, and 2003
Amounts in thousands, except per share data and share data

Note 1. Organization and Operations

California Water Service Group (Company) is a holding company that provides water utility and other related services in California, Washington, New Mexico, and Hawaii through its wholly owned subsidiaries. California Water Service Company (Cal Water), Washington Water Service Company (Washington Water), New Mexico Water Service Company (New Mexico Water), and Hawaii Water Service Company, Inc. (Hawaii Water) provide regulated utility services under the rules and regulations of their respective state's regulatory commissions (jointly referred to as the Commissions). CWS Utility Services (Utility Services) provides non-regulated water utility and utility-related services. At Cal Water, as of December 31, 2005, there were 566 union employees covered by two-year agreements with the Utility Workers Union of America, AFL-CIO, and the International Federation of Professional and Technical Engineers, AFL-CIO. The agreements include a 3.5% wage increase for 2006, with wage increases for 2007 to be negotiated in the fall of 2006. The Company believes that it maintains good relationships with the unions. Employees at Washington Water, Hawaii Water and New Mexico Water do not belong to Unions.

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

Note 2. Summary of Significant Accounting Policies

Principles of Consolidation and Accounting Records

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Inter-company transactions and balances have been eliminated. The accounting records of the Company are maintained in accordance with the uniform system of accounts prescribed by the Commissions.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue

Revenue consists of monthly cycle customer billings for regulated water and wastewater services at rates authorized by the Commissions and billings to certain non-regulated customers. Revenue from metered accounts includes unbilled amounts based on the estimated usage from the latest meter reading to the end of the accounting period. Flat-rate accounts, which are billed at the beginning of the service period, are included in revenue on a pro-rata basis for the portion applicable to the current accounting period.

The Company provides an allowance for doubtful accounts. The balance of customer receivables, net of the allowance for doubtful accounts was $272 and $287 at December 31, 2005 and 2004, respectively. The activity in the reserve account is as follows:

| | 2005 | 2004 |
|---|---|---|
| Beginning Balance | $ 287 | $ 289 |
| Provision for uncollectible accounts | 756 | 1,073 |
| Net write-off of uncollectible accounts | (771) | (1,075) |
| Ending Balance | $ 272 | $ 287 |

Non-Regulated Revenue

Revenues from non-regulated operations and maintenance agreements are recognized when services have been rendered to companies or municipalities under such agreements. Expenses are netted against the revenue billed and are reported in Other Income and Expenses on the Consolidated Statements of Income. Other non-regulated revenue is recognized when title has transferred to the buyer, or ratably over the term of the lease. For construction and design services, revenue is generally recognized on the completed contract method, as most projects are completed in less than three months.

Expense Balancing and Memorandum Accounts

Expense balancing and memorandum accounts are used to track suppliers' rate changes for purchased water, purchased power, and pump taxes that are not included in customer water rates. The cost changes are referred to as "Offsettable Expenses" because under certain circumstances they are recoverable from customers (or refunded to customers) in future rates designed to offset the cost changes from the suppliers. The Company does not record the balancing and memorandum accounts until the Commission has authorized a change in customer rates and the customer has been billed.



Utility Plant

Utility plant is carried at original cost when first constructed or purchased, except for certain minor units of property recorded at estimated fair values at the date of acquisition. When depreciable plant is retired, the cost is eliminated from utility plant accounts and such costs are charged against accumulated depreciation. Maintenance of utility plant is charged to operating expenses as incurred. Maintenance projects are not accrued for in advance. Interest is capitalized on plant expenditures during the construction period and amounted to $900 in 2005, $824 in 2004, and $1,995 in 2003.

Intangible assets acquired as part of water systems purchased are stated at amounts as prescribed by the Commissions. All other intangibles have been recorded at cost and are amortized over their useful life. Included in intangible assets is $6,515 paid to the City of Hawthorne in 1996 to lease the city's water system and associated water rights. The asset is being amortized on a straight-line basis over the 15-year life of the lease.

The following table represents depreciable plant and equipment as of December 31:

| | 2005 | 2004 |
|---|---|---|
| Equipment | $ 234,073 | $ 214,202 |
| Transmission and distribution plant | 864,450 | 819,793 |
| Office buildings and other structures | 72,695 | 68,937 |
| Total | $1,171,218 | $1,102,932 |

Depreciation of utility plant for financial statement purposes is computed on a straight-line basis over the assets' estimated useful lives and provides for asset retirement costs as follows:

| | Useful Lives |
|---|---|
| Equipment | 5 to 50 years |
| Transmission and distribution plant | 40 to 65 years |
| Office buildings and other structures | 50 years |

The provision for depreciation expressed as a percentage of the aggregate depreciable asset balances was 2.7% in 2005, 2.6% in 2004, and 2.5% in 2003. For income tax purposes, as applicable, the Company computes depreciation using the accelerated methods allowed by the respective taxing authorities. Plant additions since June 1996 are depreciated on a straight-line basis for tax purposes in accordance with tax regulations.

Cash Equivalents

Cash equivalents include highly liquid investments with original maturities of three months or less. As of December 31, 2005 and 2004, cash equivalents included investments in money market funds in the amount of $4,003 and $6,133, respectively, and investment in high-quality commercial paper in the amount of zero and $4,997, respectively.

Restricted Cash

Restricted cash primarily represents proceeds collected through a surcharge on certain customers' bills, plus interest earned on the proceeds, and is used to service California Safe Drinking Water Bond obligations. All restricted cash is classified in other prepaid expenses. At December 31, 2005 and 2004, restricted cash was $1,200 and $1,337, respectively.

Regulatory Assets and Liabilities

The Company records regulatory assets for future revenues expected to be realized in customers' rates when certain items are recognized as expenses for rate-making purposes. The income tax temporary differences relate primarily to the difference between book and federal income tax depreciation on utility plant that was placed in service before the regulatory Commissions adopted normalization for rate-making purposes. Previously, the tax benefit of tax depreciation was passed onto customers (flow-through). For state income tax purposes, the Commission continues to use the flow-through method. As such timing differences reverse, the Company will be able to include the impact of such differences in customer rates. These federal tax differences will continue to reverse over the remaining book lives of the related assets.

In addition, regulatory assets include items that are recognized as liabilities for financial statement purposes, which will be recovered in future customer rates. Asset retirement obligations are recorded net of depreciation, which has been recorded and recognized through the regulatory process. The liabilities relate to asset retirement obligations, postretirement benefits other than pensions, and accrued benefits for vacation, self-insured workers' compensation, and directors' retirement benefits.

Regulatory liabilities represent future benefits to ratepayers for tax deductions that will be allowed in the future. Regulatory liabilities also reflect timing differences provided at higher than the current tax rate, which will flow through to future ratepayers.

Regulatory assets and liabilities are comprised of the following as of December 31:

| | 2005 | 2004 |
|---|---|---|
| Regulatory Assets | | |
| Income tax temporary differences | $ 32,856 | $ 29,196 |
| Asset retirement obligations, net | 1,538 | 2,540 |
| Postretirement benefits other than pensions | 9,791 | 9,019 |
| Other accrued benefits | 14,028 | 12,722 |
| Total regulatory assets | $ 58,213 | $ 53,477 |
| Regulatory Liabilities | | |
| Future tax benefits due ratepayers | $ 18,782 | $ 18,811 |

Long-Lived Assets

The Company regularly reviews its long-lived assets for impairment, annually or when events or changes in business circumstances have occurred that indicate the carrying amount of such assets may not be fully realizable. Potential impairment of assets held for use is determined by comparing the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the asset. If assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying value of the asset exceeds its fair value. There have been no asset impairments as of December 31, 2005 and 2004.

Long-Term Debt Premium, Discount, and Expense

The discount and issuance expense on long-term debt is amortized over the original lives of the related debt issues. Premiums paid on the early redemption of certain debt issues and the unamortized original issue discount and expense are amortized over the life of new debt issued in conjunction with the early redemption. These amounts were zero in 2005 and 2004 and $3,154 in 2003. Amortization expense included in interest expense was $661, $660, and $415 for 2005, 2004, and 2003, respectively.

Accumulated Other Comprehensive Loss

The Company has an unfunded Supplemental Executive Retirement Plan. The unfunded accumulated benefit obligation of the plan, less the accrued benefit, exceeds the unrecognized prior service cost, resulting in an accumulated other comprehensive loss that has been recorded net of tax as a separate component of Stockholders' Equity.

Advances for Construction

Advances for Construction consist of payments received from developers for installation of water production and distribution facilities to serve new developments. Advances are excluded from rate base for rate-setting purposes. Annual refunds are made to developers without interest. Advances of $141,168 and $130,558 at December 31, 2005 and 2004, respectively, are refunded primarily over a 40-year period in equal annual amounts. In addition, other Advances for Construction totaling $674 and $734 at December 31, 2005 and 2004, respectively, are refundable based upon customer connections. Estimated refunds of advances for each succeeding year (2006 through 2010) are $5,077, $4,921, $4,856, $4,795, $4,793, and $117,400 thereafter.

Contributions in Aid of Construction

Contributions in Aid of Construction represent payments received from developers, primarily for fire protection purposes, which are not subject to refunds. Facilities funded by contributions are included in utility plant, but excluded from rate base. Depreciation related to assets acquired from contributions is charged to Contributions in Aid of Construction account.

Income Taxes

The Company accounts for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Measurement of the deferred tax assets and liabilities is at enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

It is anticipated that future rate action by the Commissions will reflect revenue requirements for the tax effects of temporary differences recognized, which have previously been flowed through to customers. The Commissions have granted the Company rate increases to reflect the normalization of the tax benefits of the federal accelerated methods and available Investment Tax Credits (ITC) for all assets placed in service after 1980. ITCs are deferred and amortized over the lives of the related properties for book purposes.

Advances for Construction and Contributions in Aid of Construction received from developers subsequent to 1986 were taxable for federal income tax purposes and subsequent to 1991 were subject to California income tax. In 1996, the federal tax



law, and in 1997, the California tax law, changed, and only deposits for new services were taxable. In late 2000, federal regulations were further modified to exclude contributions of fire services from taxable income.

Workers' Compensation, General Liability and Other Claims

For workers' compensation, the Company utilized an actuary firm to estimate the discounted liability associated with claims submitted and claims not yet submitted based on historical data. For general liability claims and other claims, the Company estimates the cost incurred but not yet paid using historical information.

Earnings Per Share

The computations of basic and diluted earnings per share are noted below. Common stock options outstanding to purchase common shares were 98,000, 121,500, and 149,250 at December 31, 2005, 2004, and 2003, respectively.

All options are dilutive and the dilutive effect is shown in the table below.

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| Net income, as reported | $ 27,223 | $ 26,026 | $ 19,417 |
| Less preferred dividends | 153 | 153 | 153 |
| Net income available to common stockholders | $ 27,070 | $ 25,873 | $ 19,264 |
| Weighted average common shares, basic | 18,379 | 17,652 | 15,882 |
| Dilutive common stock options (treasury method) | 23 | 22 | 11 |
| Shares used for dilutive calculation | 18,402 | 17,674 | 15,893 |
| Earnings per share - basic | $ 1.47 | $ 1.46 | $ 1.21 |
| Earnings per share - dilutive | $ 1.47 | $ 1.46 | $ 1.21 |

Stock-Based Compensation

The Company has a stockholder-approved Long-Term Incentive Plan under which non-qualified stock options are outstanding. The Company has adopted the disclosure requirements of Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition Disclosure - An Amendment to SFAS No. 123," and as permitted by the statement, applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," for its plan. All of the Company's outstanding options have an exercise price equal to the market price on the date they were granted. No compensation expense was recorded for the years ended December 31, 2005, 2004, or 2003.

In 2005, the Company adopted a stockholder-approved Equity Incentive Plan that allows certain stock-based compensation awards. There were no awards during 2005. The Company adopted SFAS No. 123 (revised 2004) "Share-Based Payment," effective January 1, 2006, and will be recording compensation expense in accordance with that standard for any awards granted in the future.

The table below illustrates the effect on net income and earnings per share as if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation under the Long-Term Incentive Plan.

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| Net income available to common stockholders | $ 27,070 | $ 25,873 | $ 19,264 |
| Deduct: Total stock-based employee compensation expense determined under fair-value-based method for all awards, net of related tax effects | 46 | 67 | 68 |
| Pro forma net income available to common stockholders | $ 27,024 | $ 25,806 | $ 19,196 |
| Earnings per share: | | | |
| Basic - as reported | $ 1.47 | $ 1.46 | $ 1.21 |
| Basic - pro forma | $ 1.47 | $ 1.46 | $ 1.21 |
| Diluted - as reported | $ 1.47 | $ 1.46 | $ 1.21 |
| Diluted - pro forma | $ 1.47 | $ 1.46 | $ 1.21 |

Recent Accounting Pronouncements

In May 2004, the FASB issued FASB Staff Position (FSP) No. 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003." FSP No. 106-2 was effective for the first quarter after June 15, 2004, and replaces FSP No. 106-1. FSP No. 106-1 was effective for the Company's consolidated financial statements for the year ended December 31, 2003. The Company has determined its retiree health plan is actuarially equivalent and would qualify for the subsidy that would begin in 2006. Because the Company is regulated, FSP No. 106-2 did not have an impact on the income statement or cash flows in 2004. The adjustment for FSP No. 106-2 impacted the balance sheet only, decreasing liabilities and regulatory assets by $663 in 2004. In 2005, the Company elected to apply the entire subsidy to reduce the cost of the retiree health care expense. The impact on the net periodic postretirement benefit costs for 2005 was to reduce the expense by $1,574.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs - an Amendment to ARB No. 43, Chapter 4." The statement clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material. The statement is effective for fiscal years beginning after June 15, 2005. The adoption of this statement is not expected to impact the Company's financial position, results of operations, or cash flows.

In December 2004, the FASB issued SFAS No. 153, "Exchange of Nonmonetary Assets." The statement amends Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. The statement is effective for fiscal years beginning after June 15, 2005. The adoption of this statement is not expected to impact the Company's financial position, results of operations, or cash flows.

In December 2004, the FASB issued SFAS No. 123 (revised 2004) "Share-Based Payment," which revises SFAS No. 123, "Accounting for Stock-Based Compensation." The statement requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). The statement is effective for the Company in the first quarter of 2006. The adoption of this statement is not expected to materially impact the Company's financial position, results of operations, or cash flows for equity instruments based upon the level of options previously granted and the level of awards granted in January 2006. In January 2006, Restrict Stock Awards were granted for 9,142 shares of common stock and Stock Appreciation Rights Awards were granted for 37,500 shares of common stock.

In December 2004, the FASB issued FSP No. 109-1, "Application of FASB Statement No. 109, Accounting for Income Tax, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creations Act of 2004." FSP No. 109-1 provides guidance on the application of SFAS No. 109 to the provision within the American Jobs Creation Act of 2004 (Act) that provides a



tax deduction on qualified production activities. The guidance states that the deduction should be accounted for as a special deduction in accordance with SFAS No. 109. The adoption of this guidance did not have a material impact on the Company's financial position, results of operations, or cash flows.

In March 2005, the FASB issued Interpretation No. 46R-5, "Implicit Variable Interests under FASB Interpretation No. 46 (revised December 2003)," which amends Interpretation No. 46, "Consolidation of Variable Interest Entities." The revision relates to issues commonly arising in leasing arrangements among related parties and other types of arrangements involving related and unrelated parties. The original guidance under Interpretation No. 46 in January 2003 is still applicable. Interpretation Nos. 46 and 46R-5 provide guidance for determining when a primary beneficiary should consolidate a variable interest entity or equivalent structure that functions to support the activities of a primary beneficiary. Interpretation No. 46R-5 is effective for the first reporting period beginning after March 3, 2005. The adoption of Interpretation No. 46R-5 did not impact the Company's financial position, results of operations, or cash flows.

In March 2005, the FASB issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations - an Interpretation of FASB Statement No. 143." Interpretation No. 47 provides guidelines as to when a company is required to record a conditional asset retirement obligation. In general, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The fair value of a liability for the conditional asset retirement obligation should be recognized when incurred - generally upon acquisition, construction, or development and (or) through the normal operation of the asset. The Interpretation is effective no later than the end of fiscal years ending after December 15, 2005 (December 31, 2005, for calendar-year enterprises). The adoption of this Interpretation did not have a material impact on the Company's financial position, results of operations, or cash flows. The Company has been allowed to collect retirement obligation costs from ratepayers through depreciation expense. As of December 31, 2005, the Company estimates its retirement obligation costs to be $4,480, of which $2,942 has been collected from ratepayers. The balance is recorded as a regulatory asset.

In May 2005, the FASB issued Statement No. 154, "Accounting Changes and Error Corrections - a Replacement of APB Opinion No. 20 and FASB Statement No. 3." Statement No. 154 replaces APB Opinion No. 20, "Accounting Changes," and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements," and changes the requirements for and the reporting of a change of an accounting principle. This Statement requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. The Statement is effective for all fiscal years beginning after December 15, 2005. The adoption of this Statement did not have a material impact on the Company's financial position, results of operations, or cash flows.

Note 3. Other Income and Expenses

The Company conducts various non-regulated activities as reflected in the table below. Income reflects revenue less direct and allocated costs. Income taxes are not included.

<TABLE>
<CAPTION>

| | 2005 | | 2004 | | 2003 | |
|---|---|---|---|---|---|---|
| | Revenue | Income | Revenue | Income | Revenue | Income |
| <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| Operating and maintenance | $ 4,931 | $ 1,142 | $ 4,536 | $ 997 | $ 4,137 | $ 939 |
| Meter reading and billing | 1,112 | 473 | 1,261 | 622 | 1,337 | 473 |
| Leases | 1,457 | 958 | 1,285 | 818 | 1,190 | 781 |
| Water rights brokering | -- | -- | -- | (96) | 196 | 112 |
| Design and construction | 929 | 232 | 606 | 209 | 1,305 | 204 |
| Other and non-regulated expenses | 831 | 58 | 385 | (175) | 320 | (412) |
| Total | $ 9,260 | $ 2,863 | $ 8,073 | $ 2,375 | $ 8,485 | $ 2,097 |

</TABLE>

Operating and maintenance services and meter reading and billing services are provided for water and wastewater systems owned by private companies and municipalities. The agreements call for a fee-per-service or a flat-rate amount per month. Leases have been entered into with telecommunications companies for cellular phone antennas placed on the Company's property. Water rights brokering activity involves purchasing water rights from third parties and reselling those rights to other third parties. Design

and construction services are for the design and installation of water mains and other water infrastructure for others outside the Company's regulated service areas.

Note 4. Acquisitions

In 2005, after receiving regulatory approval, the Company's subsidiaries acquired three water systems for a combined purchase price of $807, including liabilities assumed of $336, which was the approximate value of the rate base in aggregate of the assets acquired.

In 2004, after receiving regulatory approval, the Company's wholly owned subsidiary, New Mexico Water, acquired the stock of National Utilities Corporation. The purchase was for $900, which was the approximate amount of rate base of the assets acquired and for certain real estate used by the water system.

In 2003, after receiving regulatory approval, the Company acquired the Kaanapali Water Corporation and renamed the corporation Hawaii Water Service Company, Inc. The purchase was for $6,094, which was the approximate amount of the rate base of assets acquired.

Condensed balance sheets and pro forma results of operations for these acquisitions have not been presented since the impact of the purchases was not material. Minimal or no goodwill was recorded in connection with the acquisitions.

Note 5. Intangible Assets

As of December 31, 2005 and 2004, intangible assets that will continue to be amortized and those not amortized were:

<TABLE>
<CAPTION>

| | | 2005 | | | 2004 | | |
|---|---|---|---|---|---|---|---|
| | Weighted Average Amortization Period | Gross Carrying Value | Accumulated Amortization | Net Carrying Value | Gross Carrying Value | Accumulated Amortization | Net Carrying Value |
| <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Amortized intangible assets: | | | | | | | |
| Hawthorne lease | 15 | $ 6,515 | $ 4,271 | $ 2,244 | $ 6,515 | $ 3,837 | $ 2,678 |
| Water pumping rights | usage | 1,084 | 11 | 1,073 | 1,046 | 8 | 1,038 |
| Water planning studies | 14 | 2,873 | 605 | 2,268 | 3,164 | 763 | 2,401 |
| Leasehold improvements & other | 24 | 876 | 515 | 361 | 1,130 | 624 | 506 |
| Total | 16 | $ 11,348 | $ 5,402 | $ 5,946 | $11,855 | $ 5,232 | $ 6,623 |
| Unamortized intangible assets: | | | | | | | |
| Perpetual water rights and other | | $ 2,878 | -- | $ 2,878 | $ 2,969 | -- | $ 2,969 |

</TABLE>

For the years ending December 31, 2005, 2004, and 2003, amortization of intangible assets was $876, $799, and $713, respectively. Estimated future amortization expense related to intangible assets for the succeeding five years is $749, $706, $677, $652, and $624, and $2,537 thereafter.

Note 6. Preferred Stock

As of December 31, 2005 and 2004, 380,000 shares of preferred stock were authorized. Dividends on outstanding shares are payable quarterly at a fixed rate before any dividends can be paid on common stock.

The outstanding 139,000 shares of $25 par value cumulative, 4.4% Series C preferred shares are not convertible to common stock. A premium of $243 would be due to preferred stock shareholders upon voluntary liquidation of Series C. There is no premium in the event of an involuntary liquidation. Each Series C preferred share is entitled to 16 votes, with the right to cumulative votes at any election of directors.



Note 7. Common Stockholders' Equity

The Company is authorized to issue 25 million shares of $0.01 par value common stock. As of December 31, 2005 and 2004, 18,389,996 shares and 18,367,246 shares, respectively, of common stock were issued and outstanding.

Dividend Reinvestment and Stock Repurchase Plan

The Company has a Dividend Reinvestment and Stock Purchase Plan (Plan). Under the Plan, stockholders may reinvest dividends to purchase additional Company common stock without commission fees. The Plan also allows existing stockholders and other interested investors to purchase Company common stock through the transfer agent up to certain limits. The Company's transfer agent operates the Plan and purchases shares on the open market to provide shares for the Plan.

Stockholder Rights Plan

The Company's Stockholder Rights Plan (Plan) is designed to protect stockholders and to maximize stockholder value by encouraging a prospective acquirer to negotiate with the Board. The Plan was adopted in 1998 and authorized a dividend distribution of one right (Right) to purchase 1/100th share of Series D Preferred Stock for each outstanding share of common stock in certain circumstances. The Rights are for a 10-year period that expires in February 2008.

Each Right represents a right to purchase 1/100th share of Series D Preferred Stock at the price of $120, subject to adjustment (Purchase Price). Each share of Series D Preferred Stock is entitled to receive a dividend equal to 100 times any dividend paid on common stock and 100 votes per share in any stockholder election. The Rights become exercisable upon occurrence of a Distribution Date. A Distribution Date event occurs if (a) any person accumulates 15% of the then outstanding common stock, (b) any person presents a tender offer which would cause the person's ownership level to exceed 15% and the Board determines the tender offer not to be fair to the Company's stockholders, or (c) the Board determines that a stockholder maintaining a 10% interest in the common stock could have an adverse impact on the Company or could attempt to pressure the Company to repurchase the holder's shares at a premium.

Until the occurrence of a Distribution Date, each Right trades with the common stock and is not separately transferable. When a Distribution Date occurs: (a) the Company would distribute separate Rights Certificates to Common

Stockholders and the Rights would subsequently trade separate from the common stock; and (b) each holder of a Right, other than the acquiring person (whose Rights would thereafter be void), would have the right to receive upon exercise at its then current Purchase Price that number of shares of common stock having a market value of two times the Purchase Price of the Right. If the Company merges into the acquiring person or enters into any transaction that unfairly favors the acquiring person or disfavors the Company's other stockholders, the Right becomes a right to purchase common stock of the acquiring person having a market value of two times the purchase price.

The Board may determine that in certain circumstances a proposal that would cause a Distribution Date is in the Company stockholders' best interest. Therefore, the Board may, at its option, redeem the Rights at a redemption price of $0.001 per Right.

Note 8. Short-Term Borrowings

At December 31, 2005, the Company maintained a bank line of credit providing unsecured borrowings of up to $10 million at the prime lending rate or lower rates as quoted by the bank. Cal Water maintained a separate bank line of credit for an additional $45 million on the same terms as the Company's line of credit. Both agreements required a 30-day out-of-debt period during any 24 consecutive months. The $10 million and $45 million lines have a requirement where the outstanding balance must be below $10 million and $5 million, respectively, for a 30-day consecutive period during any 12-month period. Both agreements have a covenant requiring debt as a percentage of total capitalization to be less than 67%. At December 31, 2005, there were no borrowings on the Company or Cal Water line, and one letter of credit for $0.5 million is outstanding under the Cal Water line.

The following table represents borrowings under the bank lines of credit:

| Dollars in thousands | 2005 | 2004 | 2003 |
|---|---|---|---|
| Maximum short-term borrowings | $ -- | $ 18,800 | $58,633 |
| Average amount outstanding | $ -- | $ 4,330 | $30,388 |
| Weighted average interest rate | n/a | 2.94% | 2.96% |
| Interest rate at December 31 | n/a | n/a | 4.08% |

Note 9. Long-Term Debt

As of December 31, 2005 and 2004, long-term debt outstanding was:
<TABLE>
<CAPTION>

| | Series | Interest Rate | Maturity Date | 2005 | 2004 |
|---|---|---|---|---|---|
| <C> | <C> | <C> | <C> | <C> | <C> |
| First Mortgage Bonds: | J | 8.86% | 2023 | $ 3,600 | $ 3,800 |
| | K | 6.94% | 2012 | 5,000 | 5,000 |
| | CC | 9.86% | 2020 | 18,100 | 18,200 |
| Total First Mortgage Bonds | | | | 26,700 | 27,000 |
| Senior Notes: | | | | | |
| | A | 7.28% | 2025 | 20,000 | 20,000 |
| | B | 6.77% | 2028 | 20,000 | 20,000 |
| | C | 8.15% | 2030 | 20,000 | 20,000 |
| | D | 7.13% | 2031 | 20,000 | 20,000 |
| | E | 7.11% | 2032 | 20,000 | 20,000 |
| | F | 5.90% | 2017 | 20,000 | 20,000 |
| | G | 5.29% | 2022 | 20,000 | 20,000 |
| | H | 5.29% | 2022 | 20,000 | 20,000 |
| | I | 5.54% | 2023 | 10,000 | 10,000 |
| | J | 5.44% | 2018 | 10,000 | 10,000 |
| | K | 4.58% | 2010 | 10,000 | 10,000 |
| | L | 5.48% | 2018 | 10,000 | 10,000 |
| | M | 5.52% | 2013 | 20,000 | 20,000 |
| | N | 5.55% | 2013 | 20,000 | 20,000 |
| Total Senior Notes | | | | 240,000 | 240,000 |
| California Department of Water Resources loans | | 3.0% to 7.4% | 2008-32 | 2,546 | 2,673 |
| Other long-term debt | | | | 6,029 | 6,248 |

| | | |
|---|---|---|
| Total long-term debt | 275,275 | 275,921 |
| Less current maturities | 1,133 | 1,100 |
| Long-term debt excluding current maturities | $ 274,142 | $274,821 |

</TABLE>

The first mortgage bonds and unsecured senior notes are obligations of Cal Water. All bonds are held by institutional investors and secured by substantially all of Cal Water's utility plant. The senior notes are held by institutional investors and require interest-only payments until maturity, except series G and H, which have an annual sinking fund requirement of $1.8 million starting in 2012. The Department of Water Resources (DWR) loans were financed under the California Safe Drinking Water Bond Act. Repayment of principal and interest on the DWR loans is through a surcharge on customer bills. Other long-term debt includes a term loan of $3.4 million for New Mexico Water and other equipment and system acquisition financing arrangements with financial institutions. Aggregate maturities and sinking fund requirements for each of the succeeding five years (2006 through 2010) are $1,133, $1,115, $1,095, $1,026, and $965, and $269,941 thereafter.

Notes to Consolidated Financial Statements

Note 10. Other Accrued Liabilities

As of December 31, 2005 and 2004, other accrued liabilities were:

<TABLE>
<CAPTION>

| <C> | 2005 <C> | 2004 <C> |
|---|---|---|
| Accrued pension and postretirement benefits | $ 14,272 | $ 13,032 |
| Accrued and deferred compensation | 9,370 | 7,953 |
| Accrued benefit and workers' compensation claims | 4,533 | 4,142 |
| Other | 6,882 | 6,652 |
| Total other accrued liabilities | $ 35,057 | $ 31,779 |

</TABLE>

Note 11. Income Taxes

Income tax expense consists of the following:

<TABLE>
<CAPTION>

| <C> | <C> | Federal <C> | State <C> | Total <C> |
|---|---|---|---|---|
| 2005 | Current | $ 12,275 | $ 3,433 | $ 15,708 |
| | Deferred | 4,274 | 24 | 4,298 |
| | Total | $ 16,549 | $ 3,457 | $ 20,006 |
| 2004 | Current | $ 4,211 | $ 3,623 | $ 7,834 |
| | Deferred | 9,146 | 104 | 9,250 |
| | Total | $ 13,357 | $ 3,727 | $ 17,084 |
| 2003 | Current | $ 8,506 | $ 2,604 | $ 11,110 |
| | Deferred | 1,697 | 91 | 1,788 |
| | Total | $ 10,203 | $ 2,695 | $ 12,898 |

</TABLE>

Income tax expense computed by applying the current federal 35% tax rate to pretax book income differs from the amount shown in the Consolidated Statements of Income. The difference is reconciled in the table below:

<TABLE>
<CAPTION>

| <C> | 2005 <C> | 2004 <C> | 2003 <C> |
|---|---|---|---|
| Computed "expected" tax expense | $ 16,530 | $ 15,089 | $ 11,310 |
| Increase (reduction) in taxes due to: | | | |
| State income taxes net of federal tax benefit | 2,714 | 2,477 | 1,846 |
| Investment tax credits | (31) | (139) | (91) |
| Other | 793 | (343) | (167) |
| Total income tax | $ 20,006 | $ 17,084 | $ 12,898 |

</TABLE>

Included in Other in the above table is the recognition of the flow-through accounting for federal depreciation expense on assets acquired prior to 1982. For assets acquired prior to 1982, the benefit of excess tax depreciation was previously passed through to the ratepayers. The tax benefit is now reversing and a higher tax expense is being recognized and is included in customer rates.

In October 2004, the American Jobs Creation Act of 2004 (Act) was signed into law and provides a new federal income tax deduction from qualified U.S. production activities, which is being phased in from 2005 through 2010. Under the Act, qualified production activities include production of potable water, but exclude the transmission and distribution of the potable water. In December 2004, the FASB issued FASB Staff Position No. 109-1 and proposed that the deduction should be accounted for as a "special deduction" in accordance with SFAS No. 109. As such, the special deduction had no effect on deferred tax assets and liabilities existing at the enactment date. Rather, the impact of the deduction is being reported in the year in which the deduction is claimed on the Company's tax return. During 2005, the Company completed its evaluation of the provisions of the Act and included a deduction in the provision for income taxes. The impact was to lower the income tax provision by $175 in 2005.

The components of deferred income tax expense were:

| In thousands | 2005 | 2004 | 2003 |
|---|---|---|---|
| Depreciation | $ 3,593 | $ 11,603 | $ 3,110 |
| Developer Advances and Contributions | (561) | (1,409) | (1,136) |
| Prepaid expenses | 2,004 | -- | -- |
| Bond redemption premiums | -- | (231) | 911 |
| Investment tax credits | (106) | (107) | (110) |
| Other | (632) | (606) | (987) |
| Total deferred income tax expense | $ 4,298 | $ 9,250 | $ 1,788 |

The tax effects of differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2005 and 2004 are presented in the following table:

<TABLE>
<CAPTION>

| | 2005 | 2004 |
|---|---|---|
| <C> | <C> | <C> |
| Deferred tax assets: | | |
| Developer deposits for extension agreements and Contributions in Aid of Construction | $ 48,020 | $ 47,688 |
| Federal benefit of state tax deductions | 7,464 | 7,120 |
| Book plant cost reduction for future deferred ITC amortization | 1,545 | 1,607 |
| Insurance loss provisions | 1,846 | 1,158 |
| Pension plan | 1,663 | 1,524 |
| Other | 812 | 190 |
| Total deferred tax assets | 61,350 | 59,287 |
| Deferred tax liabilities: | | |
| Utility plant, principally due to depreciation differences | 120,875 | 111,506 |
| Prepaid expense | 2,004 | -- |
| Premium on early retirement of bonds | 2,391 | 2,607 |
| Total deferred tax liabilities | 125,270 | 114,113 |
| Net deferred tax liabilities | $ 63,920 | $ 54,826 |

</TABLE>

A valuation allowance was not required at December 31, 2005 and 2004. Based on historical taxable income and future taxable income projections over the period in which the deferred assets are deductible, management believes it is more likely than not that the Company will realize the benefits of the deductible differences.

Notes to Consolidated Financial Statements

Note 12. Employee Benefit Plans

Pension Plans

The Company provides a qualified, defined-benefit, non-contributory pension plan for substantially all employees. The Company also maintains an unfunded, non-qualified, supplemental executive retirement plan. The costs of plans are charged to expense and utility plant. The Company makes annual contributions to fund the amounts accrued for pension cost. The Company estimates that the annual contribution to the pension plans will be $7.4 million in 2006. Plan assets in the defined benefit pension plan as of December 31, 2005 and 2004 (the measurement dates for the plan) were as follows:

| Asset Category | Target | 2005 | 2004 |
|---|---|---|---|
| Bond funds | 35% to 45% | 36.4% | 39.4% |
| Equity accounts | 55% to 65% | 63.6% | 60.6% |

The investment objective of the fund is to maximize the return on assets, commensurate with the risk the Company Trustees deem appropriate to meet the obligations of the Plan, minimize the volatility of the pension expense, and account for contingencies. The Trustees utilize the services of an outside investment advisor and periodically measure fund performance against specific indexes in an effort to generate a rate of return for the total portfolio that equals or exceeds the actuarial investment rate assumptions.

Pension payment obligations are generally funded by the purchase of an annuity from a life insurance company. In 2005, the Plan annuitized pension benefits that would otherwise be paid to certain retirees in the future. Benefit payments under the supplemental executive retirement plan are paid currently. Excluding costs to annuitize future retirement benefits, benefits expected to be paid in each year from 2006 through 2010 are $2,610, $3,266, $4,412, $5,617, and $5,683, respectively. The aggregate benefit expected to be paid in the five years 2011 through 2015 is $39,142. The expected benefit payments are based upon the same assumptions used to measure the Company's benefit obligation at December 31, 2005, and include estimated future employee service.

The accumulated benefit obligations of the pension plan are $71,463 and $65,938 as of December 31, 2005 and 2004, respectively. The fair value of pension plan assets was $70,225 and $75,064 as of December 31, 2005 and 2004, respectively. The unfunded supplemental executive retirement plan accumulated benefit obligations were $8,608 and $7,234 as of December 31, 2005 and 2004, respectively.

The data in the following tables includes the unfunded, non-qualified, supplemental executive retirement plan.

Savings Plan

The Company sponsors a 401(k) qualified, defined-contribution savings plan that allows participants to contribute up to 20% of pre-tax compensation. The Company matches 50 cents for each dollar contributed by the employee up to a maximum Company match of 4.0%. Company contributions were $1,498, $1,443, and $1,433, for the years 2005, 2004, and 2003, respectively.

Other Postretirement

Plan The Company provides substantially all active, permanent employees with medical, dental, and vision benefits through a self-insured plan. Employees retiring at or after age 58, along with their spouses and dependents, continue participation in the plan by payment of a premium. Plan assets are invested in mutual funds, short-term money market instruments and commercial paper. Retired employees are also provided with a $5,000 life insurance benefit.

The Company records the costs of postretirement benefits other than pension during the employees' years of active service. The Company has recorded a regulatory asset in prior years for the difference between the Company-funded amount and the net periodic benefit cost. The Company intends to file with the Commission an Advice Letter to recover the regulatory asset in future customer rates, as customer rates have only included the lower Company-funded amount.

The following table reconciles the funded status of the plans with the accrued pension liability and the net postretirement benefit liability as of December 31, 2005 and 2004:
<TABLE>
<CAPTION>

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| <C> | <C> | <C> | <C> | <C> |
| Change in benefit obligation: | | | | |
| Beginning of year | $ 87,616 | $ 88,356 | $ 30,870 | $ 22,219 |
| Service cost | 4,335 | 4,608 | 1,019 | 1,461 |
| Interest cost | 5,511 | 5,613 | 1,088 | 1,560 |
| Assumption change | 11,783 | (5,992) | (8,364) | 3,266 |
| Benefit adjustment | 4,086 | -- | -- | -- |
| Medicare Modernization Act | -- | -- | -- | (4,360) |
| Experience (gain) loss | 3,426 | 2,938 | (2,106) | 8,130 |

| | | | | |
|---|---|---|---|---|
| Benefits paid, net of retiree premiums | (13,559) | (7,907) | (1,030) | (1,406) |
| End of year | $103,198 | $ 87,616 | $ 21,477 | $ 30,870 |
| Change in plan assets: | | | | |
| Fair value of plan assets at beginning of year | $ 75,064 | $ 63,216 | $ 4,543 | $ 3,697 |
| Actual return on plan assets | 4,000 | 8,298 | 184 | 294 |
| Employer contributions | 4,720 | 11,457 | 1,356 | 1,958 |
| Retiree contributions | -- | -- | 651 | 649 |
| Benefits paid | (13,559) | (7,907) | (1,681) | (2,055) |
| Fair value of plan assets at end of year | $ 70,225 | $ 75,064 | $ 5,053 | $ 4,543 |
| Funded status | $(32,973) | $(12,552) | $(16,424) | $(26,327) |
| Unrecognized actuarial (gain) or loss | 13,516 | (2,783) | 4,053 | 14,293 |
| Unrecognized prior service cost | 17,473 | 15,383 | 564 | 638 |
| Unrecognized transition obligation | -- | -- | 2,217 | 2,493 |
| Unrecognized net initial asset | -- | -- | (276) | (276) |
| Net amount recognized | $ (1,984) | $ 48 | $ (9,866) | $ (9,179) |

</TABLE>

Amounts recognized on the balance sheet consist of:

<TABLE>
<CAPTION>

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| <C> | <C> | <C> | <C> | <C> |
| Accrued benefit costs | $ (1,984) | $ 48 | $ (9,866) | $ (9,179) |
| Additional minimum liability | (6,921) | (3,081) | -- | -- |
| Intangible asset | 5,719 | 2,380 | -- | -- |
| Accumulated other comprehensive loss | 1,202 | 701 | -- | -- |
| Net amount recognized | $ (1,984) | $ 48 | $ (9,866) | $ (9,179) |

</TABLE>

Notes to Consolidated Financial Statements

Below are the actuarial assumptions used in determining the benefit obligation for the benefit plans:

<TABLE>
<CAPTION>

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| Weighted average assumptions as of December 31: | 2005 | 2004 | 2005 | 2004 |
| <C> | <C> | <C> | <C> | <C> |
| Discount rate | 5.60% | 6.00% | 5.60% | 6.00% |
| Long-term rate of return on plan assets | 8.00% | 8.00% | 8.00% | 8.00% |
| Rate of compensation increases | 3.75% | 3.00% | -- | -- |

</TABLE>

The long-term rate of return assumption is the expected rate of return on a balanced portfolio invested roughly 60% in equities and 40% in fixed income securities. The average return for the plan for the last five and 10 years was 7% and 8.7%, respectively.

Net periodic benefit costs for the pension and other postretirement plans for the years ending December 31, 2005, 2004, and 2003 included the following components:

<TABLE>
<CAPTION>

| | Pension Plan | | | Other Benefits | | |
|---|---|---|---|---|---|---|
| | 2005 | 2004 | 2003 | 2005 | 2004 | 2003 |
| <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| Service cost | $ 4,335 | $ 4,608 | $ 3,879 | $ 1,019 | $ 1,461 | $ 1,033 |
| Interest cost | 5,511 | 5,613 | 5,374 | 1,088 | 1,560 | 1,224 |
| Expected return on plan assets | (5,285) | (4,861) | (4,757) | (419) | (340) | (233) |
| Net amortization and deferral | 2,191 | 2,014 | 1,861 | 355 | 894 | 637 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Net periodic benefit cost | $ 6,752 | $ 7,374 | $ 6,357 | $ 2,043 | $ 3,575 | $ 2,661 |

</TABLE>

Below are the actuarial assumptions used in determining the net periodic benefit costs for the benefit plans:

<TABLE>
<CAPTION>

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| Weighted average assumptions as of December 31: | 2005 | 2004 | 2005 | 2004 |
| <C> | <C> | <C> | <C> | <C> |
| Discount rate | 6.00% | 6.00% | 6.00% | 6.00% |
| Long-term rate of return on plan assets | 8.00% | 8.00% | 8.00% | 8.00% |
| Rate of compensation increases | 3.00% | 3.00% | -- | -- |

</TABLE>

Postretirement benefit expense recorded in 2005, 2004, and 2003, was $1,572, $1,420, and $1,160, respectively. The remaining net periodic benefit cost as of December 31, 2005, of $9,791 is expected to be recovered through future customer rates and is recorded as a regulatory asset. The Company intends to make annual contributions to the plan up to the amount deductible for tax purposes.

For 2005 measurement purposes, the Company assumed an 8.5% annual rate of increase in the per capita cost of covered benefits, with the rate decreasing 1% per year for the next four years to a long-term annual rate of 4.5% per year after four years. The health care cost trend rate assumption has a significant effect on the amounts reported. A one-percentage point change in assumed health care cost trends is estimated to have the following effect:

<TABLE>
<CAPTION>

| | 1-percentage Point Increase | 1-percentage Point Decrease |
|---|---|---|
| <C> | <C> | <C> |
| Effect on total service and interest costs | $ 422 | $ (331) |
| Effect on accumulated postretirement benefit obligation | $ 3,693 | $ (2,949) |

</TABLE>

Note 13. Stock-Based Compensation Plans

The Company has two stockholder-approved stock-based compensation plans. Under the Long-Term Incentive Plan that allowed granting of non-qualified stock options, some of which are currently outstanding, there will be no future grants made. Options were granted under the Long-Term Incentive Plan at an exercise price that was not less than the per share common stock market price on the date of grant. At December 31, 2005, 86,500 options were exercisable at a weighted average price of $24.93. The options vest at a 25% rate on their anniversary date over their first four years and are exercisable over a 10-year period. No options were granted in 2005, 2004, or 2003.

The following table summarizes the activity of the Long-Term Incentive Plan:

<TABLE>
<CAPTION>

| | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life | Options Exercisable | Weighted Average Fair Value |
|---|---|---|---|---|---|
| <C> | <C> | <C> | <C> | <C> | <C> |
| Outstanding at December 31, 2002 | 154,500 | 24.77 | 8.2 | 36,750 | -- |
| Cancelled | (5,250) | 24.78 | -- | -- | -- |
| Outstanding at December 31, 2003 | 149,250 | 24.77 | 7.2 | 74,625 | -- |
| Exercised | (25,500) | 23.67 | -- | -- | -- |
| Cancelled | (2,250) | 25.41 | -- | -- | -- |
| Outstanding at December 31, 2004 | 121,500 | 24.99 | 6.3 | 85,500 | -- |
| Exercised` | (22,750) | 25.15 | -- | -- | -- |
| Cancelled | (750) | 25.15 | -- | -- | -- |

| | | | | | |
|---|---|---|---|---|---|
| Outstanding at December 31, 2005 | 98,000 | 24.95 | 5.4 | 86,500 | -- |
| | ======= | ===== | ===== | ====== | ===== |

</TABLE>

In 2005, the Long-Term Incentive Plan was replaced by a stockholder-approved Equity Incentive Plan, which allows granting of incentive and non-qualified stock options, stock appreciation rights, restricted stock awards, and other stock awards. Under the Equity Incentive Plan, a total of 1,000,000 common shares have been authorized for future grants. As of December 31, 2005, there were no grants under the Plan. The Company will be reporting compensation expense related to any grants under this plan in accordance with SFAS No. 123 (revised 2004), as discussed in Note 2.

Note 14. Fair Value of Financial Instruments

For those financial instruments for which it is practicable to estimate a fair value, the following methods and assumptions were used. For cash equivalents, accounts receivables, and accounts payables, the carrying amount approximates the fair value because of the short-term maturity of the instruments. The fair value of the Company's long-term debt is estimated at $289 million and $301 million as of December 31, 2005, and 2004, respectively, using a discounted cash flow analysis, based on the current rates available to the Company for debt of similar maturities. The book value of the long-term debt is $274 million and $276 million as of December 31, 2005 and 2004, respectively. The fair value of Advances for Construction contracts is estimated at $57 million as of December 31, 2005 and $51 million as of December 31, 2004, based on data provided by brokers who purchase and sell these contracts.



Note 15. Commitments and Contingencies

Commitments

The Company leases office facilities and two water systems from cities, and has long-term commitments to purchase water from water wholesalers. The commitments are noted in the table below.

| | Office Leases | System Leases | Water Contracts |
|---|---|---|---|
| 2006 | $ 662 | $ 961 | $ 12,731 |
| 2007 | 486 | 961 | 12,731 |
| 2008 | 358 | 961 | 13,940 |
| 2009 | 184 | 961 | 13,940 |
| 2010 | 125 | 961 | 13,940 |
| Thereafter | 65 | 6,427 | 335,842 |

The Company leases office facilities in many of its operating districts. The total paid and charged to operations for such leases was $682 in 2005, $632 in 2004, and $577 in 2003.

The Company leases the City of Hawthorne water system, which in addition to the upfront lease payment, includes an annual payment. The 15-year lease expires in 2011. The annual payments in 2005, 2004, and 2003 were $116, $116, and $111, respectively. In July 2003, the Company negotiated a 15-year lease of the City of Commerce water system. At this time, the lease has not been formally executed by the parties. The lease includes an annual lease payment of $845 per year plus a cost-savings sharing arrangement.

The Company has a long-term contract with Santa Clara Water District that requires the Company to purchase minimum annual water quantities. Purchases are priced at the District's then-current wholesale water rate. The Company operates to purchase sufficient water to equal or exceed the minimum quantities under the contract. The total paid under the contract was $4,763 in 2005, $4,610 in 2004, and $4,452 in 2003.

The Company also has a water supply contract with Stockton East Water District (SEWD) that requires a fixed, annual payment and does not vary during the year with the quantity of water delivered by the district. Because of the fixed price arrangement, the Company operates to receive as much water as possible from SEWD in order to minimize the cost of operating Company-owned wells used to supplement SEWD deliveries. The total paid under the contract was $4,300 in 2005, $4,392 in 2004, and $3,779 in 2003. Pricing under the contract varies annually. Estimated annual contractual obligations in the table above are based on the same payment levels as 2005. Future increased costs by SEWD are expected to be offset by a decline in the allocation of costs to the Company, as other customers of SEWD are expected to receive a larger allocation based upon growth of their service areas.

On September 21, 2005, the Company entered into an agreement with Kern County Water Agency (Agency) to obtain treated water for the Company's operations. The term of the agreement is to January 1, 2035, or until the repayment of the Agency's bonds (described hereafter) occurs. Under the terms of the agreement, the Company is obligated to purchase 20,500 acre-feet of treated water per year. The Company is obligated to pay the Capital Facilities Charge and the Treated Water Charge regardless of whether it can use the water in its operation, and is obligated for these charges even if the Agency cannot produce an adequate amount to supply the 20,500 acre-feet in the year. (This agreement supersedes a prior agreement with Kern County Water Agency for the supply of 11,500 acre-feet of water per year. The total paid under the prior agreement was $3,288 in 2005, $3,308 in 2004, and $2,691 in 2003.)

Three other parties, including the City of Bakersfield, are also obligated to purchase a total of 32,500 acre-feet per year under separate agreements with the Agency. Furthermore, the Agency has the right to proportionally reduce the water supply provided to all of the participants if it cannot produce adequate supplies. The participation of all parties in the transaction for expansion of the Agency's facilities, including the Water Purification Plant, purchase of the water, and payment of interest and principal on the bonds being issued by the Agency to finance the transaction, is required as a condition to the obligation of the Agency to proceed with expansion of the Agency's facilities. If any of the other parties does not use its allocation, that party is obligated to pay its contracted amount.

The Agency is planning to issue bonds to fund the project and will use the payments of the Capital Facilities Charges by the Company and the other contracted parties to meet the Agency's obligations to pay interest and repay principal on the bonds. If any of the parties were to default on making payments of the Capital Facilities Charge, then the other parties are obligated to pay for the defaulting party's share on a pro-rata basis. If there is a payment default by a party and the remaining parties have to make payments, they are also entitled to a pro-rata share of the defaulting party's water allocation.

The Company expects to use all its contracted amount of water in its operations every year. In addition, if the Company were to pay for and receive additional amounts of water due to a default of another participating party; the Company believes it could use this additional water in its operations without incurring substantial incremental cost increases. If additional treated water is available, all parties have an option to purchase this additional treated water, subject to the Agency's right to allocate the water among the parties.

The total obligation of all parties, excluding the Company, is approximately $108 million to the Agency. Based on the creditworthiness of the other participants, which are government entities, it is believed to be highly unlikely that the Company would be required to assume any other parties' obligations under the contract due to their default. In the event of default by a party, the Company would receive entitlement to the additional water for assuming any obligation.

Once the project is complete, the Company is obligated to pay a Capital Facilities Charge and a Treated Water Charge that together total $4.7 million annually, which equates to $231 per acre-foot. Annual payments of $2.0 million for the Capital Facilities Charge will begin when the Agency issues bonds to fund the project. Some of the Treated Water Charge of $2.8 million is expected to begin July 1, 2007, when a portion of the planned capacity is expected to be available. The expanded water treatment plant is expected to be at full capacity by July 1, 2008, and at that time, the full annual payments of $4,739,000 would be made and continue through the term of the agreement. Once treated water is being delivered, the Company will also be obligated for its portion of the operating costs; that portion is currently estimated to be $69 per acre-foot. The actual amount will vary due to variations from reimbursable operating cost estimates, inflation, and other changes in the cost structure. The Company's overall estimated cost of $300 per acre-foot is less than the estimated cost of procuring untreated water (assuming water rights could be obtained) and then providing treatment.

Contingencies

In 1995, the State of California's Department of Toxic Substances Control (DTSC) named Cal Water as a potential responsible party for cleanup of a toxic contamination plume in the Chico groundwater. The toxic spill occurred when cleaning solvents, which were discharged into the city's sewer system by local dry cleaners, leaked into the underground water supply. The DTSC contends that Cal Water's responsibility stems from its operation of wells in the surrounding vicinity that caused the contamination plume to spread. While Cal Water is cooperating with the cleanup effort, Cal Water denies any responsibility for the contamination or the resulting cleanup and intends to vigorously resist any action that may be brought against Cal Water. In December 2002, Cal Water was named along with other defendants in two lawsuits filed by DTSC for the cleanup of the plume. The suits assert that the defendants are jointly and severally liable for the estimated cleanup of $8.7 million. The parties have undertaken settlement negotiations. In response to Cal Water's request for its insurance carrier to participate in settlement negotiations, the insurance carrier threatened to exercise its reservation of rights letter to seek reimbursement of past defense costs. Past defense costs approximate $0.6 million. Cal Water believes that the carrier clearly has a duty to defend and is not entitled to any defense cost reimbursement. Furthermore, Cal Water believes that insurance coverage exists for this claim. If Cal Water's claim is ultimately found to be excludable under its policies, Cal Water believes any damages will be covered by the ratepayer as pump-and-treat is the most economical approach to the cleanup effort. Cal Water believes that there will not be a material adverse effect to its financial position or results of operations.

In 1995, the California Legislature enacted the Water Utility Infrastructure Improvement Act of 1995 (Infrastructure Act) to encourage water utilities to sell surplus properties and reinvest in needed water utility facilities. In September 2003, the California Public Utilities Commission (CPUC) issued decision D.03-09-021 in Cal Water's 2001 General Rate Case filing. In this decision, the CPUC ordered Cal Water to file an application setting up an Infrastructure Act memorandum account with an up-to-date accounting of all real property that was at any time in rate base and that Cal Water had sold since the effective date of the Infrastructure Act. Additionally, the decision directed the CPUC staff to file a detailed report on its review of Cal Water's application. On January 11, 2005, the Office of Ratepayer Advocates (ORA) issued a report expressing its opinion that Cal Water had not proven that surplus properties sold since 1996 were no longer used and useful. ORA recommended that Cal Water be fined $160,000 and that gains from property sales be used to benefit ratepayers.



During the period under review, Cal Water's cumulative gains from surplus property sales were $19.2 million, which included an inter-company gain related to a transaction with Utility Services and a like-kind exchange with a third party.

On December 1, 2005, the CPUC issued its decision D.05-12-002 (Decision). The Decision found that Cal Water appropriately reclassified all properties as non-utility property prior to being sold. The criteria Cal Water followed to reclassify its properties was reasonable and consistent with the requirements of the CPUC. Since the properties were properly reclassified, CPUC approval was not required prior to the sale and no penalty is warranted. Furthermore, the Decision found that Cal Water should be allowed to include in rate base the remaining $1,182,462 of the Chico customer center costs not yet in rate base and to earn a return on the additional rate base, an increased revenue requirement of approximately $171,000.

However, the Decision did not approve the amount of sale proceeds (or gains) that qualify for reinvestment under the Infrastructure Act, although it concluded that all property sales should qualify and should be accounted for in accordance with the Act. The Decision defers the issues regarding treatment of sale proceeds and allocation of gains on sale to its R.04-09-003 proceeding, where the CPUC intends to set guidelines and a specific rule on allocation of the gain on utility asset sales between shareholders and ratepayers. On November 5, 2005, the Commission mailed its proposed decision (Proposed Decision) regarding the allocation of proceeds from the sale of utility assets. The Proposed Decision states that the Commission has limited discretion in how it allocates gains on sale of real property, provided that water companies reinvest the proceeds in new water infrastructure. As such, the Company is entitled to earn a full authorized return on the proceeds reinvested in utility plant.

Based on the Decision and the Proposed Decision, Cal Water has not accrued a liability in its financial statements. Cal Water has no knowledge when the CPUC will issue its decision in the matter of R.04-09-003. If the CPUC finds any portion of the property sales should be allocated to the ratepayers, Cal Water's rate base could be reduced, which would lower future revenues, net income, and cash flows.

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

Note 16. Quarterly Financial Data (unaudited)

The Company's common stock is traded on the New York Stock Exchange under the symbol "CWT."
<TABLE>
<CAPTION>

| 2005 (in thousands, except per share amounts | First | Second | Third | Fourth |
|---|---|---|---|---|
| <C> | <C> | <C> | <C> | <C> |
| Operating revenue | $ 60,303 | $ 81,457 | $101,128 | $ 77,840 |
| Net operating income | 4,465 | 11,253 | 16,103 | 7,989 |
| Net income | 680 | 7,591 | 13,115 | 5,837 |
| Diluted earnings per share | 0.03 | 0.41 | 0.71 | 0.32 |
| Common stock market price range: | | | | |
| High | 36.76 | 38.12 | 41.90 | 41.09 |
| Low | 32.12 | 32.85 | 37.53 | 32.64 |
| Dividends paid | .2850 | .2850 | .2850 | .2850 |

| 2004 (in thousands, except per share amounts) | First | Second | Third | Fourth |
|---|---|---|---|---|
| Operating revenue | $ 60,240 | $ 88,845 | $ 97,104 | $ 69,378 |
| Net operating income | 5,391 | 14,083 | 14,498 | 7,511 |
| Net income | 1,446 | 10,054 | 10,789 | 3,737 |
| Diluted earnings per share | 0.08 | 0.59 | 0.59 | 0.20 |
| Common stock market price range: | | | | |
| High | 29.99 | 29.75 | 29.42 | 37.70 |
| Low | 27.25 | 26.60 | 26.19 | 28.20 |
| Dividends paid | .2825 | .2825 | .2825 | .2825 |

</TABLE>

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
California Water Service Group:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that California Water Service Group and subsidiaries maintained effective internal control over financial reporting as of December 31, 2005, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management of California Water Service Group is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the internal control over financial reporting of California Water Service Group and subsidiaries based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that California Water Service Group and subsidiaries maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on criteria established in Internal Control - Integrated Framework issued by the COSO. Also, in our opinion, California Water Service Group and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the criteria established in Internal Control - Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of California Water Service Group and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, common stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2005, and our report dated March 9, 2006, expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Mountain View, California
March 9, 2006
Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
California Water Service Group:

We have audited the accompanying consolidated balance sheets of California Water Service Group and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, common stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2005. These consolidated financial statements are the responsibility of the management of California Water Service Group. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of California Water Service Group and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the internal control over financial reporting of California Water Service Group and subsidiaries as of December 31, 2005, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 9, 2006, expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

/s/ KPMG LLP

Mountain View, California
March 9, 2006

## Controls and Procedures

### Management's Evaluation of Disclosure Controls and Procedures

The Company carried out an evaluation, under the supervision of and with the participation of management, including the principal executive officer and principal financial officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2005, pursuant to Rule 13a-15(e) under the Securities Exchange Act of 1934. Based on their review of the disclosure controls and procedures, the Chief Executive Officer and Acting Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective in timely alerting management to material information that is required to be included in periodic SEC filings.

Management, including the Chief Executive Officer and Acting Chief Financial Officer, does not expect that the Company's disclosure controls and procedures or its internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of each control must be considered relative to its costs. Because of the inherent limitations in all control systems, no evaluation of a control system can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected.

There was no change in the Company's internal control over financial reporting during the quarter ended December 31, 2005, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

### Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended). Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2005. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Management has concluded that, as of December 31, 2005, the Company's internal control over financial reporting is effective based on these criteria. The Company's independent registered public accounting firm, KPMG LLP, which has audited the financial statements included in this Annual Report, has issued an audit report on management's assessment of the Company's internal control over financial reporting, which is included herein.

Certification

As provided in the rules of the New York Stock Exchange, the Company's Chief Executive Officer has certified to the Exchange in writing that, as of February 22, 2006, he was not aware of any violation by the Company of the NYSE's Corporate Governance listing standards. The Company has included as Exhibits 31.1 and 31.2 to its Annual Report on Form 10-K for the year ended December 31, 2005, certifications from its Chief Executive Officer and Acting Chief Financial Officer regarding the quality of the Company's public disclosure.

Exhibit 21

Subsidiaries of the Registrant

| Subsidiary Name | State of Incorporation | Business Name |
| --- | --- | --- |
| California Water Service Company | California | California Water Service Company |
| CWS Utility Services | California | CWS Utility Services |
| New Mexico Water Service Company | New Mexico | New Mexico Water Service Company |
| Washington Water Service Company | Washington | Washington Water Service Company |
| Hawaii Water Service Company, Inc. | Hawaii | Hawaii Water Service Company |

The Company and each of its subsidiaries operate in one business segment, the supply and distribution of water, and providing water-related services.

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
California Water Service Group:

We consent to incorporation by reference in the registration statements (No. 333-103721) on Form S-3 and (No. 333-60810 and No. 333-127495) on Form S-8 of California Water Service Group of our reports dated March 9, 2006, with respect to the consolidated balance sheets of California Water Service Group and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, common stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2005, management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2005, and the effectiveness of internal control over financial reporting as of December 31, 2005.

/s/ KPMG LLP
Mountain View, California
March 9, 2006

Exhibit 31.1

CERTIFICATIONS

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

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2005, of California Water Service Group;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15(d)-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered in this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the fourth fiscal quarter of 2005 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 9, 2006

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

Exhibit 31.2

CERTIFICATIONS

I, John S. Tootle, Acting Chief Financial Officer and Treasurer of California Water Service Group, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2005, of California Water Service Group;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15(d)-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered in this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the fourth fiscal quarter of 2005 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 9, 2006

By: /s/ John S. Tootle

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JOHN S. TOOTLE
Acting Chief Financial Officer and Treasurer
California Water Service Group

Exhibit 32

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

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned certifies that this Annual Report on Form 10-K for the year ended December 31, 2005, fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of California Water Service Group.

Date: March 9, 2006

/s/ Peter C. Nelson

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PETER C. NELSON
Chief Executive Officer
California Water Service Group

Date: March 9, 2006

/s/ John S. Tootle

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JOHN S. TOOTLE
Acting Chief Financial Officer
California Water Service Group