UNITED STATES SECURITIES AND EXCHANGE CPUC
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, 1998

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)

California	77-0448994
(State or other jurisdiction of Incorporation)	(IRS Employer Identification No.)

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

1-408-367-8200
(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, No Par Value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
Cumulative Preferred Stock, Par Value, $25
(Title of Class)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [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. [X]

The aggregate market value of the voting stock held by non-affiliates of the Registrant - $300,493,000 on February 19 1999.

Common stock outstanding at February 19, 1999 - 12,619,140 shares.

EXHIBIT INDEX
The exhibit index to this Form 10-K is on page 29

DOCUMENTS INCORPORATED BY REFERENCE

Designated portions of Registrant's Annual Report to Shareholders for the calendar year ended December 31, 1998 ("1998 Annual Report") are incorporated by reference in Part I (Item 1), Part II (Items 5, 6, 7 and 8) and in Part IV (Item 14(a)(1)).

Designated portions of the Registrant's Proxy Statement of California Water Service Group ("Proxy Statement"), dated March 18 1999, relating to the 1999 annual meeting of shareholders are incorporated by reference in Part III (Items 10, 11 and 12) as of the date the Proxy Statement was filed with the Securities and Exchange CPUC. The Proxy Statement was filed under EDGAR on March 1, 1999.

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PART I

ITEM 1 BUSINESS.

FORWARD LOOKING STATEMENTS
This report, including the sections incorporated by reference, contains forward looking statements within the meaning of the Federal securities laws. Such statements are based on currently available information, expectations, estimates, assumptions and projections, and management's judgment about California Water Service Group ("Group"), the utility industry and general economic conditions. Such words as expects, intends, plans, believes, estimates, anticipates 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. Actual results may vary materially from what is contained in a forward looking statement. Factors which may cause a result different than expected or anticipated include regulatory CPUC decisions, new legislation, increases in suppliers' prices, particularly purchased water and purchased power prices, changes in environmental compliance requirements, acquisitions, changes in customer water use patterns and the impact of weather on operating results. Group assumes no obligation to provide public updates of forward looking statements.

a. GENERAL DEVELOPMENT OF BUSINESS.

California Water Service Company ("Company") was formed in 1926. In April 1997, shareholders of California Water Service Company voted to approve a holding company structure. After receiving final regulatory approval, Group was formed on December 31, 1997. As a result of the holding company structure, the Company became one of Group's two wholly-owned, operating subsidiaries. The Company will continue to operate as a regulated utility subject to the jurisdiction of the California Public Utilities CPUC ("CPUC"). Its assets and operating revenues comprise virtually all of Group's assets and operating revenues.

The second subsidiary, CWS Utility Services ("Utility Services"), provides nonregulated water operations and related services. Existing nonregulated contracts, currently performed by the Company, will be transferred to Utility Services as the contracts are renewed or at such time as agreed upon between the contracting parties. Utility Services will execute new nonregulated contracts.

In conjunction with the formation of the holding company structure, on December 31, 1997 each share of Company common stock was exchanged on a two-for-one basis for Group common stock. Per share data has been restated where necessary to reflect the effective two-for-one stock split. Each share of Company preferred stock was converted into one share of Group preferred stock. To maintain its relative voting strength,

the number of votes to which each preferred share is entitled was doubled from eight to sixteen.

Group's mailing address and principal executive offices are located at 1720 North First Street, San Jose, California; telephone number: 1-408-367-8200. The Company maintains a web site which can be accessed via the Internet at http://www.calwater.com.

During the year ended December 31, 1998, there were no significant changes in the kind of products produced or services rendered by Group or its operating subsidiaries, or in its markets or methods of distribution.

The Company is the largest investor-owned water company in California and the fourth largest in the United States. It was incorporated under the laws of the State of California on December 21, 1926. It is a public water utility providing water service to approximately 383,000 residential, commercial and industrial customers in 58 California cities and communities through 21 separate water systems or districts. In the 20 regulated systems, which serve 377,000 customers, rates and operations are subject to the jurisdiction of the CPUC. An additional 6,000 customers receive service through the long-term lease of the City of Hawthorne water system, which is not subject to CPUC regulation. The Company also has contracts with various municipalities and private entities to operate water systems and provide billing services to 30,700 other customers. These operations are described in more detail in section Item 1.c., "Narrative Description of Business - Nonregulated Operations."

RATES AND REGULATION

Rates, service and other matters for the Company's regulated business of the Company are subject to the jurisdiction of the CPUC. The CPUC's decisions and the timing of those decisions can have an important impact on operations and results of operations.

The Company operates a total of 21 districts, each of which is within the State of California. The systems are not integrated with one another. Except for allocation of general office plant investment and expenses, and the determination of cost of capital, the rates of individual districts are not affected by operations in other districts. Cost of capital (i.e. return on debt and equity) is determined on a company-wide basis. Otherwise, the CPUC considers each regulated district as separate and distinct entities for ratemaking purposes. General Office plant and operations are also considered separately, then spread ratably over the operating districts.

There are generally three types of CPUC rate case proceedings: general, step and offset. General rate applications consider all of a district's operating costs and capital requirements for a succeeding three-year period. The CPUC's decision in

general rate applications usually authorizes an immediate rate increase and step rate increases for the following two years intended to maintain the authorized return on common equity ("ROE"). Subsequent general applications can be filed in the third year after a district receives a general rate decision. Each year those districts that are eligible for general rate case filings are reviewed and where appropriate applications are submitted to the CPUC for processing. The applications are submitted in July with a CPUC decision expected in about 10 months. Offset rate adjustments are allowed to recover the costs of purchased water, purchased power and pump taxes that vary from those authorized in a general rate decision.

Because the CPUC requires rates for each operating district to be determined independently, the decision to file a general rate case application for a particular district depends on various factors including:

- the time since the last general rate case was filed
- the rate of return being earned in the district
- expected future returns
- estimated future expenses
- the need for capital expenditures

With districts on varying rate case cycles, general rate case applications are filed annually for a portion of the districts. The number of customers affected by each filing varies from year to year. For example, the 1995 rate filings covered 47 percent of the customer base, while the 1996 filing was for 11 percent, the 1997 filing for 7 percent and the 1998 filing for 25 percent.

1999 Rate Application Filings

During 1999, 10 districts representing 55% of all customers are eligible for rate filings. The Company will review each district's revenue requirements and determine what filings to make. The filings will occur in July with decisions anticipated during the second quarter of 2000. Additionally, a rate increase will be submitted for the City of Hawthorne water system. The Hawthorne City council exercises rate authority over this request.

1998 Rate Application Filings

In 1998, 14 districts plus General Office operations, were eligible for general rate filings. Earnings levels in those districts were reviewed and applications for additional rate consideration were filed in July 1998 for four districts and General Office. The applications involved 25% of the regulated customers.

In January 1999, the Company reached agreement the CPUC staff regarding the 1998 rate applications. The agreement must still be presented to and approved by the Administrative Law Judge assigned to the proceedings and by the CPUC commissioners .

1997 Rate Application Filings

In July 1997, general rate increase applications were filed for four districts representing 27,900 customers or 7 percent of regulated customers. The CPUC decision was effective in July 1998. It authorized continuation of the then effective ROE at 10.35%. Rate increases of $299,000 for 1998, $267,000 for 1999, $121,000 for 2000 and $121,000 for 2001 were authorized. Rate increases in two districts will be tied to future changes in a price index during each of the next four years.

1996 Rate Application Filings

In July 1996, general rate cases were filed for two districts representing 11 percent of the regulated customers. An ROE of 12.05 percent was requested, while the CPUC staff recommended 10.1 percent. In January 1997, the Company and CPUC staff stipulated to an ROE of 10.35 percent. In February 1997, hearings before the CPUC regarding the 1996 general rate applications were completed. The CPUC's decision was issued in April. The decision, which authorized a 10.35% return on common equity, was estimated to increase 1997 revenue by about $1.2 million. Additionally, step rate increases became effective in each of the following three years.

Second Amended Contract - Stockton East Water District

In January 1995, a consultant retained by the CPUC's Organization of Ratepayer Advocates completed a report on the reasonableness of the Second Amended Contract. Parties to the contract are the Company, Stockton-East Water District, the City of Stockton and San Joaquin County. The contract pertains to the sale and delivery of water to the Company's Stockton District by the Stockton-East Water District. The report alleged that the Company was required to receive CPUC approval prior to entering into the Second Amended Contract and furthermore challenges the reasonableness of the Second Amended Contract for ratemaking purposes. However, the report did not include specific ratemaking recommendations. The issue has been suspended. No action is now in process or pending, although the issue may be revisited in the Company's next Stockton district general rate application.

b. FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS.

Group primarily operates one business segment.

c. NARRATIVE DESCRIPTION OF BUSINESS.

Group is the sole shareholder of its two operating subsidiaries, California Water Service Company and CWS Utility Services.

Group's business, which is carried on through its operating subsidiaries, consists of the production, purchase, storage, purification, distribution and sale of water for domestic, industrial, public and irrigation uses, and for fire protection. It also provides water related service, including operation of water systems, to other entities.

The water business fluctuates according to the demand for water, which is partially dictated by seasonal conditions, such as summer temperatures or the amount and timing of precipitation during the year.

The Company distributes water in accordance with accepted water utility methods. Franchises and permits are held in the cities and communities where the Company operates. The franchises and permits allow the Company to operate and maintain facilities in the public streets as necessary.

The City of Hawthorne water system is operated under a 15-year lease that commenced in February 1996. Under other contracts, three municipally owned water systems, four privately owned water systems and two reclaimed water distribution systems are operated. Billing services are also provided to other municipalities. These operations are discussed in more detail in a following section titled "Nonregulated Operations."

Group intends to continue to explore opportunities to expand operating and other revenue sources. The opportunities could include system acquisitions, contracts similar to the City of Hawthorne arrangement, operating contracts, billing contracts and other utility related services. Group believes that a holding company structure, as discussed above, makes Group more competitive in providing nonregulated utility services, which would not be subject to CPUC jurisdiction. Group is investigating new business opportunities in western states. During 1998, Group assessed the potential risk and return from business opportunities in Central and South America. The assessment concluded that the risks and potential returns do not warrant Group pursuing business opportunities in Central or South America.

GEOGRAPHICAL SERVICE AREAS AND NUMBER OF CUSTOMERS AT YEAR-END The principal markets for Group's products are users of water within the Company's service areas. Group's geographical service areas or districts for both the regulated and nonregulated operations and the approximate number of customers served in each district at December 31, 1998, are listed below.

<TABLE>

<S>	<C>	<C>
SAN FRANCISCO BAY AREA		
Mid-Peninsula (serving San Mateo and San Carlos)	35,600	
South San Francisco (including Colma and Broadmoor)	15,900	
Bear Gulch (serving Menlo Park, Atherton, Woodside and Portola Valley)	17,400	
Los Altos (including portions of Cupertino, Los Altos Hills, Mountain View and Sunnyvale)	18,300	
Livermore	16,300	103,500

SACRAMENTO VALLEY		
Chico (including Hamilton City)	22,200	
Oroville	3,500	
Marysville	3,700	
Dixon	2,800	
Willows	2,300	34,500

SALINAS VALLEY		
Salinas	25,000	
King City	2,200	27,200

SAN JOAQUIN VALLEY		
Bakersfield	55,700	
Stockton	41,300	
Visalia	27,900	
Selma	5,000	129,900

LOS ANGELES AREA		
East Los Angeles (including portions of the cities of Commerce and Montebello) ..	26,300	
Hermosa Redondo (serving Hermosa Beach, Redondo Beach and a portion of Torrance)	25,100	
Palos Verdes (including Palos Verdes Estates, Rancho Palos Verdes, Rolling Hills Estates and Rolling Hills)	23,600	
Westlake (a portion of Thousand Oaks)	6,900	
Hawthorne (leased municipal system)	6,000	87,900
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TOTAL	383,000	

</TABLE>

WATER SUPPLY

The Company's water supply for the 21 operating districts is obtained from wells, surface runoff or diversion, and by purchase from public agencies and other wholesale suppliers. The Company's supply has been adequate to meet consumption demands, however, during periods of drought some districts have mandated water rationing.

California's rainy season usually begins in November and continues through March with December, January and February historically recording the most rainfall. During winter months reservoirs and underground aquifers are replenished by rainfall. Snow accumulated in the mountains provides an additional water source when spring and summer temperatures melt the snowpack producing runoff into streams and reservoirs, and also replenishing underground aquifers.

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. This was the case during 1995 and 1998, when winter rains continued well into the spring along with cooler than normal temperatures. 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.

The Company's water business is seasonal in nature and weather conditions can have a pronounced effect on customer usage and thus operating revenues and net income. Customer demand for water generally is less during the normally cooler and rainy winter months. It increases in the spring when warmer weather gradually returns to California and the rains end. Temperatures are warm during the generally dry summer months, resulting in increased demand. Water usage declines during the fall as temperatures decrease and the rainy season approaches.

During years of less than normal rainfall, customer demand can increase as outdoor water usage continues. When rainfall is below average for consecutive years, drought conditions can result and certain customers may be required to reduce consumption to preserve existing water reserves. As an example, California experienced a six-year period when rainfall was annually below historic average. The drought period ended with the winter of 1992-93. During that six-year period some districts had water rationing requirements imposed on customers. In certain districts, penalties were collected from customers who exceeded allotments. During past drought periods, the CPUC has allowed modifications to consumer billings which provided the Company a means to recover a portion of revenue that was deemed lost due to conservation measures.

Historically, about half of the water supply is purchased from wholesale suppliers with the balance pumped from wells. A small portion of the supply is received from surface runoff in the Bear Gulch district. During 1998, 99 billion gallons were delivered to customers. Approximately 50 percent of the supply was

obtained from wells and 50 percent was purchased from wholesale suppliers. The following table shows amount of water purchased in each operating district during 1998.

<TABLE>
<CAPTION>

District	Supply Purchased	Source of Purchased Supply
<S>	<C>	<C>
SAN FRANCISCO BAY AREA		
Mid-Peninsula	100%	San Francisco Water Department
South San Francisco	83%	San Francisco Water Department
Bear Gulch	86%	San Francisco Water Department
Los Altos	78%	Santa Clara Valley Water District
Livermore	62%	Alameda County Flood Control and Water Conservation District
SACRAMENTO VALLEY		
Oroville	89%	Pacific Gas and Electric Co.
	3%	County of Butte
SAN JOAQUIN VALLEY		
Bakersfield	20%	Kern County Water Agency
Stockton	72%	Stockton-East Water District
LOS ANGELES AREA		
East Los Angeles	69%	Central Basin Municipal Water District
Hawthorne	99%	West Basin Municipal Water District
Hermosa Redondo	98%	West Basin Municipal Water District
Palos Verdes	100%	West Basin Municipal Water District
Westlake	100%	Russell Valley Municipal Water District

</TABLE>

The balance of the required supply for the above districts was obtained from wells, except for Bear Gulch where the balance is obtained from surface runoff from the local watershed and processed through the Company's treatment plant before being delivered to the distribution system. The Company also operates a treatment plant in the Oroville district where a portion of the water is received from a surface supply.

Historically, groundwater has yielded 10 to 15 percent of the Hermosa-Redondo district supply. During 1996, wells were taken out of service while treatment facilities were being installed. One treatment facility was completed during 1998 and the well returned to service.

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.

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

The purchased supplies for the East Los Angeles, Hermosa-Redondo, Palos Verdes, Westlake districts and the City of Hawthorne system are provided by public agencies pursuant to an obligation of continued nonpreferential service to persons 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 expiring June 30, 2009.

The price of wholesale water purchases is subject to pricing changes imposed by the various wholesale suppliers. Price changes are generally beyond the control of the Company. During 1997, two wholesale water suppliers refunded moneys which had been overcollected from wholesale water purchasers. The Company received a one time refund of $2.5 million in May 1997 which was credited as a reduction to purchased water expense.

California experienced above average rainfall in the 1997-98 measurement year. The state's weather was influenced by what was termed "El Nino". Rainfall in the Company's service areas for the 1998-99 season is about normal as of February 26, 1998. However, the mountain snowpack is well above normal. Groundwater levels in underground aquifers that provide supply to districts served by well water improved in 1998 due to the above average rainfall. Most regions have recorded positive changes in groundwater levels the past two years. Regional groundwater management planning continues throughout the state as required. Existing laws provide a mechanism for local agencies to maintain control of their groundwater supply. Group continually updates long range projections and works with local wholesale suppliers to ensure an adequate future supply to meet customer needs.

The water supply outlook for 1999 is good, however, California faces long-term water supply challenges. The Company is actively working to meet the challenges by continuing to educate customers on responsible water use practices, particularly in the districts with conservation programs approved by the CPUC.

Progress has been made by Consolidated Irrigation District (Selma) and Kaweah Delta Water Conservation District (Visalia)

towards the implementation of a water management plan. Group participates in the formulation of these plans.

The Company is working with the Salinas Valley water users and the Monterey County Water Resources Agency (MCWRA) to address seawater intrusion into the water supply for the Salinas district. MCWRA completed construction of the Castroville Seawater Intrusion Project in 1998. This project is designed to deliver up to 20,000 acre feet of recycled water annually to agricultural users in the nearby Castroville area. It is intended to help mitigate seawater intrusion into the region by reducing the need to pump groundwater.

With the City and County of San Francisco, and the cities of San Bruno and Daly City,Group is working to prepare a groundwater management plan for the Westside Basin from which the South San Francisco district pumps a portion of its supply. Additionally, Group is working with the City of San

Francisco in its development of a long-range water supply master plan for the entire area to which the San Francisco Water Department is the wholesale water supplier. In addition to the South San Francisco district, the Mid-Peninsula and Bear Gulch districts are included in this service area.

NONREGULATED OPERATIONS

Nonregulated operations include operation of water systems for cities, operation of privately owned water systems, operation of recycled water systems, lease of antenna sites, utility billing services and laboratory services.

Nonregulated revenue from water system operations is generally determined on a fee per customer basis. With the exception of the City of Hawthorne water system, revenue and expenses from nonregulated operations are accounted for in other income on a pretax basis. Revenue and expenses for the City of Hawthorne lease are included in operating revenue and operating expenses because Group is entitled to retain all customer billings and is generally responsible for all operating expenses.

Municipally owned water systems are operated under contract for the cities of Bakersfield, Commerce and Montebello and for four private water company systems in the Bakersfield, Livermore and Salinas districts. The Company also operates under contract a wastewater collection system in Livermore. The total number of services operated under the contracts is about 30,700. With the exception of the 15-year Hawthorne lease discussed below, the terms of the operating agreements range from one-year to three- year periods with provisions for renewals. The first operating agreement was signed with the City of Bakersfield in 1977. Upon expiration, each agreement has been renewed.

Recycled water distribution systems located in the Los Angeles Basin are operated for the West Basin and Central Basin municipal water districts. Some engineering department services are also provided for these two recycled water systems.

Meter reading, billing and customer service are provided for the City of Menlo Park's 4,000 water customers. Additionally, sewer and/or refuse billing services are provided to six municipalities.

Since February 1996, the City of Hawthorne's 6,000 account water system has been operated under terms of a 15-year agreement. The system which is near the Hermosa-Redondo district serves about half of Hawthorne's population. The lease requires an up-front $6.5 million lease payment to the City which is being amortized over the lease term. Additionally, annual lease payments to the City of $100,000 indexed to changes in water rates are required. Group is responsible for all aspects of system operation and capital improvements, although title to the system and system improvements resides with the City. At the end of the lease, Group will be reimbursed for the unamortized value of capital improvements. In exchange, Group receives all system revenues which are about $4 million annually.

During 1997, an agreement was signed with the Rural North Vacaville Water District in Solano County to design and build a water distribution system. The new system will initially provide water to about 400 services. Group also expects to enter an agreement for future operation and maintenance of the system.

Group leases 35 antenna sites to telecommunication companies. Individual lease payments range from $750 to $2,200 per month. The antennas are used in cellular phone and personal communication applications. Other leases are being negotiated for similar uses.

Laboratory services are also provided to San Jose Water Company and Great Oaks Water Company.

UTILITY PLANT CONSTRUCTION PROGRAM AND ACQUISITIONS

Group is continually extending, enlarging and replacing its facilities as required to meet increasing demands and to maintain its systems. Capital expenditures, including developer financed projects, for additional facilities and for the replacement of existing facilities amounted to approximately $34.6 million in 1998. Financing was provided by funds from operations and short-term bank borrowings, advances for construction and contributions in aid of construction as set forth in the "Statement of Cash Flows" on pages 20 Group's 1998 Annual Report which is incorporated herein by reference. Group funded expenditures were $30.1 million. Developer payments accounted for $4.5 million. Advances for construction of main extensions are payments or facilities received from subdivision developers under the CPUC's rules. These advances are refundable without interest over a period of 40 years. Contributions in aid of construction consist of nonrefundable cash deposits or facilities received from developers, primarily for fire protection. The amount received from developers varies from year to year as the level of development activity varies. It is impacted by the demand for housing and commercial development and general business conditions, including interest rates.

During 1998, Group funded expenditures were in the following areas: wells, pumping and storage facilities, $6.7 million; water treatment and purification equipment, $3.1 million; distribution systems $9.1 million; services and meters, $5.3; other equipment, $5.9 million. The increased expenditure for treatment and purification equipment related to the Hawthorne treatment plant. The other equipment expenditures included computer equipment for installation of a new Local Area Network (LAN) system.

The 1999 construction budget for additions and improvements to facilities is approximately $30.7 million, exclusive of additions and improvements financed through advances for construction and contributions in aid of construction. Financing is expected to be from internally generated funds, short-term borrowings and long-term debt in the form of senior notes. The approved budget was for the following areas: wells, pumping and storage facilities, $8.8 million; water treatment and purification equipment, $1.1 million; distribution systems $9.8 million; services and meters, $5.2; other equipment, $5.8 million.

During 1996, Congress enacted legislation which exempted from taxable income the majority of proceeds received from developers to fund advances for construction and contributions in aid of construction. Because of the legislation, future water utility plant additions will generally be depreciated for federal tax purposes on a straight-line 25 year life basis. The federal tax exemption of developer funds will reduce cash flow requirements for income taxes. In 1997, California adopted similar legislation regarding the taxability of payments received from developers.

The Department of Treasury is planning to issue regulations regarding the taxability of developer financed services. Treasury has given indications that it will continue to treat the cost of services as taxable income. The Company has been active along with other private water companies in presenting evidence to Treasury that would result in services being classified as nontaxable contributions in aid of construction. The services represent about 20 percent of developer funded construction.

QUALITY OF WATER SUPPLIES

Procedures are maintained to produce potable water in accordance with accepted water utility practices. Water entering the distribution systems from surface sources is treated in compliance with Safe Drinking Water Act standards. Samples of water from each water system are analyzed regularly by our state certified water quality laboratory.

In recent years, federal and state water quality regulations have continued to increase. Changes in the federal Safe Drinking Water Act, which we believes will bring treatment costs more in line with the actual health threat posed by contaminants, were enacted by Congress during 1996. Work continues to monitor water quality and upgrade treatment capabilities to maintain compliance with the various regulations. These activities include:

- installation of dedicated sample sites to assure water samples are drawn at a secure source
- maintaining a state approved compliance monitoring program required by the Safe Drinking Water Act
- upgrading laboratory equipment and enhancing analytical testing capabilities
- ongoing training of laboratory and operating personnel
- installation of disinfection treatment at all well sources
- installation and operation of several granular activated carbon (GAC) filtration systems for removal of hydrogen sulfide or volatile organic chemicals
- treatment systems at two Los Angeles Basin wells and wells at the South San Francisco well field which have elevated levels of iron and manganese; the treatment allowed the wells to be returned to production during 1997 and 1998; thus, less costly well water, rather than purchased water supplies became available
- construction of a new iron and manganese treatment plant in the leased Hawthorne system; completion of this project is scheduled for early 1999
- monitoring of all sources for MTBE, the gasoline additive widely used throughout the state

- completion of mandatory Information Collection Rule monitoring for specified water systems

COMPETITION AND CONDEMNATION

The Company is a public utility regulated by the CPUC. The Company provides service within filed service areas approved by the CPUC. Under the laws of the State of California, no privately owned public utility may compete with the Company in any territory already served by the Company without first obtaining a certificate of public convenience and necessity from the CPUC. Under CPUC practices, such certificate will be issued only if the CPUC finds that the Company's service is deficient.

California law also 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. For such taking the public utility is to be paid just compensation. Under the constitution and statutes of the State of California, municipalities, water districts and other public agencies have been authorized to engage in the ownership and operation of water systems. Such agencies are empowered to condemn properties already operated by privately owned public utilities upon payment of just compensation and are further authorized to issue bonds, including revenue bonds, for the purpose of acquiring or constructing water systems. To Group's knowledge, no municipality, water district or other public agency has any pending action to acquire or condemn any of Group's systems.

The water industry is experiencing competitive changes and the potential exists for new growth. Group has in the past participated in public/private partnerships, such as the lease of a water system, system operation agreements, or billing service contracts, and anticipates future opportunities for further

participation and development. The formation of the holding company structure is expected to enhance financing, accounting and operation of the nonregulated business activities.

ENVIRONMENTAL MATTERS

Group is subject to environmental regulation by various governmental authorities. Compliance with federal, state and local provisions which have been enacted or adopted regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, has not had, as of the date of filing of this Form 10-K, any material effect on Group's capital expenditures, earnings or competitive position. Group is unaware of any pending environmental matters which will have a material effect on its operations. Refer to Item 3, Legal Proceedings, for additional information.

The environmental affairs program is designed to provide compliance with underground storage tank regulations, hazardous materials management plans, air quality permitting requirements, local and toxic discharge limitations, and employee safety issues related to hazardous materials. The Company has been actively involved in the formulation of air quality standards related to water utilities. Also, the Company is proactive in looking to alternative technologies in meeting environmental regulations and continuing the traditional practices of water quality.

HUMAN RESOURCES

At December 31, 1998, Group had 658 employees, of whom 185 were executive, administrative and supervisory employees, and 473 were members of unions. In December 1997, two-year collective bargaining agreements, expiring December 31, 1999, were successfully negotiated with the Utility Workers Union of America, AFL-CIO, representing the majority of field and clerical union employees. In January 1998, a new two-year collective bargaining agreement was negotiated with the International Federation of Professional and Technical Engineers, AFL-CIO, representing certain engineering department and water quality laboratory employees. Both agreements were ratified by the union members in January 1998. As in the past, both agreements were successfully negotiated and ratified without a work interruption.

d. FINANCIAL INFORMATION ABOUT FOREIGN AND DOMESTIC OPERATIONS AND EXPORT SALES.

Group makes no export sales.

ITEM 2. PROPERTIES.

Group's physical properties consist of offices and water systems to accomplish the production, storage, purification and distribution of water. These properties are located in or near the Geographic Service Areas listed above under section Item 1.c. entitled "Narrative Description of the

Business." Group's general office, which houses accounting, engineering, information systems, human resources, purchasing, rate making, water quality

and executive staffs are located in San Jose, California. All properties are maintained in good operating condition.

All principal properties are held in fee simple title, subject to the lien of the indenture securing the Company's first mortgage bonds of which $118,585,000 remained outstanding at December 31, 1998.

Group owns 522 wells and operates six leased wells. There were 291 storage tanks with a capacity of 216 million gallons and one reservoir located in the Bear Gulch district with a 210 million gallon capacity. There are about 4,650 miles of supply and distribution mains in the various systems. There are two treatment plants, one in the Bear Gulch district, the other in Oroville. Both treatment plants are designed to process six million gallons per day. During 1998, the average daily water production was 271 million gallons, while the maximum production on a single day was 507 million gallons. By comparison, during 1997 the average daily water production was 301 million gallons, while the maximum production on one day was 513 million gallons. In 1996, the average daily water production was 283 million gallons and the maximum production on one day was 497 million gallons.

In the leased systems or in systems which are operated under contract for municipalities or private companies, title to the various properties is held exclusively by the municipality or private company.

ITEM 3. LEGAL PROCEEDINGS.

The State of California's Department of Toxic Substances Control ("DTSC") alleges that the Company is a potential responsible party for cleanup of a toxic contamination in the Chico groundwater. The DTSC has prepared a draft report titled "Preliminary Nonbinding Allocation of Financial Responsibility" for the cleanup which asserts that the Company's share should be 10 percent. The DTSC estimates the total cleanup cost to be $8.69 million. The toxic spill occurred when cleaning solvents, which were discharged into the city's sewer system by local dry cleaners, leaked into the underground water supply due to breaks in the sewer pipes. The DTSC contends that the Company's responsibility stems from its operation of wells in the surrounding vicinity that caused the contamination plume to spread. The Company denies any responsibility for the contamination or the resulting cleanup and intends to vigorously resist any action that may be brought against it. The Company believes that it has insurance coverage for this claim and that if it were ultimately held responsible for a portion of the cleanup costs, there would not be a material adverse effect on Group's financial position or results of operations. Legal costs to date have been borne by the insurance carrier.

In December 1997, Group along with the City of Stockton and San Joaquin County ("the Contractors") filed a lawsuit against the Stockton East Water District ("SEWD"). The Contractors are

SEWD's sole customers for wholesale potable water. SEWD also serves raw water to agricultural customers. To enable SEWD to meet its financial obligations, the Contractors agreed to specific Base Monthly Payments which as of June 30, 1997 had generated $5.4 million in surplus funds. The Contractors contend that a portion of the funds paid by the Contractors have been or will be used for purposes other than to meet SEWD's agreed financial obligations. Presently, all parties to the lawsuit have entered into a Stipulated Preliminary Injunction. A favorable settlement is anticipated.

Group is not a party to any other legal matters, other than those which are incidental to its business.

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 year 1998.

EXECUTIVE OFFICERS OF THE REGISTRANT

<TABLE>
<CAPTION>

Name	Positions and Offices with Group	Age
<S>	<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, Stockton, Modesto, Sacramento and San Jose, California, a diversified transportation and warehousing company, where he had been employed for 32 years.	62
Peter C. Nelson (1)	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.	51
Gerald F. Feeney (1)	Vice President, Chief Financial Officer and Treasurer since November 1994; Controller, Assistant Secretary and Assistant Treasurer from 1976 to 1994. From 1970 to 1976, an audit manager with Peat Marwick Mitchell & Co.	54
Calvin L. Breed (2)	Controller, Assistant Secretary and Assistant Treasurer since November 1994. Previously Treasurer of TCI International, Inc.; from 1980 to 1983, a certified public accountant with Arthur Andersen & Co.	43
Paul G. Ekstrom (1)	Corporate Secretary since August 1996; Operations Coordinator, 1993 to 1996; District Manager, Livermore, 1988 to 1993; previously served in various field management positions since 1979; an employee since 1972.	46
(1)	holds the same position with California Water Service Company and CWS Utility Services	
(2)	holds the same position with California Water Service Company	

</TABLE>

<TABLE>
<CAPTION>

Name	Positions and Offices with the Company	Age
<S>	<C>	<C>
Francis S. Ferraro	Vice President, Regulatory Matters since August 1989. Employed by the California Public Utilities CPUC for 15 years, from 1985 through 1989, as an administrative law judge.	49
James L. Good (1)	Vice President, Corporate Communications and Marketing since January 1995. Previously Director of Congressional Relations for the National Association of Water Companies from 1991 to 1994.	35

</TABLE>

<TABLE>

<S>		<C>
Robert R. Guzzetta	Vice President, Engineering and Water Quality since August 1996; Chief Engineer, 1990 to 1996; Assistant Chief Engineer, 1988 to 1990; various engineering department positions since 1977.	45
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.	52
Raymond H. Taylor	Vice President, Operations since April 1995; Vice President and Director of Water Quality, 1990 to 1995; Director of Water Quality, 1986 to 1990; prior to 1982 an employee of the United States Environmental Protection Agency.	53

Raymond L. Worrell	Vice President, Chief Information Officer since August 1996; Director of Information Systems, 1991 to 1996; Assistant Manager of Data Processing, 1970 to 1991; Data Processing Supervisor, 1967 to 1970.	59
John S. Simpson	Assistant Secretary, Manager of New Business since 1991; Manager of New Business development for the past thirteen years; served in various management positions since 1967.	54

(1) Also, Vice President, Marketing with CWS Utility Services.
</TABLE>

No officer or director has any family relationship to any other executive officer or director. No executive officer is appointed for any set term. There are no agreements or understandings between any executive officer and any other person pursuant to which he was selected as an executive officer, other than those with directors or officers of Group acting solely in their capacities as such.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The information required by this item is contained in the Section captioned "Quarterly Financial and Common Stock Market Data" on page 28 of Group's 1998 Annual Report and is incorporated herein by reference. The number of shareholders listed in such section includes Group's record shareholders and an estimate of shareholders holding stock in street name.

ITEM 6. SELECTED FINANCIAL DATA.

The information required by this item is contained in the section captioned "Ten Year Financial Review" on pages 8 and 9 of Group's 1998 Annual Report and is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The information required by this item is contained in the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations," on pages 10 through 16 of the Group's 1998 Annual Report and is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The information required by this item is contained in the sections captioned "Consolidated Balance Sheet", "Consolidated Statement of Income", "Consolidated Statement of Common Shareholders' Equity", "Consolidated Statement of Cash Flows", "Notes to Consolidated Financial Statements" and "Independent Auditors' Report" on pages 17 through 29 of Group's 1998 Annual Report and is incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The information required by this item as to directors of the Group is contained in the sections captioned "Election of Directors", "Nominees for Directors" and "Board Committees" on pages 10 through 12 of the 1999 Proxy Statement and is incorporated herein by reference. Information regarding executive officers of Group is included in a separate item captioned "Executive Officers of the Registrant" contained in Part I of this report.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this item as to directors of Group is included under the caption "Compensation of Non-employee Directors" on page 13 of the 1999 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 "Compensation of Executive Officers" on page 16 through 19 of the 1999

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 sections captioned "Beneficial Ownership of Director-Nominees" and "Security Ownership of Management" on pages 14 and 20, respectively, of the 1999 Proxy Statement and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

None.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

(a)(1)Financial Statements:

Consolidated Balance Sheet as of December 31, 1998 and 1997.

Consolidated Statement of Income for the years ended December 31, 1998, 1997, and 1996.

Consolidated Statement of Common Shareholders' Equity for the years ended December 31, 1998, 1997, and 1996.

Consolidated Statement of Cash Flows for the years ended December 31, 1998, 1997, and 1996.

Notes to Consolidated Financial Statements, December 31, 1998, 1997, and 1996.

Independent Auditors' Report dated January 22, 1999.

The above financial statements are contained in sections bearing the same captions on pages 17 through 29 of Group's 1998 Annual Report and are incorporated herein by reference.

(2) Financial Statement Schedule:

Schedule Number	
	Independent Auditors' Report dated January 22, 1999.
II	Valuation and Qualifying Accounts and Reserves--years ending December 31, 1998, 1997, and 1996.

All other schedules are omitted as the required information is inapplicable or the information is presented in the financial statements or related notes.

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

See Exhibit Index on page 29 of this document which is incorporated herein by reference.

The exhibits filed herewith are attached hereto (except as noted). Those exhibits indicated on the Exhibit Index which are not filed herewith were previously filed with the Securities and Exchange CPUC as indicated. Except where stated otherwise, such exhibits are hereby incorporated by reference.

(B) Report on Form 8-K.

Form 8-K was filed November 19, 1998 to report that on November 13, 1998 Registrant and its wholly-owned subsidiary, California Water Service Company, had entered into an agreement to merge with Dominguez Services Corporation. The agreed terms and conditions provide that each common share of Dominguez Services Corporation will be exchanged for 1.18 shares of Registrant's common stock. The consummation of the merger is conditioned upon the satisfaction of certain conditions, including the approval of the

CPUC and other regulatory approvals.

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 25, 1999	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 25, 1999	/s/ Robert W. Foy ROBERT W. FOY, Chairman, Board of Directors

Date: February 25, 1999	/s/ Edward D. Harris, Jr. EDWARD D. HARRIS, JR., M.D., Member, Board of Directors
Date: February 25, 1999	/s/ Robert K. Jaedicke ROBERT K. JAEDICKE, Member, Board of Directors
Date: February 25, 1999	/s/ Richard P. Magnuson RICHARD P. MAGNUSON, Member, Board of Directors
Date: February 25, 1999	/s/ Linda R. Meier LINDA R. MEIER, Member, Board of Directors
Date: February 25, 1999	/s/ Peter C. Nelson PETER C. NELSON President and Chief Executive Officer, Member, Board of Directors
Date: February 25, 1999	/s/ C. H. Stump C. H. STUMP, Member, Board of Directors
Date: February 25, 1999	/s/ George A. Vera GEORGE A. VERA, Member Board of Directors
Date: February 25, 1999	/s/ J. W. Weinhardt J. W. WEINHARDT, Member, Board of Directors
Date: February 25, 1999	/s/ Gerald F. Feeney GERALD F. FEENEY, Vice President, Chief Financial Officer and Treasurer; Principal Financial Officer
Date: February 25, 1999	/s/ Calvin L. Breed CALVIN L. BREED, Controller, Assistant Secretary and Assistant Treasurer; Principal Accounting Officer

INDEPENDENT AUDITORS' REPORT

Shareholders and Board of Directors
California Water Service Group:

Under date of January 22, 1999, we reported on the consolidated balance sheet of California Water Service Group as of December 31, 1998 and 1997, and the related consolidated statements of income, common shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1998, as contained in the 1998 annual report to shareholders. These financial statements and our report thereon are incorporated by reference in the annual report on Form 10-K for the year 1998. In connection with our audits of the aforementioned financial statements, we also audited the related consolidated financial statement schedule as listed in the index appearing under Item 14(a)(2). This financial statement schedule is the responsibility of Group's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits.

In our opinion, such financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

Mountain View, California /s/ KPMG LLP
January 22, 1999

Schedule II

CALIFORNIA WATER SERVICE GROUP
Valuation and Qualifying Accounts
Years Ended December 31, 1998, 1997 and 1996

<TABLE>
<CAPTION>

Description	Balance at beginning of period	Additions: Charged to costs and expenses	Additions: Charged to other accounts
<S>	<C>	<C>	<C>
1998 (A)Reserves deducted in the balance sheet from assets to which they apply:			
Allowance for doubtful accounts	$ 100,096	$ 536,388	$ 52,796(3)
Allowance for obsolete materials and supplies	$ 129,193	48,000	
(B)Reserves classified as liabilities in the balance sheet:			
Miscellaneous reserves:			
General Liability	$ 900,425	$ 600,000	
Employees' group health plan	$ 721,120	3,000,000	15,509
Retirees' group health plan	$ 1,443,373	751,664	458,336
Workers compensation	$ 661,829	878,423	
Deferred revenue - contributions in aid of construction	$ 1,584,342		229,162
Disability insurance	$ 23,811		107,110
	$ 5,334,900	$ 5,230,087	$ 810,117
Contributions in aid of construction	$44,270,083		$ 2,524,406(4)
1997 (A)Reserves deducted in the balance sheet from assets to which they apply:			
Allowance for doubtful accounts	$ 99,550	$ 610,951	$ 70,850(3)
Allowance for obsolete materials and supplies	101,077	48,000	
(B)Reserves classified as liabilities in the balance sheet:			
Miscellaneous reserves:			
General Liability	$ 997,834	$ 668,496	
Employees' group health plan	467,986	3,140,000	14,539
Retirees' group health plan	911,998	581,000	531,375

Workers compensation	499,651	830,313	
Deferred revenue - contributions in aid of construction	1,799,573		126,547
Disability insurance	50,371		103,167
	$ 4,727,413	$ 5,219,809	$ 775,628
Contributions in aid of construction	$43,066,585		$ 2,447,231(4)
1996 (A)Reserves deducted in the balance sheet from assets to which they apply:			
Allowance for doubtful accounts	$ 76,197	$ 530,691	$ 65,445(3)
Allowance for obsolete materials and supplies	$ 74,675	48,000	
(B)Reserves classified as liabilities in the balance sheet:			
Miscellaneous reserves:			
General Liability	$ 826,965	$ 740,000	
Employees' group health plan	$ 400,004	2,880,000	14,348
Retirees' group health plan	$ 670,998	523,000	241,000
Workers compensation	$ 260,170	835,430	
Deferred revenue - contributions in aid of construction	$ 1,930,336		276,525
Disability insurance	$ 47,453		199,097
	$ 4,135,926	$ 4,978,430	$ 730,970
Contributions in aid of construction	$40,113,707		$ 4,062,087(4)

</TABLE>

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Description	Deductions	Balance at end of period
<S>	<C>	<C>
1998 (A)Reserves deducted in the balance sheet from assets to which they apply:		
Allowance for doubtful accounts	$ 489,025(1)	$ 200,255
Allowance for obsolete materials and supplies	39,733(2)	137,460
(B)Reserves classified as liabilities in the balance sheet:		
Miscellaneous reserves:		
General Liability	$ 229,673(2)	$ 1,270,752
Employees' group health plan	3,093,246(2)	643,383
Retirees' group health plan	635,000(2)	2,018,373
Workers compensation	536,454(2)	1,003,798
Deferred revenue - contributions in aid of construction	336,988(6)	1,476,516
Disability insurance	104,702(2)	26,219
	$ 4,936,063	$ 6,439,041
Contributions in aid of construction	$ 1,694,085(5)	$45,100,404
1997 (A)Reserves deducted in the balance sheet from assets to which they apply:		
Allowance for doubtful accounts	$ 681,255(1)	$ 100,096
Allowance for obsolete materials and supplies	19,884(2)	129,193
(B)Reserves classified as liabilities in the balance sheet:		
Miscellaneous reserves:		
General Liability	$ 765,905(2)	$ 900,425
Employees' group health plan	2,901,405(2)	721,120
Retirees' group health plan	581,000(2)	1,443,373
Workers compensation	668,135(2)	661,829
Deferred revenue - contributions in aid of construction	341,778(6)	1,584,342
Disability insurance	129,727(2)	23,811
	$ 5,387,950	$ 5,334,900
Contributions in aid of construction	$ 1,243,733(5)	$44,270,083
1996 (A)Reserves deducted in the balance sheet from assets to which they apply:		
Allowance for doubtful accounts	$ 572,783(1)	$ 99,550

Allowance for obsolete materials and supplies	21,598(2)	101,077
(B) Reserves classified as liabilities in the balance sheet:		
Miscellaneous reserves:		
General Liability	$ 569,131(2)	$ 997,834
Employees' group health plan	2,826,366(2)	467,986
Retirees' group health plan	523,000(2)	911,998
Workers compensation	595,949(2)	499,651
Deferred revenue - contributions in aid of construction	407,288(6)	1,799,573
Disability insurance	196,179(2)	50,371
	$ 5,117,913	$ 4,727,413
Contributions in aid of construction	$ 1,109,209(5)	$43,066,585

</TABLE>

Notes:
(1) Accounts written off during the year.
(2) Expenditures and other charges made during the year.
(3) Recovery of amounts previously charged to reserve.
(4) Properties acquired at no cost, cash contributions and net transfer on non-refundable balances from advances to contributions.
(5) Depreciation of utility plant acquired by contributions charged to a balance sheet account.
(6) Amortized to revenue.

EXHIBIT INDEX

<TABLE>
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Exhibit Number	Sequential Page Numbers in this Report
<S>	<C>
Unless filed with this Form 10-K, the documents listed are incorporated by reference.	
3. Articles of Incorporation and by-laws:	
3.1 Restated Articles of Incorporation of California Water Service Group and By-laws of California Water Service Group (Filed as Exhibits B and C, respectively, of the 1997 California Water Service Company Proxy Statement/Prospectus) (Form S-4 filed March 6, 1997)	29
3.2 Certificate of Determination of Preferences for the Company's Series C Preferred Stock (Exhibit 3.2 to Form 10-K for fiscal year 1987, File No. 0-464)	29
3.3 Certificate of Determination of Preferences for Group's Series D Preferred Stock (Exhibit A to the Shareholder Rights Plan, an agreement between California Water Service Group and BankBoston, N.A., rights agent, dated January 28, 1998 file as Exhibit 1 to Form 8-A and Exhibit 1 to Form 8-K dated February 13, 1998)	29
4. Instruments Defining the Rights of Security Holders of California Water Service Company, including Indentures:	29
Mortgage of Chattels and Trust Indenture dated April 1, 1928; Eighth Supplemental Indenture dated November 1, 1945, covering First Mortgage 3.25% Bonds, Series C; twenty-first Supplemental Indenture dated October 1, 1972, covering First Mortgage 7.875% Bonds, Series P; twenty-fourth Supplemental Indenture dated November 1, 1973, covering First Mortgage 8.50% Bonds, Series S (Exhibits 2(b), 2(c), 2(d), Registration Statement No. 2-53678, of which certain exhibits are incorporated by reference to Registration Statement Nos. 2-2187, 2-5923, 2-5923, 2-9681, 2-10517 and 2-11093.)	29
Thirty-third Supplemental Indenture dated as of May 1, 1988, covering First Mortgage 9.48% Bonds, Series BB. (Exhibit 4 to Form 10-Q dated September 30, 1988, File No. 0-464)	29

	Thirty-fourth Supplemental Indenture dated as of November 1, 1990, covering First Mortgage 9.86% Bonds, Series CC. (Exhibit 4 to Form 10-K	29

</TABLE>

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<S> <C>

	for fiscal year 1990, File No. 0-464)	
	Thirty-fifth Supplemental Indenture dated as of November 1, 1992, covering First Mortgage 8.63% Bonds, Series DD. (Exhibit 4 to Form 10-Q dated September 30, 1992, File No. 0-464)	30
	Thirty-sixth Supplemental Indenture dated as of May 1, 1993, covering First Mortgage 7.90% Bonds Series EE (Exhibit 4 to Form 10-Q dated June 30, 1993, File No. 0-464)	30
	Thirty-seventh Supplemental Indenture dated as of September 1, 1993, covering First Mortgage 6.95% Bonds, Series FF (Exhibit 4 to Form 10-Q dated September 30, 1993, File No. 0-464)	30
	Thirty-eighth Supplemental Indenture dated as of October 15, 1993, covering First Mortgage 6.98% Bonds, Series GG (Exhibit 4 to Form 10-K for fiscal year 1994, File No. 0-464)	30
	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 Form 10-Q dated September 30, 1995 File No. 0-464)	30
10.	Material Contracts.	
10.1	Water Supply Contract between the Company and the County of Butte relating to the Company's Oroville District; Water Supply Contract between the Company and the Kern County Water Agency relating to the Company's Bakersfield District; Water Supply Contract between the Company and Stockton East Water District relating to the Company's Stockton District. (Exhibits 5(g), 5(h), 5(i), 5(j), Registration Statement No. 2-53678, which incorporates said exhibits by reference to Form 1O-K for fiscal year 1974, File No. 0-464).	30
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 the Company and the City and County	30

</TABLE>

<TABLE>
<S> <C>

	of San Francisco relating to the Company's Bear Gulch District dated August 8, 1984; Water Supply Contract between the Company and the City and County of San Francisco relating to the Company's San Carlos District dated August 8, 1984; Water Supply Contract between the Company and the City and County of San Francisco relating to the Company's San Mateo District dated August 8, 1984; Water Supply Contract between the Company and the City and County of San Francisco relating to the Company's South San Francisco District dated August 8, 1984. (Exhibit 10.2 to Form l0-K for fiscal year 1984, File No. 0-464).	
10.3	Water Supply Contract dated January 27, 1981, between the Company and the Santa Clara Valley Water District relating to the Company's Los Altos District (Exhibit 10.3 to Form 10-K for fiscal year 1992, File No. 0-464)	31

10.4	Amendments No. 3, 6 and 7 and Amendment dated June 17, 1980, to Water Supply Contract between the Company and the County of Butte relating to the Company's Oroville District. (Exhibit 10.5 to Form 10-K for fiscal year 1992, File No. 0-464)	31
10.5	Amendment dated May 31, 1977, to Water Supply Contract between the Company and Stockton-East Water District relating to the Company's Stockton District. (Exhibit 10.6 to Form 10-K for fiscal year 1992, File No. 0-464)	31
10.6	Second Amended Contract dated September 25, 1987 among the Stockton East Water District, the California Water Service Company, the City of Stockton, the Lincoln Village Maintenance District, and the Colonial Heights Maintenance District Providing for the Sale of Treated Water. (Exhibit 10.7 to Form 10-K for fiscal year 1987, File No. 0-464).	31
10.7	Water Supply Contract dated April 19, 1927, and Supplemental Agreement dated June 5, 1953, between the Company and Pacific Gas and Electric Company relating to the Company's Oroville District. (Exhibit 10.9 to Form 10-K for fiscal year 1992, File No. 0-464)	31
10.8	California Water Service Company Pension Plan (Exhibit 10.10 to Form 10-K for fiscal year 1992, File No. 0-464)	31
10.9	California Water Service Company Supplemental Executive Retirement Plan. (Exhibit 10.11 to Form 10-K for fiscal year 1992, File No. 0-464)	31

</TABLE>

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10.10	California Water Service Company Employees Savings Plan. (Exhibit 10.12 to Form 10-K for fiscal year 1992, File No. 0-464)	32
10.11	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 Form 10-Q dated March 31, 1996)	32
10.12	Water Supply Agreement dated September 25, 1996 between the City of Bakersfield and California Water Service Company. (Exhibit 10.18 to Form 10-Q dated September 30, 1996)	32
10.13	Agreement of Merger dated March 6, 1997 by and among California Water Service Company, CWSG Merger Company and California Water Service Group. (Filed as Exhibit A of the 1997 California Water Service Company Proxy Statement/Prospectus which was incorporated by reference in the Form 10-K for 1997)	32
10.14	Shareholder Rights Plan; an agreement between California Water Service Group and BankBoston, N.A., rights agent, dated January 28, 1998 (Exhibit 1 to Form 8-A and Exhibit 1 to Form 8-K dated February 13, 1998)	32
10.15	Dividend Reinvestment and Stock Purchase Plan dated February 17, 1998 (Filed on Form S-3 dated February 17, 1998)	32
10.16	California Water Service Group Directors Deferred Compensation Plan (Exhibit 10.17 to Form 10-K for fiscal year 1997)	32
10.17	California Water Service Group Directors Retirement Plan (Exhibit 10.18 to Form 10-K for fiscal year 1997)	32

10.18	$50,000,000 Business Loan Agreements between California Water Service Group, California Water Service Company and CWS Utility Services and Bank of America dated March 16, 1998, expiring April 30, 1999 (Exhibit 10.20 to Form 10-K for the year 1997)	32
10.19	Amendment to the bylaws regarding the timing for submission of shareholder proposals for consideration at annual shareholder meetings and shareholder nomination of directors (Exhibit 10.18 to Form 10Q for the quarter ending September 30, 1998)	32

</TABLE>

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<S> <C>

10.20	Certificate of Determination filed with the state of California regarding Series D Participating Preferred Shares. These shares are relative to Shareholder Rights Plan and would be issued if the rights plan was triggered. This is a revised filing at the Secretary of State's request in a revised form (Exhibit 10.19 to Form 10Q for the quarter ending September 30, 1998)	33
10.21	Amendment to the Business Loan Agreement between California Water Service Company and Bank of America (refer to Exhibit 10.18) whereby the bank has extended the period during which the Company is required to have repaid any advances under the Agreement for 30 consecutive days to April 30, 1999	33
10.22	Amendment to the California Water Service Company Supplemental Executive Retirement Plan (refer to Exhibit 10.18) to allow benefits to be received by Plan participants at age 60 without a reduction in the benefit level	33
10.23	Amendment to the California Water Service Group Deferred Director Compensation Plan (refer to Exhibit 10.16) regarding the timing for electing Plan benefits	33
10.24	Executive Severance Plan (Exhibit 10.24 to Form 10K For fiscal year 1998)	33
10.25	Water Supply Contract dated November 16, 1994, between the Company and Alameda County Flood Control and Water Conservation District relating to the Company's Livermore District Exhibit 10.15 to Form 10-K for fiscal year 1994	33
13.	Annual Report to Security Holders, Form 10-Q or Quarterly Report to Security Holders:	
	1998 Annual Report. Certain sections of the 1998 Annual Report are incorporated by reference in this 10-K filing. This includes those sections referred to in Part II, Item 5, Market for Registrant's Common Equity and Related Shareholder Matters; Part II, Item 6, Selected Financial Data; Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations; and Part II, Item 8, Financial Statement and Supplementary Data.	
27.	Financial Data Schedule as of December 31, 1998	33

</TABLE>

EXHIBIT 10.21

BANK OF AMERICA

AMENDMENT TO DOCUMENTS

AMENDMENT NO. 5 TO BUSINESS LOAN AGREEMENT

This Amendment No. 5 (the "Amendment") dated as of March 12, 1999, is between Bank of America National Trust and Savings Association (the "Bank") and California Water Service Company (the "Borrower").

RECITALS

A. The Bank and the Borrower entered into a certain Business Loan Agreement dated as of April 4, 1997, as previously amended (the "Agreement").

B. The Bank and Borrower desire to further amend the Agreement.

AGREEMENT

1. DEFINITIONS. Capitalized terms used but not defined in this Amendment shall have the meaning given to them in the Agreement.

2. AMENDMENTS. The Agreement is hereby amended as follows:

2.1 Paragraph 6.6 is amended to read in its entirety as follows:

6.6 OUT OF DEBT PERIOD. To repay any advances in full, and not to draw any additional advances on its revolving line of credit, for a period of at least 30 consecutive days between January 1, 1998 and April 30, 1999.

3. REPRESENTATIONS AND WARRANTIES. When the Borrower signs this Amendment, the Borrower represents and warrants to the Bank that: (a) there is no event which is, or with notice or lapse of time or both would be, a default under the Agreement except those events, if any, that have been disclosed in writing to the Bank or waived in writing by the Bank, (b) the representations and warranties in the Agreement are true as of the date of this Amendment as if made on the date of this Amendment, (c) this Amendment is within the Borrower's powers, has been duly authorized, and does not conflict with any of the Borrower's organizational papers, and (d) this Amendment does not conflict with any law, agreement, or obligation by which the Borrower is bound.

4. EFFECT OF AMENDMENT. Except as provided in this Amendment, all of the terms and conditions of the Agreement shall remain in full force and effect.

5. COUNTERPARTS. This Amendment may be executed in counterparts, each of which when so executed shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument.

This Amendment is executed as of the date stated at the beginning of this Amendment.

BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION	CALIFORNIA WATER SERVICE COMPANY
/s/ JEFFREY PERKINS	/s/ GERALD F. FEENEY
By: Jeffrey Perkins, Vice President	By: Gerald F. Feeney, Vice President, C.F.O. and Treasurer

EXHIBIT 10.22

AMENDMENT NUMBER TWO
TO THE
CALIFORNIA WATER SERVICE COMPANY
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN
EFFECTIVE JANUARY 1, 1999

THE CALIFORNIA WATER SERVICE COMPANY SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN IS HEREBY AMENDED ON JANUARY 1, 1999 AS FOLLOWS:

1. Paragraph 5.2 of the Plan is deleted and replaced with the following new Paragraph 5.2:

   Early Retirement Benefit. If a Participant retires early on or after age 55 and prior to age 65, the monthly benefit shall be calculated in accordance with Section 5.1 and reduced to the following amounts:

<TABLE>
<CAPTION>

Age at Retirement	Percentage of Monthly Benefit
60 and over	100%
59	95
58	90
57	85
56	80
55	74

</TABLE>

Reductions according to the above table shall be prorated for full months of age.

IN WITNESS WHEREOF, this amendment is executed by a duly authorized officer on the 27th day of January, 1999.

CALIFORNIA WATER SERVICE COMPANY

By /s/ Gerald F. Feeney
Gerald F. Feeney

Vice President, Chief Financial
Officer and Treasurer

By /s/ Christine L. McFarlane
Christine L. McFarlane
Vice President, Human Resources

Amendment No. 2
TO THE
CALIFORNIA WATER SERVICE GROUP

(a)Directors Deferred Compensation Plan

EFFECTIVE AS OF JANUARY 1, 1999

The California Water Service Group Director Deferred Compensation Plan (the "Plan") is hereby amended as follows, effective January 1, 1999 for all Accounts under the Plan, in order to change the time of payment (and thereby revoke all prior payment elections made by Participants) and to modify the time for electing the method of payment:

1. Paragraph E-2.a of the Plan is deleted and replace with the following new Paragraph E2.a:

   "Payment from a Participant's Account shall begin on the first day of the month (the `Scheduled Payment Date') following the later of (I) the month during which he ceases to be an Eligible Director or (ii) if an Eligible Director become an employee of the Company thus is no longer an Eligible Director, the month during which employment with the Company terminates. However, a Participant may elect for such payment to begin after the Scheduled Payment Date if such election is made during the month before the Scheduled Payment Date."

2. Paragraph E-2.c of the Plan shall be, and hereby is, renumbered as Paragraph E-2.b.

3. The second and third sentences of Paragraph E-3 of the Plan shall be, and hereby are, amended to read as follows:

   "The Participant may change the method of payment no later than the date payments begin under Paragraph E-2.a of the Plan. Payment of the amount credited to the Participant's Account shall be made in one to five equal annual installments beginning on the Scheduled Payment Date or any such later dated elected by the Participant under E-2.a."

   IN WITNESS WHEREOF, this amendment is executed by a duly authorized officer on the 27th day of January, 1999.

2. CALIFORNIA WATER SERVICE GROUP

3. BY /S/ GERALD F. FEENEY

4. VICE PRESIDENT, CHIEF FINANCIAL OFFICER AND TREASURER

EXHIBIT 10.24

California Water Service Group

EXECUTIVE SEVERANCE PLAN

The California Water Service Group Executive Severance Plan (the "Plan") is hereby adopted as of this 16th day, of December, 1998, by California Water Service Group ("Group") for the benefit of the Officers (as defined below) of Group and/or its Affiliates and Associates (as defined below).

W I T N E S S E T H

WHEREAS, the Officers are currently employed by Group and/or its Affiliates or Associates (collectively referred to as the "Employer"); and

WHEREAS, the Employer wishes to retain the services of the Officers and to encourage the Officers to remain with the Employer; and

WHEREAS, Group desires to establish the Plan to provide security for the Officers in connection with the Officers' employment with Employer in the event of a Change in Control (as defined below) affecting Employer;

NOW, THEREFORE, Employer hereby establishes the Plan as set forth below.

5. DEFINITIONS. For purposes of this Plan:

(a) "Affiliate" or "Associate" shall have the meaning set forth in Rule 12b-2 under the Securities Exchange Act of 1934.

"Beneficiary" shall mean the person or persons whom the Officer shall designate in writing (on the form attached hereto as Exhibit A) to receive the benefits provided hereunder in the event of his or her death. Such designation shall be valid only if it is made on said form, and the Employer receives said form prior to the Officer's death.

"Change in Control" shall be deemed to take place on the occurrence of any of the following events:

(1) Any merger or consolidation of the Employer in which the Employer is not the surviving organization, a majority of the capital stock of which is not owned by the shareholders of the Employer immediately prior to such merger or consolidation;

(2) A transfer of all or substantially all of the assets of the Employer;

(3) Any other corporate reorganization in which there is a change in ownership of the outstanding shares of the Employer wherein

thirty percent (30%) or more of the outstanding shares of the Employer are transferred to any Person;

(4) The acquisition by or transfer to a Person (including all Affiliates or Associates of such Person) of "beneficial ownership" (as that term is defined in Rule 13d-3 under the Securities Exchange Act of 1934) of capital stock of Employer if after such acquisition or transfer such Person (and their Affiliates or Associates) is entitled to exercise thirty percent (30%) or more of the outstanding voting power of all capital stock of Employer entitled to vote in elections of directors; or

(5) The election to the Board of Directors of Employer of candidates who were not recommended for election by the Board of Directors of Employer in office immediately prior to the election, if such candidates constitute a majority of those elected in that particular election.

"Good Cause" shall be deemed to exist with respect to an Officer if, and only if:

(6) The Officer engages in acts or omissions that result in substantial harm to the business or property of Employer and that constitute dishonesty, intentional breach of fiduciary obligation or intentional wrongdoing; or

(7) The Officer is convicted of a criminal violation involving fraud or dishonesty.

"Good Reason" shall exist with respect to an Officer if and only if, without the Officer's express written consent:

(8) there is a significant change in the nature or the scope of the Officer's authority or in his or her overall working environment;

(9) the Officer is assigned duties materially inconsistent with his or her present duties, responsibilities and status;

(10) there is a reduction in the Officer's rate of base salary or bonus; or

(11) Employer changes by 100 miles or more the principal location in which the Officer is required to perform services.

"Officer" shall mean any officer of Employer who has been elected as such by the Board of Directors of said Employer and was serving as such upon a Change in Control.

"Person" shall have the meaning as such term is used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934.

"Salary" shall mean the Officer's annual base salary rate at the greater of (1) the date of the Change in Control, or (2) the date the Officer's employment with the Employer terminates.

6. BENEFITS UPON TERMINATION OF EMPLOYMENT.

(a) If, at any time within twenty-four (24) months after a Change in Control occurs (i) the employment of an Officer with his or her Employer terminates for any reason other than Good Cause, or (ii) the Officer terminates his or her employment with Employer for Good Reason, Employer shall pay Officer a benefit equal to three (3) years' Salary (less any customary taxes and withholdings) (the "Change in Control Benefit"). The Change in Control Benefit shall be paid in three (3) equal annual installments beginning on the first of the month following the month in which the Officer's employment terminates and payable thereafter on the anniversary of said payment date. The Officer shall be entitled to only one Change in Control Benefit under the Plan. The Change in Control Benefit will be made only if Officer executes the Release Agreement (attached hereto as Exhibit B) and will begin following the expiration of the seven (7) day revocation period under said Release. No payments will be made under the Plan to Officer if Officer revokes the Release. In the event that the Officer dies before receiving the full Change in Control Benefit, his or her Beneficiary shall be paid the remaining payments as they become due.

(b) If the employment of an Officer with Employer is terminated by Employer or Officer, other than under circumstances set forth in subsection 2(a), the Employer shall have no further obligation with respect to the Officer under this Plan.

(c) This Plan shall have no effect, and Employer shall have no obligations hereunder, with respect to an Officer whose employment terminates for any reason at any time other than within twenty-four (24) months after a Change in Control.

7. NO SOLICITATION OF REPRESENTATIVES AND OFFICERS.

No Officer shall, directly or indirectly, in his or her individual capacity or otherwise, induce, cause, persuade, or attempt to induce, cause or, persuade, any representative, agent or employee of Group or any of its Affiliates and Associates to terminate such person's employment relationship with Group or any of its Affiliates and Associates, or to violate the terms of any agreement between said representative, agent or employee and Group or any of its Affiliates or Associates.

8. CONFIDENTIALITY.

Preservation of a continuing business relationship between Group or its Affiliates and Associates and their respective customers, representatives, and employees is of critical

importance to the continued business success of Group, its Affiliates and Associates and it is the active policy of Group and its Affiliates and Associates to guard as confidential certain information not available to the public relating to the business affairs of Group and its Affiliates and Associates. In view of the foregoing, no Officer shall, without the prior written consent of Group disclose to any person or entity any such confidential information that was obtained by the Officer in the course of his or her employment by Employer. This section shall not be applicable if and to the extent the Officer is required to testify in a legislative, judicial or regulatory proceeding pursuant to an order of Congress, any state or local legislature, a judge or an administrative law judge or is otherwise required by law to disclose such information.

9. FORFEITURE.

If an Officer shall at any time violate any obligation under Section 3 or 4 in a manner that results in material damage to Group or its Affiliates or Associates, or its business , he or she shall immediately forfeit his or her right to any benefits under this Plan, and Employer shall thereafter have no further obligation hereunder to the Officer or his or her Beneficiary or any other person.

10.OFFICER ASSIGNMENT.

Neither the Officer nor his or her Beneficiary shall have any power or right to transfer, assign, anticipate, hypothecate, mortgage, commute, modify, or otherwise encumber in advance any of the benefits payable hereunder, nor shall any of said benefits be subject to seizure for the payment of any debts, judgments, alimony, or separate maintenance owed by the Officer or his or her Beneficiary, or be transferable by operation of law in the event of bankruptcy, insolvency, or otherwise.

11.BENEFITS UNFUNDED.

The Plan is intended to be unfunded for purposes of Employee Retirement Income Security Act of 1974 and the Internal Revenue Code. The Employer's obligation under this Plan shall be that of an unfunded and unsecured promise by the Employer to pay money in the future. All distributions under this Plan shall be paid from the general assets of the Employer. The right of the Officer or any Beneficiary to receive a distribution under this Plan shall be an unsecured claim against the general assets of the Employer, and neither the Officer nor any Beneficiary shall have any rights in or against any assets of the Employer or Group and its Affiliates and Associates.

12.APPLICABLE LAW.

The Plan and all matters arising under it shall be governed by the laws of the State of California except to the extent preempted by federal law.

13.NO EMPLOYMENT CONTRACT.

This Plan shall not be deemed to constitute a contract of employment between an Officer and his or her Employer, nor shall any provision hereof restrict the right of the Employer to discharge the Officer, or restrict the right of the Officer to terminate his or her employment.

14.SEVERABILITY.

In the event any provision of this Plan is held illegal or invalid, the remaining provisions of this Plan shall not be affected thereby.

15.SUCCESSORS.

The Plan shall be binding upon and inure to the benefit of Group and its Affiliates and Associates, the Officers and their respective heirs, representatives and successors. As a condition to any Change in Control, the new controlling organization or any other person described in Section 1(c) must agree to assume and to discharge the obligations of the Employer under this Plan. Upon the occurrence of such event, the term "Employer" as used in Plan shall be deemed to refer to such new controlling organization or other person.

16.CLAIMS PROCEDURE.

The Employer or its delegatee shall have the power, in its discretion, to interpret and make all determinations as to rights to benefits under this Plan, its interpretation or determinations thereof in good faith to be final and conclusive on the Officer and his or her Beneficiary and shall be subject to review only to the extent a court concludes that such interpretation or determinations are arbitrary and capricious.

If a claim for benefits under the Plan is denied in whole or in part, the claimant will be notified by the Employer or its delegatee within 90 days of the date the claim is delivered to the Employer, or 180 days if the claimant is told that additional time is needed. The notification will be written in understandable language and will state (i) specific reasons for denial of the claim, (ii) specific references to Plan provisions on which the denial is based, (iii) a description (if appropriate) of any additional material or information necessary for the claimant to perfect the claim and why such material or information is necessary, and (iv) an explanation of the procedure for reviewing the denied claim. A claim that is not acted upon within 90 days (or 180 days in the case of an extension) may be deemed by the claimant to have been denied.

Within 60 days after a claim has been denied, or deemed denied, the claimant or his or her authorized representative may make a request for a review by submitting to the Employer a written statement (a) requesting a review of the denial of the claim; (b) setting forth all of the grounds upon which the request for review is based and any facts in support thereof; and (c) setting forth any issues or comments which the claimant deems relevant to the claim. The claimant may review pertinent documents relating to the denial.

The Employer or its delegatee shall make a decision on review within 60 days after the receipt of the claimant's request for review or receipt of all additional materials reasonably requested by the Administrator from the claimant, unless an extension of time for processing a review is required, in which case the claimant will be notified and a decision will be made within 120 days of receipt of the request for review. The decision will be in writing, and in understandable language. It will give specific references to the Plan provisions on which the decision is based. The decision of the Employer or its

delegatee on review shall be final and conclusive upon all persons except to the extent it is found by a court to be arbitrary or capricious.

17.AMENDMENT AND TERMINATION.

Group shall have the right to amend this Plan from time to time and may terminate this Plan at any time; provided that within twenty-four (24) months following a Change in Control (i) no amendment may be made that diminishes any Officer's right in the event of a termination of employment, following such Change in Control, and (ii) the Plan may not be terminated.
This Section 13 may not be amended.

18.TAXES.

It is intended that this Plan shall be a non-qualified deferred compensation plan and that any right to payments hereunder shall not be treated as taxable income to the Officer or any Beneficiary prior to distribution thereof. Any payments made under this Plan shall be made net of any customary employment and withholding taxes.

In the event that any payment or benefit received or to be received by Officer in connection with a Change in Control (the Change in Control Payments) would, in whole or part, be subject to excise tax under Section 4999 of the Internal Revenue Code (the Excise Tax), the Employer shall pay to Officer an additional amount (the Gross-Up Payment) such that the net amount retained by Officer, after deduction of any Excise Tax on the payments under the Plan (without taking into account the Excise Tax attributable to the other Change in Control Payments) and any federal, state and local income tax and Excise Tax upon the payment provided for by this Section 14 shall be equal to the payments under the Plan; provided that the Gross-Up Payment shall be made to Officer only in the event that Employer's tax counsel concludes that the Excise Tax would be owed. For purposes of determining whether any of the Change in Control Payments will be subject to the Excise Tax, (i) any other payments or benefits received or to be received by Officer in connection with a Change in Control of the Employer or the Officer's termination of employment (whether pursuant to the terms of the Plan or any other plan, arrangement or agreement with the Employer) shall be treated as parachute payments within the meaning of Section 280G(b)(2) of the Internal Revenue Code (the Code), and all excess parachute payments within the meaning of Section 280G(b)(1) shall be treated as subject to the Excise Tax, unless in the opinion of Employer's tax counsel such other payments or benefits (in whole or in part) do not constitute parachute payments, or such excess parachute payments (in whole or in part) represent reasonable compensation for services actually rendered within the meaning of Section 280G(b)(4) of the Code; (ii) the amount of the Change in Control Payments which shall be treated as subject to the Excise Tax shall be equal to the lesser of (A) the total amount of the Change in Control Payments, or (B) the amount of excess parachute payments within the meaning of Sections 280G(b)(1) and (4) (after applying clause (i), above); and (iii) the value of any non-cash benefits or any deferred payment or benefit shall be determined by the Employer"" independent auditors in accordance with the principles of Sections 280G(d)(3) and (4) of the Code. For purposes of determining the amount of the Gross-Up Payment, Officer shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year in which the Gross-Up Payment is to be made and state and local income taxes at the highest marginal rates of

taxation in the state and locality of the Officer's residence on the Termination Date, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes. In the event that the Excise Tax is subsequently determined to be less than the amount taken into account hereunder at the time of termination of the Officer's employment, Officer shall repay to the Employer at the time that the amount of such reduction in Excise Tax is finally determined the portion of the Gross-Up Payment attributable to such reduction plus interest on the amount of such repayment at the rate provided in Section 1274(b)(2)(B) of the Code. In the event that the Excise Tax is determined to exceed the amount taken into account hereunder at the Termination Date (including by reason of any payment the existence or amount of which cannot be determined at the time of the Gross-Up Payment), the Employer shall make an additional gross-up payment in respect of such excess (plus any interest payable with respect to such excess) at the time that the amount of such excess is finally determined.

IN WITNESS WHEREOF, Group has caused this instrument to be executed in its name by its duly authorized officer, all as of the day and year first above written.

CALIFORNIA WATER SERVICE GROUP

By: ______________________________

Its: ____________________________

EXHIBIT A
DESIGNATION OF BENEFICIARIES

I, ______________________________, hereby designate the following person(s) as my Beneficiary(ies) under the California Water Service Group Executive Severance Plan (the "Plan") to receive any amounts that might be payable as of the date of my death:

Name: ____ Percentage: _____%

Address: ____

Name: ____ Percentage: _____%

Address: ____

This designation supersedes all prior Beneficiary designations I have made under the Plan.

DATED: __________ ___, 19___ ____

EXHIBIT B

RELEASE AGREEMENT

This Release Agreement ("Release") was given to me, _____________________________ ("Officer"), this _____ day of _________, _____, by ___________________________ (the "Employer"). At such time as this Release becomes effective and enforceable (i.e., the revocation period discussed below has expired), and assuming Officer is otherwise eligible for payments under the terms of the California Water Service Group Executive Severance Plan (the "Plan"), Employer agrees to pay Officer pursuant to the terms of the Plan an amount equal to $_____________ payable in three (3) equal annual installments (minus customary payroll taxes and withholdings).

In consideration of the receipt of the promise to pay such amount, Officer hereby agrees, for himself or herself, his or her heirs, executors, administrators, successors and assigns (hereinafter referred to as the "Releasors"), to fully release and discharge the Employer and its officers, directors, employees, agents, insurers, underwriters, subsidiaries, parents, affiliates, associates, successors and assigns (hereinafter referred to as the "Releasees") from any and all actions, causes of action, claims, obligations, costs, losses, liabilities, damages and demands under any federal, state or local law or laws, or common law, whether or not known, suspected or claimed, which the Releasors have, or hereafter may have, against the Releasees arising out of or in any way related to Officer's employment or termination of employment with the Employer.

It is understood and agreed that this Release extends to all such claims and/or potential claims, and that Officer, on behalf of the Releasors, hereby expressly waives all rights with respect to all such claims under California Civil Code Section 1542, which provides as follows:

> A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor.

It is further understood and agreed that this Release includes claims and rights Officer might have under the Age Discrimination in Employment Act ("ADEA"). The Officer's waiver of rights under the ADEA does not extend to claims or rights that might arise after the date this Release is executed. The monies to be paid to the Officer in this Release are in addition to any sums to which he or she would be entitled without signing this Release. For a period of seven (7) days following execution of this Release, Officer may revoke the terms of this Release by a written document received by the Employer on or before the end of the seven (7) day period. The Release will not be final until said revocation period has expired. No payments will be made under the Plan if the Officer revokes this Release.

Officer executes this Release without reliance on any representation by any Releasee. Officer acknowledges that he or she has read and does understand the provisions of the Release set forth in the preceding paragraph, that he or she has had an opportunity to consult with an attorney prior to executing this Release, that he or she was given twenty-one (21) days in which to consider entering into this Release, that he or she affixes his or her signature hereto voluntarily and without coercion, and that no promise or inducement has been made other than those set out in this Release. This document does not constitute, and shall not be admissible as evidence of, an admission by any Releasee as to any fact or matter.

In case any part of this Release is later deemed to be invalid, illegal or otherwise unenforceable, Officer agrees that the legality and enforceability of the remaining provisions of this Release will not be affected in any way.

Dated: ____________, ______ ______________________________

("Officer")

EXHIBIT 13

(annual report cover)

CALIFORNIA WATER SERVICE GROUP

H2O (accompanied by a photo of water in a testing glass)

1998 Annual Report

(inside front cover)

We are dedicated to being the leader in providing communities and customers with traditional and innovative utility services.

step 1: contract
Arrangements under which water quality services are provided to customers.

step 2: site
The place within a specific service area where treatment facilities are located.

step 3: contaminant
The substance the treatment facility is designed to remove.

step 4: benefit
What this process provides to our customers.

Photo of Chairman and Chief Executive Officer:
Robert W. Foy, Chairman of the Board (right)
Peter C. Nelson, President and Chief Executive Officer (left)

LETTER TO OUR SHAREHOLDERS

1998 was a memorable business year for the California Water Service Group.

In fact, 1998 was the first full-year of operation for the California Water Service Group (the Group), the holding company for the California Water Service Company (Cal Water) and CWS Utility Services. At year's start, we knew the unusually wet El Nino weather would make it unlikely to top the all-time financial records set in 1997. While this forecast was correct, we did produce strong financial results, business growth and process improvements that increased the level of customer service.

One of our proudest accomplishments of 1998, and indeed in our 72-year history, was the agreement to merge with Dominguez Services Corporation. It is the largest merger in our history and the largest ever of two investor-owned water utilities in California.

DOMINGUEZ MERGER
On November 13, 1998, the Boards of the California Water Service Group and Dominguez Services Corporation (DSC) of Long Beach, California, announced an agreement to merge. Incorporated in 1911, DSC has nearly 40,000 service connections, almost all held by its main subsidiary, the Dominguez Water Company, in the South Bay region of Los Angeles. This system is adjacent to our Hermosa-Redondo and Palos Verdes districts and together will serve almost 90,000 customers. The synergies that result should produce long-term cost savings for our customers and position us as a much stronger competitor for future growth opportunities in Los Angeles. In addition, DSC has operations in fast-growing northeast Los Angeles County, near our Bakersfield district and in Northern California. DSC also brings experience in the growing area of water rights trading, enabling us to maximize the value and usefulness of our combined water rights.

The merger must be approved by DSC shareholders and the California Public Utilities Commission. Another water company has submitted a competing offer to merge with Dominguez. The offer will be evaluated by Dominguez. In the event Dominguez completes a merger with another company, it must pay the Group $2.7 million in settlement fees.

1998 FINANCIAL RESULTS
1998 was a very good year for the Group. Operating revenues totaled $186,273,000, net income was $18,395,000, earnings per share equaled $1.45, while the price-per-share and market capitalization at the end of the year reached $31-5/16 and $395,000,000, respectively. Although we expected 1998's results to be lower than the record highs set in 1997 - and for all but share

price and market capitalization, we were correct - we were pleased by the small differences between 1998's and 1997's results. For example, operating revenues were less than five percent below the $195 million reached in 1997.

In 1998, it was common practice to blame virtually any misfortune on abnormal weather patterns caused by El Nino, the periodic warming of the Pacific Ocean's

surface waters. In fact customer demand dropped dramatically in response to precipitation levels that were twice normal in January, three times normal in February, four times normal in May - with statewide precipitation reaching 170 percent of normal by the end of that month. When normal weather patterns returned in the summer, growth in revenues outpaced those in expenses. The third quarter turned out to be the single most profitable quarter in our 72-year history.

We don't expect the weather to have as great an impact in 1999. Weather patterns will be influenced by La Nina, a cooling of the Pacific's surface waters, typified by short, heavy rainfalls and colder-than-normal temperatures. Though we cannot predict 1999's precipitation, carryover storage from last year is excellent and that alone should ensure sufficient supply well into 1999.

In January 1999, the Board of Directors voted to raise the dividend on common stock from $1.07 to $1.085 per share, the 32nd consecutive annual dividend increase. In 1999, we anticipate issuing new long-term debt to meet our capital construction budget after meeting long-term financing needs with internally generated funds for three years in a row. This transaction is expected to be completed in the first quarter of 1999. And, as already discussed, 1999 will see the culmination of the most significant business transaction the Group has undertaken since the formation of its predecessor in 1926: the merger of the Group and Dominguez Services Corporation.

CUSTOMER SERVICE AND WATER QUALITY

Our vision statement says it all: "We are dedicated to being the leader in providing communities and customers with traditional and innovative utility services." To continue this leadership into the next century, we are vigorously pursuing improvements in the excellent service we provide customers. Every employee in our 21 operating districts and General Office is continuously focusing on improving business processes that serve customers. An area that receives special attention is water quality. Not surprisingly, our customers identified safe, fresh and good-tasting water as their number one need in a recent survey.

The new treatment facilities underway in Bakersfield and Torrance featured on pages 4-7, are tangible evidence of our commitment to meeting this key customer need. To support these facilities, Cal Water has a state-certified in-house water quality laboratory focused on improving water quality. And as the table on the reverse of the attached map shows, water quality has always been a top priority of the Group and Cal Water sometimes anticipating both regulatory and technological requirements.

BOARD DEVELOPMENTS

We are very pleased that George A. Vera was elected to the Board of Directors in March to fill the vacancy left with the retirement of Edwin E. van Bronkhorst. Like Mr. van Bronkhorst, George has ties to the founders of Silicon Valley: Messrs. Packard and Hewlett. He serves as director of finance and administration

for the Packard Foundation - the nation's third largest private foundation, with an endowment of $9 billion, distributing annual grants in excess of $400 million.

Y2K

Group has been taking steps for over a year to address potential Year 2000 (Y2K) computer problems. These include: an internal assessment in both 1998 and 1999 of our readiness; transferring most non-billing computer functions to a Y2K-compliant computer by mid-1999; converting our mainframe billing computer to handle Y2K dates; working with critical suppliers and customers - like power companies and hospitals - to ensure readiness; and developing contingency plans for water delivery should, despite all these preparations, a problem arise that threatens our ability to supply customers. An outside, independent consultant reviewed our preparations and gave us a positive review. Additional information about Y2K efforts is found on page 15 of this report.

CONCLUSION

The changes that the California Water Service Group and its subsidiaries saw in 1998 were some of the most dramatic in its history. At the same time that we are creating unparalleled growth opportunities, the marketplace is becoming more crowded. Financial market expectations of strong growth and dividend increases remain unchanged, meaning our people must improve customer service and business processes and contribute to profitable growth. A tall order, but one well within the reach of our 658 employees, particularly now that we have all been trained in the Continuous Improvement Process, an approach to business that focuses on customer service, operating efficiency and developing the potential and contribution of every employee.

In 1998, the California Water Service Group was buffeted by rainstorms of nearly unprecedented magnitude. Our people met these challenges and produced a very successful year. We are working hard to ensure that 1999 is equally successful and are confident unprecedented results await us in the next century. Just look at the map of California at the back of this annual report. It shows how geographically diverse the Group is, and how we are positioned to take advantage of a projected 25 percent increase in California's population over the next 20 years in an economy that is already the world's seventh largest. 1998 has indeed set the tone for a very promising future.

/S/ Robert W. Foy
Robert W. Foy
Chairman of the Board
February 12, 1999

/S/ Peter C. Nelson
Peter C. Nelson
President and Chief Executive Officer
February 12, 1999

NORTHEAST BAKERSFIELD
SURFACE WATER TREATMENT PLANT
(a small map outlining the state of California appears with the general location of Bakersfield depicted)

Kern County is one of the State's most productive agricultural regions. The California Department of Finance projects the population of Kern County to more than double from 648,000 today, to over 1.6 million by 2040. Where will all these people live? Bakersfield, by far the largest city in Kern County, is taking steps to channel development to the northeast, away from the westside's prime agricultural land. To serve this area, the California Water Service Company is working with Bakersfield to make high-quality Kern River water available by building a 10 million gallon per day (MGD) treatment plant. This plant will be expandable to 60 MGD and may ultimately supply a population of 180,000. Cal Water will design, build, finance, own and operate this facility.

Principles of Agreement between Cal Water and the City of Bakersfield establishes us as the owner/operator.

It will be built on an 80-acre site near the Kern River.

Sediment and microbes often found in surface water will be removed.

Safe, healthful drinking water will enable families and communities to flourish.

(four boxes appear horizontally across the page with graphics that depict the Northeast Bakersfield agreement, the future treatment plant, removal of microbes from the water and delivery of water through a faucet)

(A photograph of the area in Northeast Bakersfield where the new treatment plant will be built appears on the page; it is accompanied by the word "microbes")

TORRANCE DESALINATION FACILITY
(a small map outlining the state of California appears with the general location of Torrance desalination facility)

The West Coast Groundwater Basin lies under one of the most heavily populated areas of the country and is bordered to the west by the Pacific Ocean. In the 50s, the California Department of Water Resources proclaimed this basin "one of the most critically overdrawn ground water sources in southern California," resulting in seawater intrusion. To combat the further inland spread of seawater, the Water Replenishment District (WRD) was formed in 1955 to halt it, a job that has been accomplished through injecting treated surface water into the underground basin.

Now the mission is to clean up and reuse seawater trapped inland. In cooperation with WRD, CWS Utility Services is making surplus land in Torrance available for the desalination facility that will help achieve this new goal.

CWS Utility Services will operate the facility under a 20-year O&M contract.

Facility will be housed at our retired well sites.

By removing chlorides, the reverse osmosis process will produce potable water.

Safe drinking water will be produced at a discount to alternative supplies.

(four boxes appear horizontally across the page with graphics that depict the Torrance agreement, the future desalination facility, removal of chlorides from the water and delivery of water in a glass)

(A photograph of a desalination facility appears on the page; it is accompanied by the word "chlorides")

TEN YEAR FINANCIAL REVIEW

<TABLE>
<CAPTION>
(Dollars in thousands, except common share data)

<S>	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
SUMMARY OF OPERATIONS										
OPERATING REVENUE										
Residential	$135,733	$143,327	$134,035	$119,814	$114,751	$111,526	$101,842	$ 87,560	$ 90,178	$ 84,295
Business	31,591	32,916	30,924	28,230	27,023	25,247	23,670	20,759	20,910	19,870
Industrial	6,238	6,282	6,150	5,836	5,478	5,123	4,925	4,490	5,146	5,166
Public authorities	8,368	9,636	9,023	8,149	7,995	7,396	6,892	5,734	6,412	6,225
Other	4,343	3,163	2,632	3,057	2,024	2,424	2,476	8,633	1,741	1,932
Total operating revenue	186,273	195,324	182,764	165,086	157,271	151,716	139,805	127,176	124,387	117,488
Operating expense	156,199	160,975	152,397	139,694	131,766	123,861	116,031	102,855	101,017	95,150
Interest expense, other income and expenses, net	11,679	11,044	11,300	10,694	11,097	12,354	11,245	10,393	9,004	8,566
Net income	$ 18,395	$ 23,305	$ 19,067	$ 14,698	$ 14,408	$ 15,501	$ 12,529	$ 13,928	$ 14,366	$ 13,772
COMMON SHARE DATA*										
Earnings per share	$ 1.45	$ 1.83	$ 1.50	$ 1.16	$ 1.22	$ 1.35	$ 1.09	$ 1.21	$ 1.25	$ 1.20
Dividends declared	$ 1.070	$ 1.055	$ 1.040	$ 1.020	$ 0.990	$ 0.960	$ 0.930	$ 0.900	$ 0.870	$ 0.840

Dividend payout ratio	74%	58%	69%	88%	81%	71%	85%	74%	70%	70%
Book value	$ 13.38	$ 13.00	$ 12.22	$ 11.72	$ 11.56	$ 10.90	$ 10.51	$ 10.35	$ 10.04	$ 9.66
Market price at year-end	31.31	29.53	21.00	16.38	16.00	20.00	16.50	14.00	13.38	14.00
Common shares outstanding in thousands)	12,619	12,619	12,619	12,538	12,494	11,378	11,378	11,378	11,378	11,378
Return on average commonshareholders' equity	11.1%	14.6%	12.7%	10.2%	10.6%	12.4%	10.4%	11.7%	12.4%	12.4%
Long-term debt interest coverage	3.5	4.2	3.6	3.2	3.2	3.2	2.9	3.2	3.6	3.4

</TABLE>

* Common share data is restated to reflect the effective two-for-one stock split on December 31, 1997.

(Dollars in thousands, except other data)

<TABLE>
<CAPTION>

	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE SHEET DATA										
Net utility plant	$478,305	$460,407	$443,588	$422,175	$407,895	$391,703	$374,613	$349,937	$325,409	$307,802
Utility plant expenditures	34,553	32,907	35,683	27,250	28,275	28,829	35,188	34,459	26,861	27,277
Total assets	548,499	531,297	512,390	497,626	462,794	446,619	403,448	393,609	369,055	339,348
Long-term debt including current portion	138,585	139,205	142,153	145,540	128,944	129,608	122,069	103,505	104,905	86,012
Capitalization ratios:										
Common shareholders' equity	54.3%	53.5%	51.4%	49.7%	52.2%	48.2%	48.8%	52.4%	51.3%	55.1%
Preferred stock	1.1%	1.1%	1.2%	1.2%	1.3%	1.4%	1.4%	1.5%	1.6%	1.8%
Long-term debt	44.6%	45.4%	47.4%	49.1%	46.5%	50.4%	49.8%	46.1%	47.1%	43.1%
OTHER DATA										
Water production (million gallons)										
Wells	49,955	56,612	53,372	49,755	50,325	47,205	52,000	48,930	51,329	51,350
Purchased	49,436	53,190	51,700	49,068	49,300	48,089	40,426	36,686	45,595	45,978
	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------
Total water production	99,391	109,802	105,072	98,823	99,625	95,294	92,426	85,616	96,924	97,328
Metered customers	305,900	302,100	298,400	289,200	286,700	282,100	278,700	275,200	272,100	269,200
Flat rate customers	77,100	77,400	77,700	77,900	78,800	80,800	82,000	82,400	81,200	79,400

Customers at year-end	383,000	379,500	376,100	367,100	365,500	362,900	360,700	357,600	353,300	348,600
New customers added	3,500	3,400	9,000	1,600	2,600	2,200	3,100	4,300	4,700	3,800
Revenue per customer	$ 486	$ 515	$ 486	$ 450	$ 430	$ 418	$ 388	$ 356	$ 352	$ 337
Utility plant per customer	$ 1,777	$ 1,707	$ 1,644	$ 1,592	$ 1,530	$ 1,469	$ 1,406	$ 1,327	$ 1,251	$ 1,198
Employees at year-end	658	649	633	630	624	614	610	593	581	565

</TABLE>

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

California Water Service Group ("Group") was formed on December 31, 1997 as a holding company with two operating subsidiaries, California Water Service Company ("Company") and CWS Utility Services ("Services"). The Company is a regulated public utility. Its assets and operating revenues currently comprise virtually all of the Group's assets and revenues. Services provides non-regulated water operations and related services. The following discussion and analysis provides information regarding the Group, its assets, operations and financial condition.

FORWARD LOOKING STATEMENTS

This annual report, including the Letter to Shareholders, Management's Discussion and Analysis and other sections of this report contain forward looking statements within the meaning of federal securities laws. Such statements are based on currently available information, expectations, estimates, assumptions and projections, and management's judgment about the Group, the water utility industry and general economic conditions. Such words as expects, intends, plans, believes, estimates, anticipates 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. Actual results may vary materially from what is contained in a forward looking statement. Factors which may cause a result different than expected or anticipated include regulatory commission decisions, new legislation, increases in suppliers' prices, changes in environmental compliance requirements, acquisitions, changes in customer water use patterns and the impact of weather on operating results. The Group assumes no obligation to provide public updates of forward looking statements.

BUSINESS

The Company is a public utility supplying water service to 383,000 customers in 58 California communities through 21 separate water systems or districts. In the Company's 20 regulated systems, serving 377,000 customers as shown on the enclosed map, rates and operations are subject to the jurisdiction of the California Public Utilities Commission ("CPUC"). An additional 6,000 customers receive service through a long-term lease of the City of Hawthorne water system, which is not subject to CPUC regulations. Group's subsidiaries also have contracts with various municipalities to operate water systems and provide billing services for an additional 30,700 customers, and operate two reclaimed water systems and lease communication antenna sites.

The CPUC requires that water rates for each regulated district be determined independently. Rates for the City of Hawthorne system are established in accordance with an operating agreement and are subject to ratification by the City council. Fees for other operating agreements are based on contracts negotiated among the parties.

RESULTS OF OPERATIONS

EARNINGS AND DIVIDENDS. 1998 net income was $18,395,000 compared to $23,305,000 in 1997 and $19,067,000 in 1996. Earnings per common share were $1.45 in 1998, $1.83 in 1997 and $1.50 in 1996. 1997 revenue, net income and earnings per share represent the highest levels ever achieved by the Group. The weighted average number of common shares outstanding in each of the three years was 12,619,000, 12,619,000 and 12,580,000, respectively.

At its January 1998 meeting, the Board of Directors increased the common stock dividend rate for the 31st consecutive year. 1998 also marked the 54th consecutive year that a dividend had been paid on the Company's common stock. The annual dividend rate paid in 1998 was $1.07, an increase of 1.4% over the 1997 rate of $1.055 per share which was an increase of 1.4% compared with the 1996 dividend of $1.04 per share. The dividend increases were based on projections that the higher dividend could be sustained while still providing the Group with adequate financial flexibility. Earnings not paid as dividends are reinvested in the business. The dividend payout ratio was 74% in 1998, 58% in 1997 and 69% in 1996, an average of 67% for the three-year period. The variation in payout ratios among the three years is primarily attributable to earnings per share fluctuations.

OPERATING REVENUE. Operating revenue, including revenue from City of Hawthorne customers, was $186.3 million, $9.1 million or 5% less than the record established the previous year of $195.3 million. 1996 revenue was $182.8 million. The sources of change in operating revenue are set forth in the following table:

<TABLE>
<CAPTION>

(In millions)	1998	1997	1996
<S>	<C>	<C>	<C>
Customer water usage	$(12.6)	$3.9	$3.1
General and step rate increases	1.9	6.4	7.8
Water production costs-offset rate increases	0.2	0.2	2.2
Usage by new customers	1.4	2.1	4.6
Net change	$(9.1)	$12.6	$17.7
Average revenue per customer (dollars)	$486	$515	$486
Average metered customer usage (ccf)	285	315	303
New customers added	3,500	3,400	9,000

</TABLE>

During the first half of 1998, weather in our service areas was wet and cool, very much the reverse of 1997's favorable weather pattern. Weather in the second half of the year returned to a more normal pattern. However, the wet, cool weather in the early part of the year resulted in an overall 9% decrease in 1998 water usage, negatively impacting revenue. The impact of rate changes is discussed in a following separate section. The year-end customer count was 383,000, a 0.9% increase.

Rainfall for the 1996-97 season was concentrated in December 1996 and January 1997, then virtually ceased. Average consumption per metered account was at a record level due to summer months that were dry and warm. The customer count increased 0.9% to 379,500. The City of Hawthorne system was operated for the full year, while in 1996 operation was for a ten-month period.

OPERATING AND INTEREST EXPENSES. Operating expenses, including those for the Hawthorne operation, were $156.2 million in 1998, $161.0 million in 1997 and $152.4 million in 1996. These amounts reflect a decrease in 1998 of $4.8 million and an increase in 1997 of $8.6 million.

Well production and water purchases from wholesale suppliers each supplied 49.7% of the required water deliveries in 1998. The remaining 0.6% was obtained from the Company's Bear Gulch district watershed. For 1997, wells produced 51.2 % of the supply, 48.4% was purchased and 0.4% came from the watershed. Information regarding water production costs which includes purchased water, purchased power and pump taxes is tabulated in the following table:

<TABLE>
<CAPTION>

(In millions)	1998	1997	1996
<S>	<C>	<C>	<C>
Purchased water	$50.4	$52.2	$51.5
Purchased power	11.1	12.5	12.1
Pump taxes	3.9	4.3	3.8
Total water production costs	$65.4	$69.0	$67.4
Change from prior year	(5%)	2%	8%
Water production (billion gallons)	99	110	105

Change from prior year	(10%)	5%	6%

</TABLE>

Water production in 1998 reflects a decline in customer usage, while production levels in 1997 and 1996 reflect increased customer usage. The changes were influenced by each year's predominant weather pattern as discussed above in the operating revenue section. In each of the three years, purchased water expense, the largest component of operating expense, was affected by wholesale supplier rate increases. Well production decreased in 1998 due to a decline in water

sales and because several wells were out of service for maintenance. With less well production, purchased power and pump tax expenses also declined. In 1997,

purchased water expense was reduced by two nonrecurring refunds totaling $2.5 million received from two wholesale water suppliers. Well production increased 6% in 1997 because of increased demand causing a $0.9 million increase in pump taxes and purchased power costs.

Employee payroll and benefits charged to operations and maintenance expense was $33.7 million this past year, $32.9 million in 1997 and $31.2 million in 1996. The increases in payroll and related benefits are attributable to general wage increases effective at the start of each year and additional hours worked. At year-end 1998, 1997 and 1996, there were 658, 649 and 633 employees, respectively.

Income taxes were $10.6 million in 1998, $14.0 million in 1997 and $12.2 million in 1996. The changes in taxes are generally due to variations in taxable income.

Long-term debt interest expense decreased $0.2 million in 1998 and $0.3 million in 1997 due to the retirement of Series K bonds in November 1996 and Series L bonds in November 1997, annual sinking fund payments each year and the absence of new long-term financing since 1995.

Interest expense from short-term bank borrowings in 1998 was $0.7 million greater than in 1997. In 1997, short-term interest expense was $0.3 million more than in 1996. The additional interest expense in the past two years reflects a higher level of short-term bank borrowings. Interest coverage of long-term debt before interest and income taxes was 3.5 times in 1998, 4.2 times in 1997 and 3.6 times in 1996. There was $22.5 million in temporary borrowings at the end of 1998 and $14.5 million at the end of 1997.

OTHER INCOME. Other income is derived from management contracts under which the Company operates three municipally owned water systems, contracts for operation of five privately owned water systems, agreements for operation of two reclaimed water systems, meter reading and billing services to various cities, leasing certain facilities, other nonutility sources and interest on short-term investments. Total other income was $1.1 million in 1998 and 1997, and $0.8 million in 1996. Income from the various operating and billing contracts excluding short-term interest income was $1.1 million in 1998, $1.0 million in 1997 and $0.7 million in 1996.

RATES AND REGULATION

The 1998 rate case applications were filed with the CPUC in July. The applications request rate increases in four districts representing 25% of total accounts. An application covering General Office operations was also submitted. Based on the CPUC's processing schedule, a decision regarding the applications is expected in the second quarter of 1999. It is estimated that the decision will provide the Company with between $1.5 and $2.0 million of additional revenue in the first twelve months following the decision.

CPUC decisions were received in July 1998 for the general rate applications filed in July 1997. Additional annual revenue from these decisions is expected to be $299,000 in 1998, $267,000 in 1999 and $121,000 in the years 2000 and 2001. In a variance from its past practice, future rate increases for operating costs and capital requirements over the next five years in the Oroville and Selma districts are tied to changes in a price index.
The decision maintained the ROE at 10.35%.

During 1996, general rate case applications were filed with the CPUC for two districts. The CPUC granted an ROE of 10.35%. Additional 1997 revenue, including memorandum and balancing account adjustments, was $2.4 million. The decision included provisions for future step rate increases to become effective in the next three years of $1.7 million in 1998 and $0.1 million in 1999 and 2000. The CPUC also authorized step rate increases for 1997 in various districts totaling $1.5 million and $1.4 million for undercollection of expense balancing accounts.

During 1999, 10 districts, representing about 55% of all customers, are eligible for rate increase filings. The Company will review earnings levels in those districts and file for additional rate consideration as it deems appropriate. The Company expects to file any rate applications in July with decisions received from the CPUC in the second quarter of 2000.

WATER SUPPLY

The Company's source of supply varies among its 21 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 their supply from both sources. As a general rule, about half of the water is provided from wells and about half purchased. Total water production for 1998, 1997 and 1996 was 99.4, 109.8 and 105.1 million gallons, respectively.

Generally, between mid-spring and mid-fall little precipitation falls in the Company's service areas. Water demand is highest during the normally warm, dry summer period and less in the cool, wet winter. Rain and snow during the winter months replenish underground water basins and fill reservoirs providing the water supply for subsequent delivery to customers. To date, snow and rainfall accumulation during the 1998-99 water year has been less than normal; however, the prior three years exceeded normal levels. Water storage in state reservoirs at the end of 1998 exceeded historic levels. The Company believes that its water sources from both underground aquifers and purchased sources should be adequate to meet customer demand during 1999.

ENVIRONMENTAL MATTERS

The Company is subject to regulations of the United States Environmental Protection Agency (EPA), the California Department of Health Services and various county health departments concerning water quality matters. It is also subject to the jurisdiction of various state and local regulatory agencies relating to environmental matters, including handling and disposal of hazardous materials.

The Company believes it is in compliance with all monitoring and treatment requirements set forth by the various agencies. In the past several years, substantially all of the Company's wells have been equipped with chlorinators, providing disinfection of water extracted from underground sources. The cost of the new treatment is being recovered in customer rates as authorized by the CPUC. Water purchased from wholesale suppliers is treated before delivery to the Company.

Various regulatory agencies could require increased monitoring and possibly additional treatment of water supplies. The Company intends to request recovery for any additional treatment costs through the ratemaking process.

LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY. The Group's liquidity is provided by utilization of a $50 million short-term bank line of credit and internally generated funds. Under the bank line, Group has available $20 million and Company $30 million. Prior to 1997, the line of credit was $30 million. The Group's $20 million portion of the bank credit line may be drawn upon for use by the Group, including funding operations of either of its two operating subsidiaries. The Company's $30 million portion of the credit line may be used solely for purposes of regulated water operations. Additional information regarding the bank line of credit is presented in Note 4 to the Consolidated Financial Statements. Internally generated funds come from retention of earnings not paid out as dividends, depreciation and deferred income taxes.

Because of the seasonal nature of the water business, the need for short-term borrowings under the line of credit generally increases during the first six months of the year when water sales are lowest. Greater summer usage and larger customer bills increase cash flow and allow bank borrowings to be repaid.

The Company believes that long-term financing is available to it through equity and debt markets. Standard & Poor's and Moody's have maintained their ratings of the Company's first mortgage bonds at AA- and Aa3, respectively. Long-term financing, which includes issuance of common stock, first mortgage bonds, senior

notes and other debt securities is used to replace short-term borrowings and fund construction. Developer contributions in aid of construction and refundable advances for construction are also sources of funds for various construction projects.

Additional long-term financing was not necessary in 1998 or 1997. Operating and capital requirements were met by borrowings under the short-term bank line of credit and by internally generated funds. The most recent financing was Series A, 7.28%, 30-year senior notes issued in 1995. A new $20 million long-term debt financing is expected to be completed in the first quarter of 1999. The funds will be used to repay short-term borrowings.

During the first quarter of 1998, the Group implemented a new Dividend Reinvestment and Stock Purchase Plan (DRSP). About 10% of outstanding

shares participate in the DRSP which replaced the Company's former Dividend Reinvestment Plan. Under the DRSP, shareholders may reinvest dividends to purchase additional Group common stock. Another feature of the DRSP allows existing shareholders and other interested investors to purchase Group common shares. Shares required for the DRSP may be purchased on the open market or from newly issued shares. Therefore, the DRSP will provide the Group with an alternative means of developing additional equity if new shares were to be issued. During 1998 and 1997 shares required by the new and former plans were purchased on the open market. At this time, Group intends to continue purchasing shares required for the DRSP on the open market. However, if new shares were issued to satisfy future DRSP requirements, the impact on earnings per share could be dilutive because of the added shares outstanding. Also, shareholders not participating in the DRSP may experience dilution of their ownership percentage.

CAPITAL REQUIREMENTS. Capital requirements consist primarily of new construction expenditures for expanding and replacing the Company's utility plant facilities, and the acquisition of new water properties. They also include refunds of advances for construction and retirement of bonds.

During 1998, utility plant expenditures totaled $34.6 million compared to $32.9 million in 1997. This year's expenditures included $30.1 million provided by Company funding and $4.5 million received from developers through contributions in aid of construction and refundable advances for construction. Company projects were funded by internally generated funds and borrowings under the short-term bank line of credit.

The Board of Directors authorized a $30.7 million 1999 construction budget for the Company. The funds for this program are expected to be provided by cash from operations, bank borrowings and long-term debt financing. New subdivision construction generally will be financed by developers' contributions and refundable advances. Company funded construction budgets over the next five years are projected to be about $170 million.

CAPITAL STRUCTURE. The Group's total capitalization at December 31, 1998 and 1997 was $310.9 million and $306.7 million, respectively. Capital ratios were:

<TABLE>
<CAPTION>

	1998	1997
<S>	<C>	<C>
Common equity	54.3%	53.5%
Preferred stock	1.1%	1.1%
Long-term debt including current maturities	44.6%	45.4%

</TABLE>

During the year, no new debt was sold or equity issued. The common equity percentage increase from 1997 to 1998 and the corresponding decrease in the long-term debt percentage were caused by several factors. Shareholders' equity increased by the amount of earnings not paid out for dividends, while the amount of outstanding debt decreased due to annual November bond sinking fund payments.

The 1998 return on average common equity was 11.1% compared with 14.6% in 1997 and 12.7% in 1996. The most recent CPUC authorized rate of return on common equity is 10.35%.

REAL ESTATE PROGRAM. The Group's subsidiaries own more than 850 real estate parcels. Certain parcels are not necessary for or used in water utility operations. A program has been developed to realize the value of certain surplus properties through the sale or lease of those properties. The program will be ongoing over a period of several years. Over the next four years, Group estimates that gross property transactions totaling six million dollars could be completed.

SHAREHOLDER RIGHTS PLAN. As explained in Note 3 to the Consolidated Financial Statements, in January 1998, the Board of Directors adopted a Shareholder Rights Plan (Plan). The Plan is designed to protect shareholders and maximize shareholder value in the event of an unsolicited takeover proposal by encouraging a prospective acquirer to negotiate with the Board.

DOMINGUEZ MERGER

On November 13, 1998, the boards of Group and Dominguez Services Corporation (Dominguez) agreed to the merger of the two companies. Dominguez is a utility holding company. Its largest subsidiary, Dominguez Water Company, is a regulated water utility providing water service to about 40,000 customers in 21 California communities. Its other subsidiary conducts water brokering and has an equity investment in a manufacturer of chlorine generators used by the water and wastewater industries. Dominguez' 1997 operating revenue was $26.8 million. At December 31, 1997, net utility plant was $41.4 million and total assets $51.7 million.

The merger agreement provides that each outstanding Dominguez common share will be exchanged on a tax-free basis for 1.18 Group common shares. At December 31, 1998, there were 1,561,000 shares of Dominguez common stock outstanding. Group also expects to assume approximately $10.5 million of outstanding Dominguez debt. The transaction is expected to be accounted for as a pooling of interests.

The merger is subject to review by various state and federal agencies including the CPUC. Final regulatory approval is expected in 1999's fourth quarter. The transaction is also subject to approval by Dominguez shareholders. Several inquiries indicating interest in submitting a competing proposal have been received by Dominguez from another water company. Subsequently, that company submitted a formal proposal that will be evaluated by Dominguez. In the event Dominguez completes a merger with another company, it must pay Group $2.7 million in settlement fees.

REINCORPORATION IN DELAWARE

The Board of Directors has approved a resolution to reincorporate Group in the State of Delaware. Among the advantages considered by the Board in adopting the resolution of incorporating in Delaware were: the legislature is responsive to business needs and acts quickly to enact relevant new laws; Delaware has the most extensive case law on corporate issues of any state, thereby providing corporations with more certainty about the application of laws in particular circumstances; courts that specialize in corporate law have developed an expertise in dealing with corporate issues; and the state has developed a sharper definition of director responsibilities so that boards may act with greater certainty on issues affecting shareholders.

The reincorporation is subject to shareholder approval. Shareholders will vote on the proposal at their annual meeting in April 1999. If shareholders approve the proposal, the reincorporation is expected to be effective in the second or third quarter of 1999. Only Group will be reincorporated in Delaware, Company and Services will remain California corporations.

NEW ACCOUNTING STANDARDS

In 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." The statement establishes new accounting and reporting standards for derivative financial instruments and hedging activities. In 1998, the American Institute of Certified Public Accountants issued Statement of Position (SOP) 98-5, "Reporting on the Costs of Start-Up Activities." This SOP provides guidance on the financial reporting of start-up costs and organization costs. The Group, which will adopt SFAS No. 133 and SOP 98-5 during 1999, does not anticipate that either statement will have material impact on its financial position or operating results.

YEAR 2000
READINESS. The Group has assembled a team to address Year 2000 preparedness issues and the team has developed a Year 2000 readiness plan. The Group retained an outside independent consultant who reviewed and evaluated the Year 2000 readiness plan. The consultant's report was positive. Recommendations from the consultant are being addressed.

Generally, computer operations are centralized at a single location. The information technology (IT) group has inventoried its various software programs and identified modifications required to make the programs Year 2000 ready. Most computer applications are currently processed on a mainframe-based system. However, as part of a technology upgrade, a local area network (LAN) computer system that includes Year 2000 ready servers and personal computers, was installed during 1998. A new Year 2000 compatible accounting, purchasing and human resources software package is being installed on the LAN system. Certain accounting applications have already been migrated to the LAN system and others are in the process of being converted. It is anticipated that most non-customer billing applications will be migrated to the LAN system by mid-1999 and the process continues on schedule. The mainframe customer billing system has been converted to handle Year 2000 dates. The customer billing system will not be switched to the LAN system until sometime after 2000.

Group has also identified non-computer equipment and operating systems that may contain embedded date-sensitive chips. Steps have been taken to make the equipment and systems Year 2000 ready.

Suppliers and vendors with whom the Group has a material business relationship were contacted during 1998 to assess their Year 2000 preparedness. The intent of these contacts is to determine that suppliers and vendors will not encounter Year 2000 problems that might disrupt the Group's business processes. Those contacted include water wholesalers, power supply companies, chemical vendors, fuel suppliers, banks and stock registrar. This process is being repeated in 1999 as operating units continue to work with suppliers and vendors to assure availability of necessary products and supplies. A survey of each of the Group's district water operations has also been completed to assess specific needs within each district.

COSTS. The total estimated remediation cost for Year 2000 preparedness is about $300,000. Included in the estimate is the cost of the outside consultant and computer programming time. The costs of the new LAN system and software package were not included in the estimate since their implementation and installation date were not Year 2000 driven. No IT projects have been deferred as a result of the Year 2000 efforts.

RISKS. In a worst-case scenario, the Group may be unable to deliver water to its customers because wholesale suppliers cannot provide water to the Group or power supplies are not available to operate pumping equipment. Additionally, it may be impossible to produce customer bills or maintain accounting functions if power sources are not available or computer billing programs do not function due to Year 2000 failures. The Group is not able to estimate the potential financial impact of these scenarios.

Because there is an increased threat of litigation due to potential Year 2000 problems, the Group is evaluating its insurance policies to determine if they afford coverage of Year 2000 issues.

CONTINGENCY PLANS. Group maintains emergency response plans that are reviewed and updated on a regular basis. These plans are designed to provide for alternative operating plans and procedures in the event normal procedures are interrupted. The emergency plans are the basis for developing Year 2000 service interruption plans.

Fixed site and portable auxiliary power generators are located throughout the service territories. These generators are designed to produce electric power for wells and pumps to supply water to customers in the event of power company outages. If a power supplier is unable to deliver electricity, the auxiliary generators would be used as a substitute source.

Emergency water connections are maintained between certain of the Group's water systems and those of adjacent purveyors. In the event of loss of a wholesale water supply or a power outage, the emergency connections could be operated to provide a water supply.

Each district has identified high-profile water users, such as hospitals, and developed contingency plans for continued service in the event of a Year 2000 disruption.

CONSOLIDATED BALANCE SHEET

<TABLE>
<CAPTION>

December 31, (In thousands)	1998	1997

<S> <C> <C>

ASSETS		
UTILITY PLANT:		
Land	$ 8,139	$ 7,860
Depreciable plant and equipment	653,524	627,584
Construction work in progress	10,613	4,026
Intangible assets	8,414	8,178
Total utility plant	680,690	647,648
Less depreciation and amortization	202,385	187,241
Net utility plant	478,305	460,407
CURRENT ASSETS:		
Cash and cash equivalents	591	1,742
Receivables:		
Customers	10,439	10,890
Other	3,071	3,972
Unbilled revenue	5,896	5,136
Materials and supplies at average cost	2,107	2,105
Taxes and other prepaid expenses	4,491	4,423
Total current assets	26,595	28,268
OTHER ASSETS:		
Regulatory assets	39,538	38,345
Unamortized debt premium and expense	3,556	3,748
Other	505	529
Total other assets	43,599	42,622
	$548,499	$531,297

</TABLE>

See accompanying notes to consolidated financial statements.

<TABLE>
<CAPTION>

<S> <C> <C>

	1998	1997
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION:		
Common stock, no par value; 25,000 shares authorized, 12,619 shares outstanding	$ 44,941	$ 44,941
Retained earnings	123,863	119,124
Total common shareholders' equity	168,804	164,065
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	136,345	138,585
Total capitalization	308,624	306,125
CURRENT LIABILITIES:		
Current maturities of long-term debt	2,240	620
Short-term borrowings	22,500	14,500
Accounts payable	15,881	15,499
Accrued taxes	3,484	2,985
Accrued interest	1,933	1,919
Other accrued liabilities	9,490	8,241
Total current liabilities	55,528	43,764
UNAMORTIZED INVESTMENT TAX CREDITS	2,924	3,006
DEFERRED INCOME TAXES	27,925	25,761
REGULATORY LIABILITIES	12,697	12,493
ADVANCES FOR CONSTRUCTION	95,701	95,878
CONTRIBUTIONS IN AID OF CONSTRUCTION	45,100	44,270
	$548,499	$531,297

</TABLE>

CONSOLIDATED STATEMENT OF INCOME

<TABLE>
<CAPTION>

For the years ended December 31, (In thousands, except per share data)	1998	1997	1996
OPERATING REVENUE	$186,273	$195,324	$182,764
OPERATING EXPENSES:			
Operations:			
Purchased water	50,377	52,155	51,514
Purchased power	11,145	12,462	12,075
Pump taxes	3,850	4,302	3,753
Administrative and general	24,384	23,521	21,664
Other	24,498	24,019	23,000
Maintenance	9,030	9,319	8,317
Depreciation and amortization	14,563	13,670	12,665
Income taxes	10,550	13,950	12,150
Property and other taxes	7,802	7,577	7,259
Total operating expenses	156,199	160,975	152,397
Net operating income	30,074	34,349	30,367
OTHER INCOME AND EXPENSES, NET	767	858	607
Income before interest expense	30,841	35,207	30,974
INTEREST EXPENSE:			
Long-term debt interest	11,259	11,405	11,663
Other interest	1,187	497	244
Total interest expense	12,446	11,902	11,907
NET INCOME	$ 18,395	$ 23,305	$ 19,067
BASIC EARNINGS PER SHARE OF COMMON STOCK	$ 1.45	$ 1.83	$ 1.50
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	12,619	12,619	12,580

</TABLE>

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF COMMON SHAREHOLDERS' EQUITY

<TABLE>
<CAPTION>

(In thousands, except shares)	Common Shares Outstanding	Common Stock	Retained Earnings	Total
BALANCE AT DECEMBER 31, 1995	12,538,702	$43,507	$103,442	$146,949
Net income			19,067	19,067
Dividends paid:				
Preferred stock			153	153
Common stock			13,071	13,071
Total dividends paid			13,224	13,224
Income reinvested in business			5,843	5,843
Dividend reinvestment	80,438	1,434	-	1,434
BALANCE AT DECEMBER 31, 1996	12,619,140	44,941	109,285	154,226
Net income			23,305	23,305
Dividends paid:				

Preferred stock			153	153
Common stock			13,313	13,313
Total dividends paid			13,466	13,466
Income reinvested in business			9,839	9,839
BALANCE AT DECEMBER 31, 1997	12,619,140	44,941	119,124	164,065
Net income			18,395	18,395
Dividends paid:				
Preferred stock			153	153
Common stock			13,503	13,503
Total dividends paid			13,656	13,656
Income reinvested in business			4,739	4,739
BALANCE AT DECEMBER 31, 1998	12,619,140	$44,941	$123,863	$168,804

</TABLE>

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

<TABLE>
<CAPTION>

For the years ended December 31, (In thousands)	1998	1997	1996
<S>	<C>	<C>	<C>
OPERATING ACTIVITIES:			
Net income	$18,395	$23,305	$19,067
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	14,563	13,670	12,665
Deferred income taxes and investment tax credits, net	2,082	1,945	(2,169)
Regulatory assets and liabilities, net	(989)	(923)	503
Changes in operating assets and liabilities:			
Receivables	1,352	(1,897)	698
Unbilled revenue	(760)	441	729
Accounts payable	382	807	(115)
Other current liabilities	1,762	543	1,579
Other changes, net	734	1,510	235
Net adjustments	19,126	16,096	14,125
Net cash provided by operating activities	37,521	39,401	33,192
INVESTING ACTIVITIES:			
Utility plant expenditures:			
Company funded	(30,051)	(25,491)	(27,631)
Developer advances and contributions in aid of construction	(4,502)	(7,416)	(8,052)
Net cash used in investing activities	(34,553)	(32,907)	(35,683)
FINANCING ACTIVITIES:			
Net short-term borrowings	8,000	7,000	7,500
Proceeds from issuance of common stock	--	--	1,434
Advances for construction	3,744	4,536	4,998
Refunds of advances for construction	(3,757)	(3,685)	(3,631)
Contributions in aid of construction	2,170	2,443	3,896
Retirements of first mortgage bonds	(620)	(2,948)	(3,387)
Dividends paid	(13,656)	(13,466)	(13,224)
Net cash used in financing activities	(4,119)	(6,120)	(2,414)
CHANGE IN CASH AND CASH EQUIVALENTS	(1,151)	374	(4,905)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,742	1,368	6,273
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 591	$ 1,742	$ 1,368

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest (net of amounts capitalized)	$ 11,053	$ 11,734	$ 11,721
Income taxes	$ 8,725	$ 14,525	$ 12,775

</TABLE>

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1998, 1997, and 1996

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
The consolidated financial statements include the accounts of California Water Service Group (Group) and its wholly-owned subsidiaries, California Water Service Company (Company) and CWS Utility Services (Services), collectively referred to as the Group. The Company is a utility, regulated by the California Public Utilities Commission (CPUC). Services provides non-regulated water operations and related services. Intercompany transactions and balances have been eliminated.

The accounting records of the Group are maintained in accordance with the uniform system of accounts prescribed by the CPUC. Certain prior years' amounts have been reclassified, where necessary, to conform to the current presentation.

The preparation of financial statements in conformity with generally accepted accounting principles 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.

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 131, "Disclosures about Segments of an Enterprise and Related Information." It establishes disclosure requirements concerning operating business segments, products and services, geographic areas and major customers. The Group adopted this pronouncement in 1998. The Group operates primarily in one business segment, providing water utility services. The non-utility segment is not material to the Group's revenues, net income or assets.

REVENUE. Revenue consists of monthly cycle customer billings for regulated water service at rates authorized by the CPUC and billings to the City of Hawthorne 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.

UTILITY PLANT. Utility plant is carried at original cost when first constructed or purchased, except for certain minor units of property recorded at estimated fair values at dates of acquisition. Cost of depreciable plant retired is eliminated from utility plant accounts and such costs are charged against accumulated depreciation. Maintenance of utility plant, other than transportation equipment, is charged to operating expenses. Maintenance and depreciation of transportation equipment are charged to a clearing account and subsequently distributed primarily to operations. Interest is capitalized on plant expenditures during the construction period and amounted to $224,000 in 1998, $267,000 in 1997, and $261,000 in 1996.

Intangible assets acquired as part of water systems purchased are stated at amounts as prescribed by the CPUC. All other intangibles have been recorded at cost. Included in intangible assets is $6,500,000 paid to the City of Hawthorne to lease the city's water system and associated water rights. The lease payment is being amortized on a straight-line basis over the 15-year life of the lease. The Group continually evaluates the recoverability of utility plant by assessing whether the amortization of the balance over the remaining life can be recovered through the expected and undiscounted future cash flows.

In March 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-1, "Accounting for Costs of Computer Software Developed or Obtained for Internal Use" (SOP 98-1). SOP 98-1 provides guidance on accounting for the cost of computer software developed or obtained for internal use. The Group's adoption of this SOP 98-1 in 1998 did not have a material effect on the financial position or results from operations.

LONG-TERM DEBT, PREMIUM, DISCOUNT AND EXPENSE. The discount and expense on long-term debt is being amortized over the original lives of the related debt issues. Premiums paid on the early redemption of certain debt issues and unamortized original issue discount and expense of such issues are amortized over the life of new debt issued in conjunction with the early redemption.

CASH EQUIVALENTS. Cash equivalents include highly liquid investments, primarily U.S. Treasury and U.S. Government agency interest bearing securities, stated at cost with original maturities of three months or less.

DEPRECIATION. Depreciation of utility plant for financial statement purposes is computed on the straight-line remaining life method at rates based on the estimated useful lives of the assets, ranging from 5 to 65 years. The provision for depreciation expressed as a percentage of the aggregate depreciable asset balances was 2.6% in 1998, and 2.5% in 1997 and 1996. 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.

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. Such payments are refundable to the developer without interest over a 20-year or 40-year period. Refund amounts under the 20-year contracts are based on annual revenues from the extensions. Unrefunded balances at the end of the contract period are credited to Contributions in Aid of Construction and are no longer refundable. Refunds on contracts entered into since 1982 are made in equal annual amounts over 40 years. At December 31, 1998, the amounts refundable under the 20-year contracts were $8,328,000 and under 40-year contracts $87,373,000. Estimated refunds for 1999 for all water main extension contracts are $4,000,000.

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

INCOME TAXES. The Group 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 CPUC will reflect revenue requirements for the tax effects of temporary differences recognized which have previously been flowed through to customers.

The CPUC has granted the Company customer rate increases to reflect the normalization of the tax benefits of the federal accelerated methods and available investment tax credits (ITC) for all assets placed in service after 1980. ITC are deferred and amortized over the lives of the related properties.

Advances for Construction and Contributions in Aid of Construction received from developers subsequent to 1986 are taxable for federal income tax purposes and subsequent to 1991 subject to state income tax. In 1996 the federal tax law, and in 1997 the state tax law, changed and the major portion of future advances and contributions are nontaxable.

EARNINGS PER SHARE. Basic earnings per share (EPS) is calculated using income available to common shareholders divided by the weighted average shares outstanding during the year. The Group has no dilutive securities, accordingly, diluted EPS is not shown.

NOTE 2. PREFERRED STOCK

As of December 31, 1998 and 1997, 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. Preferred shares are entitled to sixteen votes each with the right to cumulative votes at any elections of directors.

The outstanding 139,000 shares of $25 par value cumulative, 4.4% Series C preferred shares are not convertible to common stock. A premium of $243,250 would be due upon voluntary liquidation of Series C. There is no premium in the event of an involuntary liquidation.

NOTE 3. COMMON SHAREHOLDERS' EQUITY
The Company is authorized to issue 25,000,000 shares of no par value common stock. All share data has been restated to reflect the 2-for-1 stock split effective December 31, 1997. As of December 31, 1998 and 1997, 12,619,140 shares of common stock were issued and outstanding. All shares of common stock are eligible to participate in the Company's dividend reinvestment plan. Approximately 10% of shareholders participate in the plan.

SHAREHOLDER RIGHTS PLAN. In January 1998, the Board of Directors adopted a Shareholder Rights Plan (the Plan) 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. The Rights became effective in February 1998 and expire in February 2008. The Plan is designed to provide shareholders protection and to maximize shareholder value by encouraging a prospective acquirer to negotiate with the Board.

Each Right represents a right to purchase 1/100th share of Series D Preferred Stock at the price of $120, subject to adjustment (the 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 shareholder 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 caused the person's ownership level to exceed 15% and the Board determined the tender offer not to be fair to Group's shareholders, or (c) the Board determines that a shareholder maintaining a 10% interest in the Common Stock could have an adverse impact on the Group or could attempt to pressure Group 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) Group would distribute separate Rights Certificates to Common Stockholders and the Rights would subsequently trade separately from the Common Stock; and (b) each holder of a Right, other than the acquiring person (whose Rights will thereafter be void), will 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 Group merges into the acquiring person or enters into any transaction that unfairly favors the acquiring person or disfavors Group's other shareholders, 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 which would cause a Distribution Date is in the Group shareholders' best interest. Therefore, the Board may, at its option, redeem the Rights at a redemption price of $.001 per Right.

NOTE 4. SHORT-TERM BORROWINGS
As of December 31, 1998, the Group maintained a bank line of credit providing unsecured borrowings of up to $20,000,000 at the prime lending rate or lower rates as quoted by the bank. The Company maintained a bank line of credit for an additional $30,000,000 on the same terms as the Group. The line of credit agreements, which expire April 1999, do not require minimum or specific compensating balances. The following table represents borrowings under the bank line of credit.

(Dollars in thousands)	1998	1997	1996
Maximum short-term borrowings	$24,000	$14,500	$9,500
Average amount outstanding	15,740	5,164	1,662

Weighted average interest rate	7.09%	7.22%	6.94%
Interest rate at December 31	6.97%	7.29%	6.98%

</TABLE>

NOTE 5. LONG-TERM DEBT
As of December 31, 1998 and 1997, long-term debt outstanding was:

<TABLE>
<CAPTION>

(In thousands)			1998	1997
<S>	<C>	<C>	<C>	<C>
First Mortgage Bonds:				
Series P	7.875%	due 2002	$2,610	$2,625
Series S	8.50%	due 2003	2,625	2,640
Series BB	9.48%	due 2008	16,650	16,740
Series CC	9.86%	due 2020	18,800	18,900
Series DD	8.63%	due 2022	19,400	19,500
Series EE	7.90%	due 2023	19,500	19,600
Series FF	6.95%	due 2023	19,500	19,600
Series GG	6.98%	due 2023	19,500	19,600
			$118,585	$119,205
Senior Notes:				
Series A	7.28%	due 2025	20,000	20,000
Total long-term debt			$138,585	$139,205
Less current maturities			2,240	620
			$136,345	$138,585

</TABLE>

The first mortgage bonds are held by institutional investors and secured by substantially all of the Company's utility plant. Aggregate maturities and sinking fund requirements for each of the succeeding five years 1999 through 2003 are $2,240,000, $2,240,000, $2,240,000, $4,790,000 and $4,775,000, respectively. The senior notes are held by institutional investors and are unsecured and require interest-only payments until maturity.

NOTE 6. INCOME TAXES
Income tax expense consists of the following:

<TABLE>
<CAPTION>

(In thousands)	Federal	State	Total
<S>	<C>	<C>	<C>
1998			
Current	$ 6,105	$ 2,281	$ 8,386
Deferred	2,520	(356)	2,164
Total	$ 8,625	$ 1,925	$ 10,550
1997			
Current	$ 8,970	$ 2,894	$ 11,864
Deferred	2,280	(194)	2,086
Total	$ 11,250	$ 2,700	$ 13,950
1996			
Current	$ 9,356	$ 3,274	$ 12,630
Deferred	444	(924)	(480)
Total	$ 9,800	$ 2,350	$ 12,150

</TABLE>

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

<TABLE>
<CAPTION>

(In thousands)	1998	1997	1996

<S>	<C>	<C>	<C>
Computed "expected" tax expense	$ 10,131	$ 13,039	$ 10,926
Increase (reduction) in taxes due to:			
State income taxes net of federal tax benefit	1,251	1,755	1,528
Investment tax credits	(156)	(152)	(119)
Other	(676)	(692)	(185)
Total income tax	$ 10,550	$ 13,950	$ 12,150

</TABLE>

The components of deferred income tax expense in 1998, 1997 and 1996 were:

<TABLE>
<CAPTION>

(In thousands)	1998	1997	1996
<S>	<C>	<C>	<C>
Depreciation	$ 2,691	$ 2,457	$ 3,544
Developer advances and contributions	(798)	(334)	(3,749)
Bond redemption premiums	(62)	(62)	(73)
Investment tax credits	(93)	(93)	(93)
Other	426	118	(109)
Total deferred income tax expense	$ 2,164	$ 2,086	$ (480)

</TABLE>

The tax effects of differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 1998 and 1997 are presented in the following table:

<TABLE>
<CAPTION>

(In thousands)	1998	1997
<S>	<C>	<C>
Deferred tax assets:		
Developer deposits for extension agreements and contributions in aid of construction	$ 42,251	$ 43,980
Federal benefit of state tax deductions	2,524	2,998
Book plant cost reduction for future deferred ITC amortization	1,727	1,776
Insurance loss provisions	271	334
Total deferred tax assets	$ 46,773	$ 49,088
Deferred tax liabilities:		
Utility plant, principally due to depreciation differences	$ 74,186	$ 74,029
Premium on early retirement of bonds	1,152	1,215
Other	(640)	(395)
Total deferred tax liabilities	$ 74,698	$ 74,849
Net deferred tax liabilities	$ 27,925	$ 25,761

</TABLE>

A valuation allowance was not required during 1998 and 1997. Based on historical taxable income and future taxable income projections over the periods in which the deferred assets are deductible, management believes it is more likely than not the Group will realize the benefits of the deductible differences.

NOTE 7. EMPLOYEE BENEFIT PLANS
SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits" was released in 1998 and revises employers' disclosure requirements about pension and other postretirement benefit plans. This SFAS was implemented by the Group in 1998 and prior years' amounts have been restated to conform to the current year presentation.

PENSION PLAN. The Company provides a qualified defined benefit, non-contributory, pension plan for substantially all employees. The cost of the plan was charged to expense and utility plant. The Company makes annual contributions to fund the amounts accrued for pension cost. Plan assets are invested in mutual funds, pooled equity, and bond and short-term investment accounts. The data below includes the unfunded, non-qualified, supplemental executive retirement plan.

SAVINGS PLAN. The Company sponsors a 401(k) qualified, defined contribu-tion savings plan that allows participants to contribute up to 15% of pre-tax compensation. The Company matched fifty cents for each dollar contributed by the employee up to a maximum Company match of 4.0% of the employee's compensation in 1998 and 1997, and 3.5% of the employee's compensation in 1996. Company contributions were $1,078,000, $1,045,000, and $858,000, for the years 1998, 1997 and 1996, respectively.

OTHER POSTRETIREMENT PLANS. The Company provides substantially all active employees with medical, dental and vision benefits through a self-insured plan. Employees retiring at or after age 58 with 10 or more years of service are offered, along with their spouses and dependents, continued participation in the plan by a payment of a premium. Retired employees are also provided with a $5,000 life insurance benefit. Plan assets are invested in a mutual fund, short-term money market instruments and commercial paper.

The Company records the costs of postretirement benefits during the employees' years of active service. The CPUC has issued a decision which authorizes rate recovery of tax deductible funding of postretirement benefits and permits recording of a regulatory asset for the portion of costs that will be recoverable in future rates.

The following table reconciles the funded status of the plans with the accrued pension liability and the net postretirement benefit liability as of December 31, 1998 and 1997:

<TABLE>
<CAPTION>

	Pension Benefits		Other Benefits	
(In thousands)	1998	1997	1998	1997
<S>	<C>	<C>	<C>	<C>
CHANGE IN BENEFIT OBLIGATION:				
Beginning of year	$ 44,576	$ 39,296	$ 8,230	$ 5,873
Service cost	1,899	1,545	370	280
Interest cost	3,011	2,805	577	549
Assumption change	2,313	3,190	303	415
Plan amendment	--	991	1,101	--
Experience (gain) or loss	220	744	(872)	1,424
Benefits paid	(2,085)	(3,995)	(488)	(311)
End of year	$ 49,934	$ 44,576	$ 9,221	$ 8,230
CHANGE IN PLAN ASSETS:				
Fair value of plan assets at beginning of year	42,390	38,293	936	582
Actual return on plan assets	2,433	6,023	131	84
Employer contribution	2,208	2,069	635	581

</TABLE>

<TABLE>

<S>	<C>	<C>	<C>	<C>
Retiree contributions	--	--	357	340
Benefits paid	(2,085)	(3,995)	(845)	(651)
Fair value of plan assets at end of year	$ 44,946	$ 42,390	$ 1,214	$ 936

</TABLE>

<TABLE>
<CAPTION>

	Pension Benefits		Other Benefits	
(In thousands)	1998	1997	1998	1997
<S>	<C>	<C>	<C>	<C>
Funded status	$(4,988)	$(2,186)	$(8,007)	$(7,294)
Unrecognized actuarial (gain) or loss	(1,708)	(5,203)	1,485	2,129
Unrecognized prior service cost	4,758	5,370	1,030	--
Unrecognized transition obligation	--	--	3,476	3,724
Unrecognized net initial asset	858	1,144	--	--
Net amount recognized	$(1,080)	$ (875)	$(2,016)	$(1,441)

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

</TABLE>

<TABLE>
<CAPTION>

WEIGHTED-AVERAGE ASSUMPTIONS AS OF DECEMBER 31:				
<S>	<C>	<C>	<C>	<C>
Discount rate	6.75%	7.0%	6.75%	7.0%
Long-term rate of return on Plan assets	8.0%	8.0%	8.0%	8.0%
Rate of compensation increase	4.5%	4.5%	--	--

</TABLE>

Net periodic benefit costs for the pension and other postretirement plans for the years ending December 31, 1998, 1997 and 1996 included the following components:

<TABLE>
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	Pension Benefits			Other Benefits		
(In thousands)	1998	1997	1996	1998	1997	1996
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Service cost	$1,899	$1,545	$1,543	$ 370	$ 280	$ 166
Interest cost	3,011	2,805	2,583	577	549	383

</TABLE>

<TABLE>
<CAPTION>

	Pension Benefits			Other Benefits		
(In thousands)	1998	1997	1996	1998	1997	1996
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Expected return on Plan assets	(3,320)	(2,876)	(2,696)	(83)	(52)	(33)
Net amortization and deferral	823	768	701	346	338	248
Net periodic benefit cost	$ 2,413	$ 2,242	$ 2,131	$ 1,210	$ 1,115	$ 764

</TABLE>

Postretirement benefit expense recorded in 1998, 1997, and 1996 was $635,000, $581,000, and $523,000, respectively. $2,016,000, which is recoverable through future customer rates, is recorded as a regulatory asset. The Company intends to make annual contributions to the plan up to the amount deductible for tax purposes.

For 1998 measurement purposes, a 5.5% annual rate of increase in the per capita cost of covered benefits was assumed; the rate was assumed to decrease gradually to 5% in the year 2000 and remain at that level thereafter. 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 would have the following effect:

<TABLE>
<CAPTION>

	1-percentage Point Increase	1-percentage Point Decrease
Effect on total service and		
<S>	<C>	<C>
interest costs	$175	$(153)
Effect on accumulated postretirement benefit obligation	$1,402	$(1,133)

</TABLE>

NOTE 8. AGREEMENT OF MERGER WITH DOMINGUEZ SERVICES CORPORATION

On November 13, 1998, the Boards of Directors of Group and Dominguez Services Corporation (Dominguez) agreed to a merger of the two companies. Dominguez' 1997 operating revenue was $26.8 million, net income was $2.0 million and basic earnings per share was $1.34. At December 31, 1997, its net utility plant was $41.4 million and its total assets were $51.7 million.

The merger agreement provides that each outstanding Dominguez common share will be exchanged on a tax-free basis for 1.18 Group common shares. At December 31, 1998, there were 1,561,000 shares of Dominguez common stock outstanding. Group also expects to assume approximately $10.5 million of outstanding Dominguez debt. The transaction is expected to be accounted for as a pooling of interests.

The merger is subject to review by various state and federal agencies including the CPUC. The transaction is also subject to approval by Dominguez shareholders. Several inquiries indicating interest in submitting a competing proposal have been received by Dominguez from another water company. Subsequently, that company submitted a formal proposal that will be evaluated by Dominguez. In the event Dominguez completes a merger with another company, it must pay Group $2.7 million in settlement fees.

NOTE 9. 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:

CASH EQUIVALENTS. The carrying amount of cash equivalents approximates fair value because of the short-term maturity of the instruments.

LONG-TERM DEBT. The fair value of the Company's long-term debt is estimated at $153,900,000 as of December 31, 1998 and $155,000,000 as of December 31, 1997, using a discounted cash flow analysis, based on the current rates available to the Company for debt of similar maturities.

ADVANCES FOR CONSTRUCTION. The fair value of advances for construction contracts is estimated at $30,000,000 as of December 31, 1998 and $22,000,000 as of December 31, 1997, based on data provided by brokers.

NOTE 10. QUARTERLY FINANCIAL AND COMMON STOCK
MARKET DATA (UNAUDITED)
The Group's common stock is traded on the New York Stock Exchange under the symbol "CWT". There were approximately 11,000 holders of common stock at December 31, 1998. Quarterly dividends have been paid on common stock for 216 consecutive quarters and the quarterly rate has been increased during each year since 1968.

<TABLE>
<CAPTION>

(In thousands, except per share amounts)	First	Second	Third	Fourth
1998				
Operating revenue	$ 35,225	$ 44,455	$ 62,263	$ 44,330
Net operating income	4,501	6,574	12,003	6,996
Net income	1,590	3,561	9,141	4,103
Earnings per share	.12	.28	.72	.33
Common stock market price range:				
High	33.75	30.19	27.69	33.13
Low	24.31	21.50	20.75	21.25
Dividends paid	.2675	.2675	.2675	.2675
1997				
Operating revenue	$ 37,558	$ 55,083	$ 59,551	$ 43,132
Net operating income	5,712	11,788	10,540	6,309
Net income	2,921	8,878	7,860	3,646
Earnings per share	.23	.70	.62	.28
Common stock market price range:				
High	22.63	23.88	25.22	29.59
Low	19.50	18.63	21.13	23.44
Dividends paid	.264	.264	.264	.264

</TABLE>

INDEPENDENT AUDITORS' REPORT

SHAREHOLDERS AND BOARD OF DIRECTORS
CALIFORNIA WATER SERVICE GROUP:

We have audited the accompanying consolidated balance sheet of California Water Service Group and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income, common shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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, 1998 and 1997, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1998, in conformity with generally accepted accounting principles.

/s/ KPMG LLP

Mountain View, California
January 22, 1999

CORPORATE INFORMATION

STOCK TRANSFER, DIVIDEND DISBURSING AND REINVESTMENT AGENT
The First National Bank of Boston
(Boston EquiServe)
P.O. Box 644,
Boston, MA 02102-0644
1-800-736-3001

HOW TO TRANSFER STOCK
A change of ownership of shares requires a transfer of stock. This can happen when you sell stock, make a gift of stock or add or delete owners of stock certificates. You should complete the assignment on the back of the certificate and sign it exactly as your name appears on the front. Your signature must be guaranteed by an eligible guarantor institution (banks, stock brokers, savings and loan associations and credit unions with membership in an approved signature medallion program) pursuant to SEC Rule 17Ad-15.

A notary's acknowledgement is not acceptable. This certificate should then be sent to Boston EquiServe, Shareholder Services, by registered or certified mail with complete transfer instructions.

STOCK CERTIFICATES
As a result of the merger of California Water Service Company into California Water Service Group and the related stock split, Company stock certificates now represent the same number of Group shares as they did Company shares. Stock certificates issued since formation of the holding company are Group stock certificates.

BOND REGISTRAR
US Bank Trust, N.A.
One California Street
Suite 400
San Francisco, CA 94111-5402
1-415-273-4580

EXECUTIVE OFFICE
California Water Service Group
1720 North First Street,
San Jose, CA 95112-4598
1-408-367-8200

ANNUAL MEETING
The Annual Meeting of Shareholders of the Group will be held on Wednesday, April 21, 1999 at 10 A.M. at the Executive Office of the Group, 1720 North First Street, San Jose, California. Details of the business to be transacted during the meeting will be contained in the proxy material, which will be mailed to shareholders on or about March 11, 1999.

ANNUAL REPORT FOR 1998 ON FORM 10-K
A copy of the Group's report for 1998 filed with the Securities and Exchange Commission on Form 10-K will be available in April 1999 and can be obtained by any shareholder without charge upon written request to Shareholders Relations at

the address below:

SHAREHOLDER INFORMATION
California Water Service Group
Attn: Shareholders Relations

1720 North First Street
San Jose, CA 95112-4598
1-408-367-8200 or 1-800-750-8200
http://www.calwater.com

A TEAROUT SECTION

(a tearout section which opens to a four section map of the state of California is inserted)

The map is titled CALIFORNIA WATER SERVICE GROUP

On the map are the locations of the Company's operating districts. A drawing of redwood trees is printed in the northwest part of the state; a skier is depicted in the region of Lake Tahoe; an electronic chip is shown in the area south of San Francisco which is known as the Silicon Valley; a head of lettuce is shown in the are of the San Joaquin Valley; and a movie camera is drawn in the area of Hollywood.

Along the right margin of the map are various California Zip Codes. A large "CA" is printed in the upper right hand corner of the map.

The following text is printed on the map regarding California and its economy: "California has a land area of 156,000 square miles, big enough to hold the states of New York, New Jersey, Pennsylvania and Connecticut - with room left over to hold another New York!"

"California's 1997 population was 32,268,000. It is projected to reach 40 million by 2011 and almost 59 million by 2040, or twice its population in 1990."

"By comparison, New York, New Jersey and Pennsylvania have a combined population of about 38 million."

"A DIVERSIFIED ECONOMY"
"California added 484,000 people in 1997; more than any other state in absolute terms.*"

"California's population is growing at an annual rate of 1.5 percent compared to a national average of 1 percent.*"

"The Central Valley, home to 45 percent of our customers, is growing at a rate of 2.25 percent per year.*"

"Gross State Product (GSP) in 1996 was $963 billion, more than 50 percent greater than New York, the number two state."

"In 1997, for the first time, California's GSP exceeded $1 tillion.**"

"California has the world's seventh largest economy.**"

Data Source: California Department of Finance unless otherwise indicated.
* Kiplinger California Letter, Vol. 35, No. 1, January 6, 1999.
** CA Trade and Commerce Agency.

Four graphs appear on the map with the following data:
FIRST GRAPH
BOOK VALUE AND MARKET VALUE PER SHARE OF COMMON STOCK FOR 1994 THROUGH 1998

	1994	1995	1996	1997	1998
Book Value	$11.56	$11.72	$12.22	$13.00	$13.38
Market Value	16.00	16.38	21.00	29.53	31.31

SECOND GRAPH
DIVIDENDS AND EARNINGS PER SHARE FOR 1994 THROUGH 1998

<TABLE>
<CAPTION>

	1994	1995	1996	1997	1998
<S>	<C>	<C>	<C>	<C>	<C>
Dividends	$0.990	$1.020	$1.040	$1.055	$1.070
Earnings per Share	1.22	1.16	1.50	1.83	1.45

</TABLE>

THIRD GRAPH
TOTAL CUSTOMERS AND INCREASE IN CUSTOMERS FOR 1994 THROUGH 1998

<TABLE>
<CAPTION>

	1994	1995	1996	1997	1998
<S>	<C>	<C>	<C>	<C>	<C>
Total customers	365,500	367,100	376,100	379,500	383,000
Increase in customers	2,600	1,600	9,000	3,400	3,500

</TABLE>

FOURTH GRAPH
REVENUE AND NET INCOME FOR 1994 THROUGH 1998 (in thousands)

<TABLE>
<CAPTION>

	1994	1995	1996	1997	1998
<S>	<C>	<C>	<C>	<C>	<C>
Revenue	$157,271	$165,086	$182,764	$195,324	$186,273
Net Income	14,408	14,698	19,067	23,305	18,395

</TABLE>

REVERSE SIDE OF TEAROUT MAP

(Four sections are printed on the reverse side of the tearout map)

FIRST SECTION
A photograph of mass of people with the number 32,286,000 printed under the photograph. The number represents California's 1997 population.

SECOND SECTION
A summary of 1994 through 1998 FINANCIAL HIGHLIGHTS displayed in a table.

<TABLE>
<CAPTION>

	1994	1995	1996	1997	1998	Change
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Book Value	$11.56	$11.72	$12.22	$13.00	$13.38	2.9%
Market price	16.00	16.38	21.00	29.53	31.31	6.0%
Earnings per Share	1.22	1.16	1.50	1.83	1.45	20.8%
Dividends per share	0.99	1.02	1.04	1.055	1.07	1.4%
Revenue (000)	157,300	165,100	182,800	195,300	186,300	4.6%
Net Income (000)	14,400	14,700	19,100	23,300	18,400	21.0%

</TABLE>

THIRD SECTION
CUSTOMERS

<TABLE>
<CAPTION>

	District Name	Regulated	Non-Regulated
<S>		<C>	<C>
	Bakersfield	55,700	23,300
	Bear Gulch	17,400	4,000
	Chico	22,200	
	Dixon	2,800	
	East Los Angeles	26,300	2,700
	Hawthorne		6,000
	Hermosa Redondo	25,100	
	King City	2,200	
	Livermore	16,300	400
	Los Altos	18,300	
	Marysville	3,700	
	Oroville	3,500	
	Salinas	25,000	300
	Mid-Peninsula	35,600	
	Selma	5,000	
	South San Francisco	15,900	
	Stockton	41,300	
	Visalia	27,900	
	Willows	2,300	
	Palos Verdes	23,600	

Westlake	6,900	
Subtotal	377,000	36,700
TOTAL		413,700

</TABLE>

FOURTH SECTION

WELL TREATMENT SUMMARY

<TABLE>
<CAPTION>

District	Location	Method	Treatment Capacity (million gallons/day)	Comments
<S>	<C>	<C>	<C>	<C>
Bakersfield	Five sites	Carbon contactor	7.0	Catalytic removal*
City of Bakersfield	Four sites	Carbon contactor	4.0	Catalytic removal*
Chico	One site	Air stripper	1.3	
	Three sites	Carbon contactor	2.6	Adsorbtive removal
East Los Angeles	One site	Proprietary mixed media	0.1	Oxidation/Filter
	One site	Carbon contactor	0.8	Adsorbtive removal
Hawthorne	One site	Proprietary mixed media	3.6	Oxidation/Filter
Hermosa Redondo	Three sites	Proprietary mixed media	4.1	Oxidation/Filter
	One site	Reverse osmosis	5.0	Ultrafiltration
Salinas	One site	Carbon contactor	2.9	Adsorbtive removal
	One site	Proprietary mixed media	1.2	Oxidation/Filter
Selma	One site	Carbon contactor	1.4	Adsorbtive removal*
South San Francisco	One site	Proprietary mixed media	1.6	Oxidation/Filter
Visalia	Two sites	Carbon contactor	2.4	Adsorbtive removal
	One site	Carbon contactor	1.3	Adsorbtive removal

</TABLE>

* First use of this technology in California.

(INSIDE BACK COVER)
OFFICERS OF CALIFORNIA WATER SERVICE COMPANY
Robert W. Foy (1,2)
Chairman of the Board

Peter C. Nelson (1,2)
President and Chief Executive Officer

Gerald F. Feeney (1,2)
Vice President, Chief Financial Officer and Treasurer

Francis S. Ferraro
Vice President, Regulatory Matters

James L. Good (2)
Vice President, Corporate Communications and Marketing

Robert R. Guzzetta (2)
Vice President, Engineering and Water Quality

Christine L. McFarlane
Vice President, Human Resources

Raymond H. Taylor
Vice President, Operations

Raymond L. Worrell
Vice President, Chief Information Officer

Calvin L. Breed (1)
Controller, Assistant Secretary and Assistant Treasurer

Paul G. Ekstrom (1,2)
Corporate Secretary

John Simpson
Assistant Secretary, Manager of New Business

BOARD OF DIRECTORS
California Water Service Group
California Water Service Company
CWS Utility Services

Peter C. Nelson *
President and Chief Executive Officer

Robert W. Foy *
Chairman of the Board

C.H. Stump ++*
Former Chairman of the Board
and former CEO of California
Water Service Company

Linda R. Meier +++
Member, National Advisory Board, Haas Public Service Center; Member, Board of Directors, Comerica Bank - California

J.W. Weinhardt +*

Chairman and CEO of SJW Corp. and Chairman of its subsidiary, San Jose Water Company

Edward D. Harris, Jr., M.D. +*
George DeForest Barnett Professor of Medicine, Stanford University Medical Center

George A. Vera +
Director of Finance and Administration, David and Lucile Packard Foundation

Richard P. Magnuson ++
Private Venture Capital Investor

Robert K. Jaedicke +++
Professor Emeritus of Accounting and former Dean, Stanford Graduate School of Business

(A photograph of the members of the Board of Directors appears on the page with the following identifying caption)
Board of Directors (from left to right) Front row: Robert W. Foy, Peter C. Nelson, Robert K. Jaedicke, Linda R. Meier. Back row: George A. Vera, Richard P. Magnuson, Edward D. Harris, Jr., M.D., J.W. Weinhardt, C.H. Stump.

1 Holds the same position with California Water Service Group
2 Holds the same position with CWS Utility Services

+ Member of the Audit Committee
++ Member of the Compensation Committee
* Member of the Executive Committee

BACK COVER

CALIFORNIA WATER SERVICE GROUP
1720 North First Street
San Jose, California 95112-4598
408-367-8200

(the logos for California Water Service Group, California Water Service Co. and CWS Utility Services are printed under the address)

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<ARTICLE> UT

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