UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2016

or

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

For the transition period from to

Commission file number 1-13883

CALIFORNIA WATER SERVICE GROUP

(Exact name of registrant as specified in its charter)

Delaware	**77-0448994**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer identification No.)
1720 North First Street, San Jose, CA.	**95112**
(Address of principal executive offices)	(Zip Code)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated Filer ☒	Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Exchange Act) Yes☐ No ☒

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date. Common shares outstanding as of September 30, 2016 — 47,968,212

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PART I FINANCIAL INFORMATION

Item 1.

FINANCIAL STATEMENTS

The condensed consolidated financial statements presented in this filing on Form 10-Q have been prepared by management and are unaudited.

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

	September 30, 2016	December 31, 2015
ASSETS		
Utility plant:		
Utility plant	$ 2,667,635	$ 2,506,946
Less accumulated depreciation and amortization	(849,884)	(805,178)
Net utility plant	1,817,751	1,701,768
Current assets:		
Cash and cash equivalents	21,351	8,837
Receivables:		
Customers	45,376	31,512
Regulatory balancing accounts	19,811	35,052
Other	14,199	14,760
Unbilled revenue	33,727	23,181
Materials and supplies at weighted average cost	6,256	6,339
Taxes, prepaid expenses, and other assets	10,407	7,897
Total current assets	151,127	127,578
Other assets:		
Regulatory assets	363,597	361,893
Goodwill	2,615	2,615
Other assets	50,953	47,399
Total other assets	417,165	411,907
TOTAL ASSETS	$ 2,386,043	$ 2,241,253
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stock, $0.01 par value; 68,000 shares authorized, 47,968 and 47,875 outstanding in 2016 and 2015, respectively	$ 480	$ 479
Additional paid-in capital	334,213	333,135
Retained earnings	317,319	308,541
Total common stockholders' equity	652,012	642,155
Long-term debt, less current maturities	555,536	508,002
Total capitalization	1,207,548	1,150,157
Current liabilities:		
Current maturities of long-term debt	6,130	6,043
Short-term borrowings	57,100	33,615
Accounts payable	84,052	66,380
Regulatory balancing accounts	2,837	2,227
Accrued interest	12,733	5,088
Accrued expenses and other liabilities	41,129	34,545
Total current liabilities	203,981	147,898
Unamortized investment tax credits	1,872	1,872
Deferred income taxes	282,973	264,897
Pension and postretirement benefits other than pensions	237,341	236,266
Regulatory liabilities and other	90,714	82,414
Advances for construction	182,001	180,172
Contributions in aid of construction	179,613	177,577
Commitments and contingencies (Note 10)	—	—
TOTAL CAPITALIZATION AND LIABILITIES	$ 2,386,043	$ 2,241,253

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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

For the three months ended	September 30, 2016	September 30, 2015
Operating revenue	$ 184,268	$ 183,543
Operating expenses:		
Operations:		
Water production costs	70,175	60,437
Administrative and general	23,844	30,737
Other operations	19,561	17,872
Maintenance	5,545	5,952
Depreciation and amortization	15,884	15,342
Income taxes	13,247	15,293
Property and other taxes	5,957	5,709
Total operating expenses	154,213	151,342
Net operating income	30,055	32,201
Other income and expenses:		
Non-regulated revenue	3,397	3,814
Non-regulated expenses	(2,517)	(4,454)
Income tax (expense) benefit on other income and expenses	(349)	262
Net other income (loss)	531	(378)
Interest expense:		
Interest expense	8,485	7,201
Less: capitalized interest	(774)	(498)
Net interest expense	7,711	6,703
Net income	$ 22,875	$ 25,120
Earnings per share:		
Basic	$ 0.48	$ 0.52
Diluted	0.48	0.52
Weighted average shares outstanding:		
Basic	47,969	47,878
Diluted	47,969	47,887
Dividends declared per share of common stock	$ 0.1725	$ 0.1675

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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

For the nine months ended	September 30, 2016	September 30, 2015
Operating revenue	$ 458,440	$ 449,942
Operating expenses:		
Operations:		
Water production costs	168,833	158,661
Administrative and general	75,037	85,069
Other operations	57,766	51,227
Maintenance	17,542	15,735
Depreciation and amortization	47,772	46,015
Income taxes	19,192	21,008
Property and other taxes	17,439	16,036
Total operating expenses	403,581	393,751
Net operating income	54,859	56,191
Other income and expenses:		
Non-regulated revenue	10,589	10,540
Non-regulated expenses	(8,306)	(10,201)
Income tax expense on other income and expenses	(914)	(131)
Net other income	1,369	208
Interest expense:		
Interest expense	24,984	21,331
Less: capitalized interest	(2,341)	(1,472)
Net interest expense	22,643	19,859
Net income	$ 33,585	$ 36,540
Earnings per share:		
Basic	$ 0.70	$ 0.76
Diluted	0.70	0.76
Weighted average shares outstanding:		
Basic	47,949	47,861
Diluted	47,952	47,877
Dividends declared per share of common stock	$ 0.5175	$ 0.5025

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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

For the nine months ended:	September 30, 2016	September 30, 2015
Operating activities:		
Net income	$ 33,585	$ 36,540
Adjustments to reconcile net income to net cash:		
Depreciation and amortization	48,946	47,406
Change in value of life insurance contracts	(915)	758
Changes in operating assets and liabilities:		
Receivables and unbilled revenue	(13,352)	(18,412)
Accounts payable	8,940	7,245
Other current assets	(1,743)	(2,428)
Other current liabilities	13,982	11,939
Other changes in noncurrent assets and liabilities	33,749	33,476
Net cash provided by operating activities	123,192	116,524
Investing activities:		
Utility plant expenditures	(166,406)	(118,309)
Life insurance proceeds	495	—
Purchase of life insurance contracts	(2,710)	(1,855)
Change in restricted cash	(685)	(241)
Net cash used in investing activities	(169,306)	(120,405)
Financing activities:		
Short-term borrowings	105,100	82,500
Repayment of short-term borrowings	(81,615)	(25,000)
Proceeds from long-term debt, net of issuance costs of $177 for 2016, $0 for 2015	49,823	50
Short-term borrowings issuance costs	—	(1,197)
Repayment of long-term debt	(2,865)	(2,878)
Advances and contributions in aid of construction	18,186	10,741
Refunds of advances for construction	(5,194)	(5,050)
Dividends paid	(24,807)	(24,047)
Net cash provided by financing activities	58,628	35,119
Change in cash and cash equivalents	12,514	31,238
Cash and cash equivalents at beginning of period	8,837	19,587
Cash and cash equivalents at end of period	$ 21,351	$ 50,825
Supplemental information:		
Cash paid for interest (net of amounts capitalized)	$ 13,889	$ 13,618
Supplemental disclosure of non-cash activities:		
Accrued payables for investments in utility plant	$ 26,767	$ 24,856
Utility plant contribution by developers	12,104	5,573

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

Note 1. Organization and Operations and Basis of Presentation

California Water Service Group (the Company) is a holding company that provides water utility and other related services in California, Washington, New Mexico and Hawaii through its wholly-owned subsidiaries. California Water Service Company (Cal Water), Washington Water Service Company (Washington Water), New Mexico Water Service Company (New Mexico Water), and Hawaii Water Service Company, Inc. (Hawaii Water) provide regulated utility services under the rules and regulations of their respective state's regulatory commissions (jointly referred to herein as the Commissions). CWS Utility Services and HWS Utility Services LLC provide non-regulated water utility and utility-related services.

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

Basis of Presentation

The unaudited condensed consolidated interim financial information has been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X promulgated by the Securities and Exchange Commission (SEC) and therefore do not contain all of the information and footnotes required by GAAP and the SEC for annual financial statements. The unaudited condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2015, included in its annual report on Form 10-K as filed with the SEC on February 25, 2016.

The preparation of the Company's unaudited condensed consolidated interim financial statements in accordance with GAAP 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 balance sheet dates and the reported amounts of revenues and expenses for the periods presented. These include, but are not limited to, estimates and assumptions used in determining the Company's regulatory asset and liability balances based upon probability assessments of regulatory recovery, revenues earned but not yet billed, asset retirement obligations, allowance for doubtful accounts, pension and other employee benefit plan liabilities, and income tax-related assets and liabilities. Actual results could differ from these estimates.

In the opinion of management, the accompanying unaudited condensed consolidated interim financial statements reflect all adjustments, consisting of normal recurring transactions that are necessary to provide a fair presentation of the results for the periods covered. The results for interim periods are not necessarily indicative of the results for any future period.

Due to the seasonal nature of the water business, the results for interim periods are not indicative of the results for a 12-month period. Revenue and income are generally higher in the warm, dry summer months when water usage and sales are greater. Revenue and income are generally lower in the winter months when cooler temperatures and rainfall curtail water usage and sales.

Note 2. Summary of Significant Accounting Policies

Revenue

Revenue generally includes monthly cycle customer billings for regulated water and wastewater services at rates authorized by regulatory commissions (plus an estimate for water used between the customer's last meter reading and the end of the accounting period) and billings to certain non-regulated customers at rates authorized by contract with government agencies.

The Company's regulated water and wastewater revenue requirements are authorized by the Commissions in the states in which they operate. The revenue requirements are intended to provide the Company a reasonable opportunity to recover its operating costs and earn a return on investments.

For metered customers, Cal Water recognizes revenue from rates which are designed and authorized by the California Public Utilities Commission (CPUC). Under the Water Revenue Adjustment Mechanism (WRAM), Cal Water records the adopted level of volumetric revenues, which would include recovery of cost of service and a return on investments, as established by the CPUC for metered accounts (adopted volumetric revenues). In addition to volumetric-based revenues, the revenue requirements approved by the CPUC include service charges, flat rate charges, and other items not subject to the WRAM. The adopted volumetric revenue considers the seasonality of consumption of water based upon historical averages. The variance between adopted volumetric revenues and actual billed volumetric revenues for metered accounts is recorded as a component of revenue with an offsetting entry to a regulatory asset or liability balancing account (tracked individually for each Cal Water district) subject to certain criteria under the accounting for regulated operations being met. The variance amount may be positive or negative and represents amounts that will be recovered from or refunded to customers in the future.

Cost-recovery rates are designed to permit full recovery of certain costs allowed to be recovered by the Commissions. Cost-recovery rates such as the Modified Cost Balancing Account (MCBA) provide for recovery of adopted expense levels for purchased water, purchased power and pump taxes, as established by the CPUC. In addition, cost-recovery rates include recovery of costs related to water conservation programs and certain other operating expenses adopted by the CPUC. Variances (which include the effects of changes in both rates and volumes for the MCBA) between adopted and actual costs are recorded as a component of revenue, as the amount of such variances will be recovered from or refunded to customers in the future. Cost-recovery expenses are generally recognized when expenses are incurred with no markup for return on investments or profit.

The balances in the WRAM and MCBA asset and liability accounts will fluctuate on a monthly basis depending upon the variance between adopted and actual results. The recovery or refund of WRAM is netted against the recovery or refund of MCBA for the corresponding district. The recovery or refund of net WRAM and MCBA balances are interest bearing at the current 90 day commercial paper rate. At the end of any calendar year, Cal Water files with the CPUC to refund or collect the balance in the accounts. Undercollected net WRAM and MCBA receivable balances are collected over 12, 18, or 20+ months. Cal Water defers net WRAM and MCBA operating revenues and associated costs whenever the net receivable balances are estimated to be collected more than 24 months after the respective reporting periods in which they were recognized. The deferred net WRAM and MCBA revenues and associated costs were determined using forecasts of customer consumption trends in future reporting periods and the timing of when the CPUC will authorize Cal Water's filings to recover the undercollected balances. Deferred net WRAM and MCBA revenues and associated costs will be recognized as revenues and costs in future periods when the net receivable balances are estimated to be collected within 24 months of the respective reporting period.

Customer meter reads occur on various business days throughout the month. As a result, there is unmetered or unbilled customer usage each month. The estimated unbilled revenue for monthly unmetered customer usage is recorded using the number of unbilled days for that month and average daily customer billing rate for the previous month. The average daily customer billing rate for the previous month fluctuates depending on customer usage. Estimated unbilled revenue is not included in the WRAM until it is billed.

Flat rate customers are billed in advance at the beginning of the service period. The revenue is prorated so that the portion of revenue applicable to the current period is included in that period's revenue, with the balance recorded as unearned revenue on the balance sheet and recognized as revenue when earned in the subsequent accounting period. The unearned revenue liability was $0.9 million and $1.3 million as of September 30, 2016 and December 31, 2015, respectively. This liability is included in "accrued expenses and other liabilities" on the condensed consolidated balance sheets.

Cash and Cash Equivalents

Cash equivalents include highly liquid investments with maturities of three months or less. Cash and cash equivalents was $21.4 million and $8.8 million as of September 30, 2016 and December 31, 2015, respectively. Restricted cash was presented on the condensed consolidated balance sheet in "taxes, prepaid expenses and other assets" and was $1.2 million and $0.5 million as of September 30, 2016 and December 31, 2015, respectively.

Adoption of New Accounting Standards

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-03, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs,* which amends the existing guidance relating to the presentation of debt issuance costs. The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The Company adopted this guidance effective January 1, 2016 and applied the requirements retrospectively for all periods presented. The adoption of this guidance did not have a material impact on the Company's condensed consolidated financial statements. The long term debt unamortized debt issuance costs were $4.6 million as of September 30, 2016 and $4.8 million as December 31, 2015. The following table shows the effect of the accounting change to the condensed consolidated balance sheet as of December 31, 2015:

	December 31, 2015		
Balance Sheet Classification	As Reported on Form 10-K	Adjusted Balance on Form 10-Q	Decrease from Retrospective Adoption
Other Assets	$ 52,241	$ 47,399	$ 4,842
Long-term debt, less current maturities	512,287	508,002	4,285
Current maturities of long-term debt	6,600	6,043	557

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers,* which amends the existing revenue recognition guidance. In August 2015, the FASB deferred the effective date of this amendment for public companies by one year to January 1, 2018, with early adoption permitted as of the original effective date of January 1, 2017. (See ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*) The Company expects to adopt the new revenue standard using the modified retrospective method and is currently evaluating the impact of adopting the new revenue standard on its consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases*. This update changes the accounting treatment of operating leases for lessees and related disclosure requirements. ASU 2016-2 is effective for annual reporting periods beginning after December 15, 2018 and early adoption is permitted. The Company is currently evaluating the impact of adopting the new lease standard on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* The amendments in ASU 2016-09 involve multiple aspects of the accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification on the Statement of Cash Flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016 and early adoption is permitted. The Company is currently evaluating the impact on its consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments*. This update adds and clarifies guidance on the classification of certain cash receipts and payments in the statement of cash flows. ASU 2016-15 is effective for annual periods beginning after December 15, 2017 and early adoption is permitted. The Company is currently evaluating the impact on its consolidated financial statements and related disclosures.

Note 3. Stock-based Compensation

Equity Incentive Plan

During the nine months ended September 30, 2016 and 2015, the Company granted annual Restricted Stock Awards (RSAs) of 72,317 and 60,997, respectively, to officers and directors of the Company. During those same periods, 13,319 and 15,780 RSAs were canceled, respectively. During the three months ended September 30, 2016 and 2015, no RSAs were granted and 2,719 and 2,560 RSAs were canceled, respectively. Employee RSAs granted in 2016 and 2015 vest over 36 months. Director RSAs generally vest at the end of 12 months. During the first nine months of 2016 and 2015, the RSAs granted were valued at $25.17 and $24.29 per share, respectively, based upon the fair market value of the Company’s common stock on the date of grant.

During the nine months ended September 30, 2016 and 2015, the Company granted 43,659 and 38,983 performance-based Restricted Stock Unit Awards (RSUs), respectively, to officers. During those same periods, the Company issued 28,424 and 0 RSUs, respectively, and no RSUs were canceled. During the three months ended September 30, 2016 and 2015, the Company did not grant, issue or cancel any RSUs. Each RSU award reflects a target number of shares that may be issued to the award recipient. The 2016 and 2015 awards may be earned upon the completion of the three year performance period ending on March 1, 2019 and March 3, 2018, respectively. The 2016 and 2015 RSUs are recognized as expense ratably over the 3 year performance period using a fair market value of $25.17 per share and $24.28 per share, respectively, and an estimate of RSUs earned during the performance period. The Company has recorded compensation costs for the RSAs and RSUs in administrative and general operating expenses in the amount of $2.1 million and $2.0 million for the nine months ended September 30, 2016 and September 30, 2015 respectively.

Note 4. Equity

The Company’s changes in total common stockholders’ equity for the nine months ended September 30, 2016 were as follows:

	Total Common Stockholders’ Equity
Balance at December 31, 2015	$ 642,155
Common stock issued	1
Share-based compensation expense	1,078
Common stock dividends declared	(24,807)
Net income	33,585
Balance at September 30, 2016	$ 652,012

Note 5. Earnings Per Share

The computations of basic and diluted earnings per share are noted below. Basic earnings per share is computed by dividing the net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts were exercised or converted into common stock. RSAs are included in the weighted average common shares outstanding because the shares have all the same voting and dividend rights as issued and unrestricted common stock. RSUs are not included in diluted shares for financial reporting until authorized by the Compensation & Organization Committee of the Board of Directors.

There were no shares of Stock Appreciation Rights (SARs) outstanding as of September 30, 2016, and a total of65,436 shares of SARs were vested and outstanding as of September 30, 2015. All the SARs were dilutive when they were outstanding during the period, as shown in the tables below.

	Three Months Ended September 30	
	2016	2015
	(In thousands, except per share data)	
Net income available to common stockholders	$ 22,875	$ 25,120
Weighted average common shares outstanding, basic	47,969	47,878
Dilutive SARs (treasury method)		9
Weighted average common shares outstanding, dilutive	47,969	47,887
Earnings per share - basic	$ 0.48	$ 0.52
Earnings per share - diluted	$ 0.48	$ 0.52

	Nine Months Ended September 30	
	2016	2015
	(In thousands, except per share data)	
Net income available to common stockholders	$ 33,585	$ 36,540
Weighted average common shares outstanding, basic	47,949	47,861
Dilutive SARs (treasury method)	3	16
Weighted average common shares outstanding, dilutive	47,952	47,877
Earnings per share - basic	$ 0.70	$ 0.76
Earnings per share - diluted	$ 0.70	$ 0.76

Note 6. Pension Plan and Other Postretirement Benefits

The Company provides a qualified, defined-benefit, non-contributory pension plan for substantially all employees. The Company makes annual contributions to fund the amounts accrued for in the qualified pension plan. The Company also maintains an unfunded, non-qualified, supplemental executive retirement plan. The costs of the plans are charged to expense or are capitalized in utility plant as appropriate.

The Company offers medical, dental, vision, and life insurance benefits for retirees and their spouses and dependents. Participants are required to pay a premium, which offsets a portion of the cost.

Cash contributions by the Company related to pension plans were$20.6 million and $22.7 million for the nine months ended September 30, 2016 and September 30, 2015, respectively. Cash contributions by the Company related to other postretirement benefit plans were $6.7 million and $7.5 million for the nine months ended September 30, 2016 and September 30, 2015, respectively. The 2016 estimated cash contribution to the pension plans is $28.3 million and to the other postretirement benefit plans is $9.6 million.

The following table lists components of net periodic benefit costs for the pension plans and other postretirement benefits. The data listed under “pension plan” includes the qualified pension plan and the non-qualified supplemental executive retirement plan. The data listed under “other benefits” is for all other postretirement benefits.

	Three Months Ended September 30			
	Pension Plan		Other Benefits	
	2016	2015	2016	2015
Service cost	$ 5,594	$ 4,715	$ 1,045	$ 3,043
Interest cost	5,764	5,072	625	2,101
Expected return on plan assets	(5,462)	(4,770)	(1,005)	(908)
Amortization of prior service cost	1,555	1,502	10	12
Recognized net actuarial loss	1,743	2,308	(482)	2,182
Net periodic benefit cost	$ 9,194	$ 8,827	$ 193	$ 6,430

	Nine Months Ended September 30			
	Pension Plan		Other Benefits	
	2016	2015	2016	2015
Service cost	$ 15,728	$ 15,980	$ 5,653	$ 8,044
Interest cost	16,670	15,078	4,225	5,328
Expected return on plan assets	(16,370)	(14,354)	(3,097)	(2,660)
Amortization of prior service cost	4,664	4,506	32	34
Recognized net actuarial loss	4,329	7,108	2,041	5,099
Net periodic benefit cost	$ 25,021	$ 28,318	$ 8,854	$ 15,845

The actuarially determined decrease in other benefits costs in the third quarter of 2016 as compared to the prior year was$6.2 million and for the nine months ended September 30, 2016 as compared to the prior year was $7.0 million. The cost decrease was mostly due to a reduction in retiree medical claim costs in 2015.

Note 7. Short-term and Long-term Borrowings

On October 13, 2015, Cal Water agreed to sell $150.0 million in aggregate principal amount of First Mortgage Bonds in a private placement. Pursuant to the agreement, Cal Water issued $100.0 million of First Mortgage Bonds on October 13, 2015, consisting of $50.0 million of 3.33% series QQQ maturing October 15, 2025 and $50.0 million of 4.31% series RRR maturing October 16, 2045.

In March 2016, Cal Water issued the remaining $50.0 million of First Mortgage Bonds, consisting of $40.0 million of 4.41% series SSS maturing April 16, 2046 and $10.0 million of 4.61% series TTT maturing April 14, 2056. Cash proceeds of approximately $49.7 million, net of $0.3 million debt issuance costs, were received. Cal Water used a portion of the net proceeds from the offering to repay outstanding borrowings on the Company and Cal Water lines of credit of $48.6 million.

Both short-term unsecured credit agreements contain affirmative and negative covenants and events of default customary for credit facilities of this type including, among other things, limitations and prohibitions relating to additional indebtedness, liens, mergers, and asset sales. Also, these unsecured credit agreements contain financial covenants governing the Company and its subsidiaries' consolidated total capitalization ratio and interest coverage ratio.

The outstanding borrowings on the Company lines of credit were $57.1 million and $33.6 million as of September 30, 2016 and December 31, 2015, respectively. There were no borrowings on the Cal Water lines of credit as September 30, 2016 and December 31, 2015. The average borrowing rate for borrowings on the Company and Cal Water lines of credit during the nine months ended September 30, 2016 was 1.30% compared to 1.05% for the same period last year.

Note 8. Income Taxes

As of September 30, 2016 and December 31, 2015, the Company had unrecognized tax benefits of approximately $10.4 million and $10.3 million, respectively. Included in the balance of unrecognized tax benefits as of September 30, 2016 and December 31, 2015 is approximately $2.3 million and $2.1 million, respectively, of tax benefits that, if recognized, would result in an adjustment to the Company's effective tax rate. The Company does not expect its unrecognized tax benefits to change significantly within the next 12 months.

The Company's fiscal year 2016 effective tax rate is estimated to be 38%.

Note 9. Regulatory Assets and Liabilities

Regulatory assets and liabilities were comprised of the following as of September 30, 2016 and December 31, 2015:

	September 30, 2016	December 31, 2015
Regulatory Assets		
Pension and retiree group health	$ 205,120	$ 205,614
Property-related temporary differences (tax benefits flowed through to customers)	81,522	81,522
Other accrued benefits	28,917	27,327
Net WRAM and MCBA long-term accounts receivable	16,626	15,410
Asset retirement obligations, net	15,660	14,682
Interim rates long-term accounts receivable	4,640	5,238
Tank coating	8,594	6,829
Health care balancing account	776	3,503
Other regulatory assets	1,742	1,768
Total Regulatory Assets	$ 363,597	$ 361,893
Regulatory Liabilities		
Future tax benefits due to customers	$ 29,505	$ 29,505
Conservation program	3,574	2,317
Pension balancing account	2,986	792
Net WRAM and MCBA long-term payable	2,260	488
Other regulatory liabilities	3,581	2,162
Total Regulatory Liabilities	$ 41,906	$ 35,264

Short-term regulatory assets and liabilities are excluded from the above table. The short-term regulatory assets were $19.8 million as of September 30, 2016 and $35.1 million as of December 31, 2015. The short-term regulatory assets were primarily interim rate memorandum account receivable and net WRAM and MCBA accounts receivable as of September 30, 2016 and December 31, 2015. The short-term portions of regulatory liabilities were $2.8 million as of September 30, 2016 and $2.2 million as of December 31, 2015. The short-term regulatory liabilities were primarily short term net WRAM payables as of September 30, 2016. The short-term regulatory liabilities were primarily short term net WRAM payables and net refund balances to rate payers for the water conservation program from the 2009 General Rate Case (GRC) as of December 31, 2015.

Note 10. Commitment and Contingencies

Commitments

The Company has significant commitments to lease certain office spaces and water systems and to purchase water from water wholesalers. These commitments are described in Form 10-K for the year ended December 31, 2015. As of September 30, 2016, there were no significant changes from December 31, 2015.

Contingencies

Groundwater Contamination

The Company has undertaken litigation against third parties to recover past and anticipated costs related to groundwater contamination in our service areas. The cost of litigation is expensed as incurred and any settlement is first offset against such costs. The CPUC's general policy requires all proceeds from groundwater contamination litigation to be used first to pay transactional expenses, then to make ratepayers whole for water treatment costs to comply with the CPUC's water quality standards. The CPUC allows for a risk-based consideration of contamination proceeds which exceed the costs of the remediation described above and may result in some sharing of proceeds with the shareholder, determined on a case by case basis. The CPUC has authorized various memorandum accounts that allow the Company to track significant litigation costs to request recovery of these costs in future filings and uses of proceeds to comply with CPUC's general policy.

Legal Proceedings

From time to time, the Company is involved in various disputes and litigation matters that arise in the ordinary course of business. The status of each significant matter is reviewed and assessed for potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount of the range of loss can be estimated, a liability is accrued for the estimated loss in accordance with the accounting standards for contingencies. Legal proceedings are subject to uncertainties, and the outcomes are difficult to predict. Because of such uncertainties, accruals are based on the best information available at the time. While the outcome of these disputes and litigation matters cannot be predicted with any certainty, management does not believe when taking into account existing reserves the ultimate resolution of these matters will materially affect the Company's financial position, results of operations, or cash flows. As of September 30, 2016 and December 31, 2015, the Company recognized a liability of $4.1 million and $3.5 million, respectively, for known legal matters. The cost of litigation is expensed as incurred and any settlement is first offset against such costs. Any settlement in excess of the cost to litigate is accounted for on a case by case basis, dependent on the nature of the settlement.

On July 21, 2016, the San Francisco Bay Area Regional Water Quality Control Board (the Water Control Board) approved a settlement between Cal Water and the Water Control Board and California Department of Fish and Wildlife (Fish and Wildlife) to resolve purported complaints from the Water Control Board and Fish and Wildlife alleging Cal Water discharged approximately 8,207,560 gallons of drinking water into Polhemus Creek that was caused by an undetected crack in a large water main located 10 feet below ground in a remote area. The water was disinfected as required to meet all federal and state water quality standards and make it safe for human consumption. Drinking water, however, can be harmful to fish and the environment.

As part of the settlement, Cal Water will replace 2,000 feet of 18-inch cast iron water main with new ductile iron main along Polhemus Road and Polhemus Creek in San Mateo. Cal Water will also conduct a streambed restoration project in San Mateo Creek to improve conditions in the creek for native fish. This work will be performed in coordination with the California Department of Fish and Wildlife. In addition to investing in these improvement projects and as required by the settlement Cal Water paid $0.5 million to the Water Control Board and $0.02 million to Fish and Wildlife during the third quarter of 2016.

Under the terms of the settlement, Cal Water will be released from all claims unless it fails to complete the projects. The agreement contains no admission of wrongdoing.

Note 11. Fair Value of Financial Assets and Liabilities

The accounting guidance for fair value measurements and disclosures provides a single definition of fair value and requires certain disclosures about assets and liabilities measured at fair value. A hierarchical framework for disclosing the observability of the inputs utilized in measuring assets and liabilities at fair value is established by this guidance. The three levels in the hierarchy are as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted market prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Specific valuation methods include the following:

Accounts receivable and accounts payable carrying amounts approximated the fair value because of the short-term maturity of the instruments.

Long-term debt fair values were estimated using the published quoted market price, if available, or the discounted cash flow analysis, based on the current rates available using a risk-free rate (a U.S. Treasury securities yield curve) plus a risk premium of 1.70%.

Advances for construction fair values were estimated using broker quotes from companies that frequently purchase these investments.

	September 30, 2016				
		Fair Value			
	Cost	Level 1	Level 2	Level 3	Total
Long-term debt, including current maturities	$ 561,666	—	$ 679,712	—	$ 679,712
Advances for construction	182,001	—	74,440	—	74,440
Total	$ 743,667	$ —	$ 754,152	$ —	$ 754,152

	December 31, 2015				
		Fair Value			
	Cost	Level 1	Level 2	Level 3	Total
Long-term debt, including current maturities	$ 514,045	$ —	$ 600,440	$ —	$ 600,440
Advances for construction	180,172	—	72,866	—	72,866
Total	$ 694,217	—	$ 673,306	$ —	$ 673,306

Note 12. Condensed Consolidating Financial Statements

On April 17, 2009, Cal Water issued $100.0 million aggregate principal amount of 5.875% First Mortgage Bonds due 2019, and on November 17, 2010, Cal Water issued $100.0 million aggregate principal amount of 5.500% First Mortgage Bonds due 2040, all of which are fully and unconditionally guaranteed by the Company. As a result of these guarantee arrangements, the Company is required to present the following condensed consolidating financial information. The investments in affiliates are accounted for and presented using the “equity method” of accounting.

The following tables present the condensed consolidating balance sheets as of September 30, 2016 and December 31, 2015, the condensed consolidating statements of income for the three months ended September 30, 2016 and 2015, condensed consolidating statements of income for the nine months ended September 30, 2016 and 2015, and the condensed consolidating statements of cash flows for the nine months ended September 30, 2016 and 2015 of (i) California Water Service Group, the guarantor of the First Mortgage Bonds and the parent company; (ii) California Water Service Company, the issuer of the First Mortgage Bonds and a 100% owned consolidated subsidiary of California Water Service Group; and (iii) the other 100% owned non-guarantor consolidated subsidiaries of California Water Service Group. No other subsidiary of the Company guarantees the securities. The condensed consolidating balance sheet as of December 31, 2015 reflects the retrospective adoption of ASU 2015-03 (refer to Note 2. Summary of Significant Accounting Policies for more details).

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING BALANCE SHEET
As of September 30, 2016
(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS					
Utility plant:					
Utility plant	$ 1,317	$ 2,471,314	$ 202,200	$ (7,196)	$ 2,667,635
Less accumulated depreciation and amortization	(776)	(799,057)	(51,946)	1,895	(849,884)
Net utility plant	541	1,672,257	150,254	(5,301)	1,817,751
Current assets:					
Cash and cash equivalents	1,987	13,928	5,436	—	21,351
Receivables and unbilled revenue	—	107,535	5,578	—	113,113
Receivables from affiliates	23,313	300	246	(23,859)	—
Other current assets	179	15,449	1,035	—	16,663
Total current assets	25,479	137,212	12,295	(23,859)	151,127
Other assets:					
Regulatory assets	—	359,926	3,671	—	363,597
Investments in affiliates	659,828	—	—	(659,828)	—
Long-term affiliate notes receivable	24,206	—	—	(24,206)	—
Other assets	1,103	49,482	3,188	(205)	53,568
Total other assets	685,137	409,408	6,859	(684,239)	417,165
TOTAL ASSETS	$ 711,157	$ 2,218,877	$ 169,408	$ (713,399)	$ 2,386,043
CAPITALIZATION AND LIABILITIES					
Capitalization:					
Common stockholders' equity	$ 652,012	$ 588,183	$ 76,970	$ (665,153)	$ 652,012
Affiliate long-term debt	—	—	24,206	(24,206)	—
Long-term debt, less current maturities	—	554,748	788	—	555,536
Total capitalization	652,012	1,142,931	101,964	(689,359)	1,207,548
Current liabilities:					
Current maturities of long-term debt	—	5,661	469	—	6,130
Short-term borrowings	57,100	—	—	—	57,100
Payables to affiliates	—	2,034	21,825	(23,859)	—
Accounts payable	—	81,161	2,891	—	84,052
Accrued expenses and other liabilities	2,045	58,141	(3,540)	53	56,699
Total current liabilities	59,145	146,997	21,645	(23,806)	203,981
Unamortized investment tax credits	—	1,872	—	—	1,872
Deferred income taxes	—	275,596	7,613	(236)	282,973
Pension and postretirement benefits other than pensions	—	237,341	—	—	237,341
Regulatory liabilities and other	—	87,633	3,081	—	90,714
Advances for construction	—	181,454	547	—	182,001
Contributions in aid of construction	—	145,053	34,560	—	179,613
TOTAL CAPITALIZATION AND LIABILITIES	$ 711,157	$ 2,218,877	$ 169,410	$ (713,401)	$ 2,386,043

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING BALANCE SHEET
As of December 31, 2015
(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS					
Utility plant:					
Utility plant	$ 1,318	$ 2,313,704	$ 199,121	$ (7,197)	$ 2,506,946
Less accumulated depreciation and amortization	(605)	(758,362)	(48,034)	1,823	(805,178)
Net utility plant	713	1,555,342	151,087	(5,374)	1,701,768
Current assets:					
Cash and cash equivalents	582	4,270	3,985	—	8,837
Receivables and unbilled revenue	—	100,777	3,728	—	104,505
Receivables from affiliates	19,677	26,219	—	(45,896)	—
Other current assets	79	13,077	1,080	—	14,236
Total current assets	20,338	144,343	8,793	(45,896)	127,578
Other assets:					
Regulatory assets	—	358,254	3,639	—	361,893
Investments in affiliates	651,449	—	—	(651,449)	—
Long-term affiliate notes receivable	25,099	—	—	(25,099)	—
Other assets	758	45,544	4,616	(904)	50,014
Total other assets	677,306	403,798	8,255	(677,452)	411,907
TOTAL ASSETS	$ 698,357	$ 2,103,483	$ 168,135	$ (728,722)	$ 2,241,253
CAPITALIZATION AND LIABILITIES					
Capitalization:					
Common stockholders’ equity	$ 642,155	$ 581,792	75,024	$ (656,816)	$ 642,155
Affiliate long-term debt	—	—	25,099	(25,099)	—
Long-term debt, less current maturities	—	507,034	968	—	508,002
Total capitalization	642,155	1,088,826	101,091	(681,915)	1,150,157
Current liabilities:					
Current maturities of long-term debt	—	5,654	389	—	6,043
Short-term borrowings	33,615	—	—	—	33,615
Payables to affiliates	21,500	667	23,729	(45,896)	—
Accounts payable	—	63,814	2,566	—	66,380
Accrued expenses and other liabilities	102	40,173	1,585	—	41,860
Total current liabilities	55,217	110,308	28,269	(45,896)	147,898
Unamortized investment tax credits	—	1,872	—	—	1,872
Deferred income taxes	985	264,823	—	(911)	264,897
Pension and postretirement benefits other than pensions	—	236,266	—	—	236,266
Regulatory and other liabilities	—	79,477	2,937	—	82,414
Advances for construction	—	179,630	542	—	180,172
Contributions in aid of construction	—	142,281	35,296	—	177,577
TOTAL CAPITALIZATION AND LIABILITIES	$ 698,357	$ 2,103,483	$ 168,135	$ (728,722)	$ 2,241,253

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING STATEMENT OF INCOME
For the three months ended September 30, 2016
(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
Operating revenue	$ —	$ 173,223	$ 11,045	$ —	$ 184,268
Operating expenses:					
Operations:					
Water production costs	—	68,045	2,130	—	70,175
Administrative and general	—	21,679	2,165	—	23,844
Other operations	—	18,037	1,692	(168)	19,561
Maintenance	—	5,322	223	—	5,545
Depreciation and amortization	57	14,777	1,074	(24)	15,884
Income tax (benefit) expense	(105)	12,165	920	267	13,247
Property and other taxes	—	5,182	775	—	5,957
Total operating (income) expenses	(48)	145,207	8,979	75	154,213
Net operating income	48	28,016	2,066	(75)	30,055
Other income and expenses:					
Non-regulated revenue	464	3,024	541	(632)	3,397
Non-regulated expenses	—	(2,170)	(347)	—	(2,517)
Income tax expense on other income and expenses	(189)	(345)	(73)	258	(349)
Total other income	275	509	121	(374)	531
Interest:					
Interest expense	201	8,259	488	(463)	8,485
Less: capitalized interest	—	(759)	(15)	—	(774)
Net interest expense	201	7,500	473	(463)	7,711
Equity earnings of subsidiaries	22,753	—	—	(22,753)	—
Net income	$ 22,875	$ 21,025	$ 1,714	$ (22,739)	$ 22,875

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING STATEMENT OF INCOME
For the three months ended September 30, 2015
(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
Operating revenue	$ —	$ 172,425	$ 11,118	$ —	$ 183,543
Operating expenses:					
Operations:					
Water production costs	—	58,173	2,264	—	60,437
Administrative and general	—	27,620	3,117	—	30,737
Other operations	—	16,329	1,668	(125)	17,872
Maintenance	—	5,722	230	—	5,952
Depreciation and amortization	57	14,231	1,079	(25)	15,342
Income tax (benefit) expense	(107)	14,638	508	254	15,293
Property and other taxes	—	4,910	799	—	5,709
Total operating (income) expenses	(50)	141,623	9,665	104	151,342
Net operating income	50	30,802	1,453	(104)	32,201
Other income and expenses:					
Non-regulated revenue	444	3,489	451	(570)	3,814
Non-regulated expenses, net	—	(4,058)	(396)	—	(4,454)
Income tax (expense) benefit on other income and expenses	(181)	232	(33)	244	262
Total other income (loss)	263	(337)	22	(326)	(378)
Interest:					
Interest expense	205	6,969	472	(445)	7,201
Less: capitalized interest	—	(488)	(10)	—	(498)
Net interest expense	205	6,481	462	(445)	6,703
Equity earnings of subsidiaries	25,012	—	—	(25,012)	—
Net income	$ 25,120	$ 23,984	$ 1,013	$ (24,997)	$ 25,120

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING STATEMENT OF INCOME
For the nine months ended September 30, 2016
(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
Operating revenue	$ —	$ 428,592	$ 29,848	$ —	$ 458,440
Operating expenses:					
Operations:					
Water production costs	—	162,933	5,900	—	168,833
Administrative and general	—	67,289	7,748	—	75,037
Other operations	—	53,128	5,016	(378)	57,766
Maintenance	—	16,854	688	—	17,542
Depreciation and amortization	171	44,427	3,246	(72)	47,772
Income tax (benefit) expense	(292)	17,356	1,366	762	19,192
Property and other taxes	—	15,241	2,198	—	17,439
Total operating (income) expenses	(121)	377,228	26,162	312	403,581
Net operating income	121	51,364	3,686	(312)	54,859
Other income and expenses:					
Non-regulated revenue	1,390	9,659	1,338	(1,798)	10,589
Non-regulated expenses	—	(7,422)	(884)	—	(8,306)
Income tax expense on other income and expenses	(566)	(909)	(172)	733	(914)
Net other income	824	1,328	282	(1,065)	1,369
Interest:					
Interest expense	547	24,421	1,435	(1,419)	24,984
Less: capitalized interest	—	(2,293)	(48)	—	(2,341)
Net interest expense	547	22,128	1,387	(1,419)	22,643
Equity earnings of subsidiaries	33,187	—	—	(33,187)	—
Net income	$ 33,585	$ 30,564	$ 2,581	$ (33,145)	$ 33,585

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING STATEMENT OF INCOME
For the nine months ended September 30, 2015
(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
Operating revenue	$ —	$ 422,372	$ 27,570	$ —	$ 449,942
Operating expenses:					
Operations:					
Water production costs	—	152,593	6,068	—	158,661
Administrative and general	—	76,271	8,798	—	85,069
Other operations	—	46,632	4,973	(378)	51,227
Maintenance	—	15,148	587	—	15,735
Depreciation and amortization	171	42,659	3,261	(76)	46,015
Income tax (benefit) expense	(294)	20,454	92	756	21,008
Property and other taxes	—	13,964	2,072	—	16,036
Total operating (income) expenses	(123)	367,721	25,851	302	393,751
Net operating income	123	54,651	1,719	(302)	56,191
Other income and expenses:					
Non-regulated revenue	1,353	9,674	1,241	(1,728)	10,540
Non-regulated expenses, net	—	(9,283)	(918)	—	(10,201)
Income tax expense on other income and expenses	(549)	(159)	(148)	725	(131)
Total other income	804	232	175	(1,003)	208
Interest:					
Interest expense	555	20,751	1,375	(1,350)	21,331
Less: capitalized interest	—	(1,438)	(34)	—	(1,472)
Net interest expense	555	19,313	1,341	(1,350)	19,859
Equity earnings of subsidiaries	36,168	—	—	(36,168)	—
Net income	$ 36,540	$ 35,570	$ 553	$ (36,123)	$ 36,540

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
For the nine months ended September 30, 2016
(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
Operating activities:					
Net income	$ 33,585	$ 30,564	$ 2,581	$ (33,145)	$ 33,585
Adjustments to reconcile net income to net cash provided by operating activities:					
Equity earnings of subsidiaries	(33,187)	—	—	33,187	—
Dividends received from affiliates	24,807	—	—	(24,807)	—
Depreciation and amortization	171	45,466	3,381	(72)	48,946
Changes in value of life insurance contracts	—	(915)	—	—	(915)
Changes in operating assets and liabilities	1,844	12,552	(6,623)	54	7,827
Other changes in noncurrent assets and liabilities	(250)	24,726	9,297	(24)	33,749
Net cash provided by operating activities	26,970	112,393	8,636	(24,807)	123,192
Investing activities:					
Utility plant expenditures	—	(163,179)	(3,227)	—	(166,406)
Changes in affiliate advances	(957)	4,419	(319)	(3,143)	—
Reduction of affiliate short-term borrowings	2,000	42,100	—	(44,100)	—
Issuance of affiliate short-term borrowings	(4,615)	(20,600)	—	25,215	—
Reduction of affiliates long-term debt	829	—	—	(829)	—
Life insurance proceeds	—	495	—	—	495
Purchase of life insurance contracts	—	(2,710)	—	—	(2,710)
Changes in restricted cash	—	(685)	—	—	(685)
Net cash used in investing activities	(2,743)	(140,160)	(3,546)	(22,857)	(169,306)
Financing Activities:					
Short-term borrowings	44,100	61,000	—	—	105,100
Repayment of short-term borrowings	(20,615)	(61,000)	—	—	(81,615)
Changes in affiliate advances	—	1,367	(4,510)	3,143	—
Proceeds from affiliate short-term borrowings	20,600	—	4,615	(25,215)	—
Repayment of affiliate short-term borrowings	(42,100)	—	(2,000)	44,100	—
Repayment of affiliates long-term borrowings	—	—	(829)	829	—
Proceeds from long-term debt, net of issuance costs	—	49,823	—	—	49,823
Repayment of long-term debt	—	(2,516)	(349)	—	(2,865)
Advances and contributions in aid of construction	—	18,096	90	—	18,186
Refunds of advances for construction	—	(5,172)	(22)	—	(5,194)
Dividends paid to non-affiliates	—	(24,173)	(634)	—	(24,807)
Dividends paid to affiliates	(24,807)	—	—	24,807	—
Net cash (used in) provided by financing activities	(22,822)	37,425	(3,639)	47,664	58,628
Change in cash and cash equivalents	1,405	9,658	1,451	—	12,514
Cash and cash equivalents at beginning of period	582	4,270	3,985	—	8,837
Cash and cash equivalents at end of period	$ 1,987	$ 13,928	$ 5,436	$ —	$ 21,351

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
For the nine months ended September 30, 2015
(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
Operating activities:					
Net income	$ 36,540	$ 35,570	$ 553	$ (36,123)	$ 36,540
Adjustments to reconcile net income to net cash provided by operating activities:					
Equity earnings of subsidiaries	(36,168)	—	—	36,168	—
Dividends received from affiliates	24,047	—	—	(24,047)	—
Depreciation and amortization	171	43,768	3,543	(76)	47,406
Change in value of life insurance contracts	—	758	—	—	758
Changes in operating assets and liabilities	(910)	(9,088)	8,436	(94)	(1,656)
Other changes in noncurrent assets and liabilities	3,030	35,324	(5,003)	125	33,476
Net cash provided by operating activities	26,710	106,332	7,529	(24,047)	116,524
Investing activities:					
Utility plant expenditures	—	(114,325)	(3,984)	—	(118,309)
Investment in affiliates	(1,000)	—	—	1,000	—
Changes in affiliate advances	(3,116)	2,918	(82)	280	—
Proceeds from affiliates long-term debt	767	—	—	(767)	—
Purchase of life insurance contracts	—	(1,855)	—	—	(1,855)
Changes in restricted cash	—	(241)	—	—	(241)
Net cash (used in) investing activities	(3,349)	(113,503)	(4,066)	513	(120,405)
Financing Activities:					
Short-term borrowings	2,500	80,000	—	—	82,500
Repayment of short-term borrowings	—	(25,000)	—	—	(25,000)
Debt issuance costs	(399)	(798)	—	—	(1,197)
Investment from affiliates	—	—	1,000	(1,000)	—
Changes in affiliate advances	—	2,965	(2,685)	(280)	—
Repayment of affiliates long-term borrowings	—	—	(767)	767	—
Proceeds from long-term debt	—	—	50	—	50
Repayment of long-term debt	—	(2,480)	(398)	—	(2,878)
Advances and contributions in aid of construction	—	10,682	59	—	10,741
Refunds of advances for construction	—	(5,014)	(36)	—	(5,050)
Dividends paid to non-affiliates	(24,047)	—	—	—	(24,047)
Dividends paid to affiliates	—	(23,754)	(293)	24,047	—
Net cash (used in) provided by financing activities	(21,946)	36,601	(3,070)	23,534	35,119
Change in cash and cash equivalents	1,415	29,430	393	—	31,238
Cash and cash equivalents at beginning of period	4,108	13,929	1,550	—	19,587
Cash and cash equivalents at end of period	$ 5,523	$ 43,359	$ 1,943	$ —	$ 50,825

Item 2

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

Dollar amounts in thousands unless otherwise stated

FORWARD LOOKING STATEMENTS

This quarterly report, including all documents incorporated by reference, contains forward-looking statements within the meaning established by the Private Securities Litigation Reform Act of 1995 (Act). Forward-looking statements in this quarterly report are based on currently available information, expectations, estimates, assumptions and projections, and our management's beliefs, assumptions, judgments and expectations about us, the water utility industry and general economic conditions. These statements are not statements of historical fact. When used in our documents, statements that are not historical in nature, including words like "expects," "intends," "plans," "believes," "may," "estimates," "assumes," "anticipates," "projects," "predicts," "forecasts," "should," "seeks," or variations of these words or similar expressions are intended to identify forward-looking statements. The forward-looking statements are not guarantees of future performance. They are based on numerous assumptions that we believe are reasonable, but they are open to a wide range of uncertainties and business risks. Consequently, actual results may vary materially from what is contained in a forward-looking statement.

Factors which may cause actual results to be different than those expected or anticipated include, but are not limited to:

- governmental and regulatory commissions' decisions, including decisions on proper disposition of property;
- consequences of eminent domain actions relation to our water systems;
- changes in regulatory commissions' policies and procedures;
- the timeliness of regulatory commissions' actions concerning rate relief;
- inability to renew leases to operate city water systems on beneficial terms;
- changes in California State Water Resources Control Board water quality standards;
- changes in environmental compliance and water quality requirements;
- electric power interruptions;
- civil disturbances or terrorist threats or acts, or apprehension about the possible future occurrences of acts of this type;
- labor relations matters as we negotiate with the unions;
- restrictive covenants in or changes to the credit ratings on current or future debt that could increase financing costs or affect the ability to borrow, make payments on debt, or pay dividends;
- changes in customer water use patterns and the effects of conservation;
- the impact of weather and climate on water sales and operating results;
- the unknown impact of contagious diseases, such as Zika, avian flu, H1N1 flu and severe acute respiratory syndrome, on the Company's operations;
- the risks set forth in "Risk Factors" included in the Company's annual report on 2015 Form 10-K.

In light of these risks, uncertainties and assumptions, investors are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of this quarterly report or as of the date of any document incorporated by reference in this report, as applicable. When considering forward-looking statements, investors should keep in mind the cautionary statements in this quarterly report and the documents incorporated by reference. We are not under any obligation, and we expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

CRITICAL ACCOUNTING POLICIES

We maintain our accounting records in accordance with accounting principles generally accepted in the United States of America (GAAP) and as directed by the Commissions to which our operations are subject. The process of preparing financial statements in accordance with GAAP requires the use of estimates on the part of management. The estimates used by management are based on historic experience and an understanding of current facts and circumstances. Management believes that the following accounting policies are critical because they involve a higher degree of complexity and judgment, and can have a material impact on our results of operations, financial condition, and cash flows of the business. These policies and their key characteristics are discussed in detail in the 2015 Form 10-K. They include:

- revenue recognition;
- regulated utility accounting;
- income taxes;
- pension and postretirement health care benefits;

For the nine month period ended September 30, 2016, there were no changes in the methodology for computing critical accounting estimates, no additional accounting estimates met the standards for critical accounting policies, and there were no material changes to the important assumptions underlying the critical accounting estimates.

RESULTS OF THIRD QUARTER 2016 OPERATIONS
COMPARED TO THIRD QUARTER 2015 OPERATIONS
Dollar amounts in thousands unless otherwise stated

Overview

Net income for the three month period ended September 30, 2016, was$22.9 million or $0.48 per diluted common share compared to net income of$25.1 million or $0.52 per diluted common share for the three month period ended September 30, 2015, a decrease of $2.2 million. The decrease in net income was primarily attributed to a write-off of $3.2 million of capital costs that are not expected to be recovered as part of the California GRC settlement the Company filed on September 2, 2016, a decrease in accrued unbilled revenue, an increase in depreciation and amortization and an increase in net interest expenses which were partially offset by decreases in uninsured loss and maintenance expenses. The change in accrued unbilled revenue resulted mostly from customer bill rate changes. This change in accrued unbilled revenue is not included in the WRAM until it is billed. The WRAM account records changes in billed revenue. Accrued unbilled revenue is seasonal and the pattern of accrued unbilled revenue changes can fluctuate on a year-to-year basis.

Operating Revenue

Operating revenue increased $0.7 million to $184.3 million in the third quarter of 2016 as compared to the third quarter of 2015. The factors that impacted the operating revenue for the third quarter of 2016 as compared to 2015 are as follows:

Net change due to rate changes, usage, and other (1)	$	5,296
MCBA Revenue (2)		2,327
Other balancing account revenue (3)		(5,197)
Deferral of revenue (4)		(1,701)
Net operating revenue increase	$	725

1. The net change due to rate changes, usage, and other in the above table was mainly driven by rate increases (see table below for components of rate increases) offset by a $5.1 million decrease in accrued unbilled revenue.

2. The MCBA revenue increase in the above table resulted from an increase in customer consumption in the third quarter of 2016 as compared to the third quarter of 2015. As required by the MCBA mechanism, the increase in water production costs in California also increased operating revenue for the same amount.

3. The other balancing account revenue in the above table consists of the pension, conservation and health care balancing account revenues. Pension and conservation balancing account revenues are the differences between actual expenses and adopted rate recovery. Health care balancing account revenue is 85% of the difference between actual health care expenses and adopted rate recovery. The decrease in revenue was due to a decrease in actual health care expenses as compared to the third quarter of 2015.

4. The deferral of revenue in the table above consists of amounts that are expected to be collected from customers beyond 24 months following the end of the accounting period in which these revenues were recorded. The deferral

increased in the third quarter of 2016 as compared to the third quarter of 2015 due to an increase in the balancing account revenue expected to be collect beyond 24 months.

There were rate increases during the third quarter of 2016 that increased Service, Other, and WRAM revenue. The components of the rate increases are as follows:

Purchased water offset increases	$	6,160
Escalation rate increases		1,929
Ratebase offset increases		63
General rate case		165
Total increase in rates	$	8,317

Total Operating Expenses

Total operating expenses increased $2.9 million, or 1.9%, to$154.2 million in the third quarter of 2016, as compared to$151.3 million in the third quarter of 2015.

Water production costs consists of purchased water, purchased power, and pump taxes. It represents the largest component of total operating expenses, accounting for approximately 46.1% of total operating expenses in the third quarter of 2016, as compared to 39.9% of total operating expenses in the third quarter of 2015. Water production costs increased 16.1% as compared to the same period last year mainly due to a blended 7.7% increase in purchased water wholesaler rates and a 10.3% increase in purchased water production.

Sources of water as a percent of total water production are listed in the following table:

	Three Months Ended September 30	
	2016	2015
Well production	48 %	50 %
Purchased	48 %	47 %
Surface	4 %	3 %
Total	100 %	100 %

The components of water production costs are shown in the table below:

	Three Months Ended September 30		
	2016	2015	Change
Purchased water	$ 58,075	$ 48,998	$ 9,077
Purchased power	9,255	8,958	297
Pump taxes	2,845	2,481	364
Total	$ 70,175	$ 60,437	$ 9,738

Administrative and general and other operations expenses decreased $5.2 million, or 10.7%, to $43.4 million in the third quarter of 2016, as compared to $48.6 million in the third quarter of 2015. The decrease was due primarily to decreases in employee pension benefits of $4.8 million, uninsured loss expenses of $1.4 million, California drought program incremental costs of $1.0 million, water conservation program costs of $0.2 million, and the deferral of $1.4 million of costs associated with the deferral of balancing account revenue of $1.7 million which was partially offset by the write-off of $3.2 million of capital costs that are not expected to be recovered as part of the California GRC. The write-off of capital costs were for engineering design costs for a cancelled Cal Water and City of Bakersfield water treatment plant project, previously recorded as property held for future use. Water conservation program costs are affected by seasonal patterns and are dependent on customer demand for our programs. Changes in employee pension and other postretirement benefit costs, water conservation program costs, and employee health care costs for regulated California operations do not affect earnings, because the Company is allowed by the CPUC to track these costs in balancing accounts for future recovery, which creates a corresponding change to operating revenue. At September 30, 2016, there were 1,157 employees and at September 30, 2015, there were 1,163 employees.

Maintenance expense decreased $0.5 million, or 6.8%, to $5.5 million in the third quarter of 2016, as compared to $6.0 million in the third quarter of 2015, mostly due to decreases in transmission and distribution mains repairs.

Depreciation and amortization expense increased $0.6 million, or 3.5%, to $15.9 million in the third quarter of 2016, as compared to $15.3 million in the third quarter of 2015, due to 2015 capital additions.

Income taxes decreased $2.1 million, or 13.4%, to $13.2 million in the third quarter of 2016, as compared to $15.3 million in the third quarter of 2015. The decrease was mainly due to a $5.2 million decrease in pre-tax operating income in the third quarter of 2016 as compared to the third quarter of 2015.

Property and other taxes increased $0.3 million, or 4.3%, to $6.0 million in the third quarter of 2016, as compared to $5.7 million in the third quarter of 2015, mostly due to an increase in assessed property values in 2015.

Other Income and Expenses

Net other income increased $0.9 million to $0.5 million in the third quarter of 2016, as compared to a net loss of $0.4 million in the third quarter of 2015, principally due to $1.3 million of an unrealized gain on our benefit plan insurance investments.

Interest Expense

Net interest expense increased $1.0 million, or 15.0%, to $7.7 million in the third quarter of 2016, as compared to $6.7 million in the third quarter of 2015. The increase was due primarily to the sale of $150.0 million of First Mortgage Bonds during the first quarter of 2016 and the fourth quarter of 2015.

RESULTS OF THE NINE MONTHS ENDED SEPTEMBER 30, 2016 OPERATIONS
COMPARED TO THE NINE MONTHS ENDED SEPTEMBER 30, 2015 OPERATIONS
Dollar amounts in thousands unless otherwise stated

Overview

Net income for the nine months ended September 30, 2016, was $33.6 million or $0.70 per diluted common share compared to a net income of $36.5 million or $0.76 per diluted common share for the nine months ended September 30, 2015, a decrease of $2.9 million. The decrease in net income was primarily attributed to a write-off of $3.2 million of capital costs that are not expected to be recovered as part of the California GRC settlement the Company filed on September 2, 2016 and increases in maintenance, drought-related costs, depreciation and amortization, and net interest expenses, which were partially offset by an increase in accrued unbilled revenue and a decrease in uninsured loss expenses. The change in accrued unbilled revenue resulted from more unbilled days at the end of the quarter. This increase in accrued unbilled revenue is not included in the WRAM until it is billed. The WRAM account records changes in billed revenue. Accrued unbilled revenue is seasonal and the pattern of accrued unbilled revenue changes can fluctuate on a year-to-year basis.

Operating Revenue

Operating revenue increased $8.5 million or 1.9% to $458.4 million in the first nine months of 2016 as compared to the first nine months of 2015. The factors that impacted the operating revenue for the first nine months of 2016 as compared to 2015 are as follows:

Net change due to rate changes, usage, and other (1)	$	30,399
MCBA Revenue (2)		(11,964)
Other balancing account revenue (3)		(9,662)
Deferral of revenue (4)		(275)
Net operating revenue increase	$	8,498

1. The net change due to rate changes, usage, and other in the above table was mainly driven rate increases (see table below for components of rate increases) and a $3.0 million increase in accrued unbilled revenue.

2. The MCBA revenue decrease in the above table resulted from a reduction in customer consumption in California caused by drought conditions. As required by the MCBA mechanism, the reduction to water production costs relative to adopted costs in California also reduced operating revenue in the same amount.

3. The other balancing account revenue in the above table consists of the pension, conservation and health care balancing account revenues. Pension and conservation balancing account revenues are the differences between actual expenses and adopted rate recovery. Health care balancing account revenue is 85% of the difference between actual health care expenses and adopted rate recovery. The decrease in revenue was due to a decrease in actual pension and health care expenses offset by an increase in actual conservation expenses.

4. The deferral of revenue in the table above consists of amounts that are expected to be collected from customers beyond 24 months following the end of the accounting period in which these revenues were recorded. The deferral increased due to an increase in the balancing account revenue expected to be collect beyond 24 months.

There were rate increases during the nine months ended September 30, 2016 that increased Service, Other, and WRAM revenue. The components of the rate increases are as follows:

Purchased water offset increases	$ 19,133
Escalation rate increases	3,684
Ratebase offset increases	1,381
General rate case	399
Total increase in rates	$ 24,597

Total Operating Expenses

Total operating expenses increased $9.8 million, or 2.5%, to$403.6 million in the first nine months of 2016, as compared to$393.8 million in the first nine months of 2015.

Water production costs consists of purchased water, purchased power, and pump taxes. It represents the largest component of total operating expenses, accounting for approximately 42.0% of total operating expenses in the first nine months of 2016, as compared to 40.3% of total operating expenses in the first nine months of 2015. Water production costs increased 6.4% as compared to the same period last year mainly due to an increase of 1.8% in purchased water production and a blended 7.5% increase in purchased water wholesaler rates.

Sources of water as a percent of total water production are listed in the following table:

	Nine Months Ended September 30	
	2016	2015
Well production	48 %	49 %
Purchased	48 %	48 %
Surface	4 %	3 %
Total	100 %	100 %

The components of water production costs are shown in the table below:

	Nine Months Ended September 30		
	2016	2015	Change
Purchased water	$ 139,514	$ 128,029	$ 11,485
Purchased power	21,123	21,824	(701)
Pump taxes	8,196	8,808	(612)
Total	$ 168,833	$ 158,661	$ 10,172

Administrative and general and other operations expenses decreased $3.5 million, or 2.6%, to $132.8 million in the first nine months of 2016, as compared to $136.3 million in the first nine months of 2015. The decrease was due primarily to a decrease in employee pension benefits of $9.3 million, and uninsured loss expenses of $1.6 million which were partially offset by a write-off of $3.2 million of capital costs that are not expected to be recovered as part of the California GRC, increases in employee wages of $1.7 million, California drought program incremental expenses of $1.2 million, conservation program expenses of $0.6 million, and allowance for bad debts of $0.5 million. The write-off of capital costs were for engineering design costs for a cancelled Cal Water and City of Bakersfield water treatment plant project, previously recorded as property held for future use. Changes in employee pension and other postretirement benefit costs, water conservation program costs, and employee health care costs for regulated California operations do not affect earnings, because the Company is allowed by the CPUC to track these costs in balancing accounts for future recovery, which create corresponding changes to operating revenue.

Maintenance expense increased $1.8 million, or 11.5%, to $17.5 million in the first nine months of 2016, as compared to $15.7 million in the first nine months of 2015, mostly due to increases in transmission and distribution mains, pumping equipment, wells, and tank repair costs.

Depreciation and amortization expense increased $1.8 million, or 3.8%, to $47.8 million in the first nine months of 2016, as compared to $46.0 million in the first nine months of 2015, mostly due to 2015 utility plant additions.

Income taxes decreased $1.8 million, or 8.6%, to $19.2 million in the first nine months of 2016, as compared to $21.0 million in the first nine months of 2015. The decrease was due primarily to a $5.9 million decrease to pre-tax operating income in the first nine months of 2016 as compared to the first nine months of 2015 and a $0.6 million tax benefit in 2015. The Company's estimated effective tax rate for fiscal year 2016 is 38%.

Property and other taxes increased $1.4 million, or 8.7%, to $17.4 million during the first nine months of 2016, as compared to $16.0 million in the first nine months of 2015, due primarily to an increase in assessed property values in 2015.

Other Income and Expenses

Net other income increased $1.2 million to $1.4 million in the first nine months of 2016, as compared to the first nine months of 2015, due primarily to $1.7 million of an unrealized gain on our benefit plan insurance investments.

Interest Expense

Net interest expense increased $2.7 million, or 14.0%, to $22.6 million in the first nine months of 2016, as compared to $19.9 million in the first nine months of 2015. The increase was due primarily to the sale of $150.0 million of First Mortgage Bonds during the first quarter of 2016 and the fourth quarter of 2015.

REGULATORY MATTERS

2016 California Regulatory Activity

California GRC filing

On September 2, 2016, Cal Water entered into a settlement agreement with the CPUC's Office of Ratepayer Advocates (ORA) and other parties to its 2015 GRC. The Commission may or may not approve the settlement agreement as proposed by the parties.

If the settlement agreement is approved as proposed, Cal Water would be authorized to invest $658.8 million in districts throughout California over the three-year period from January 1, 2016 through December 31, 2018 in order to provide a safe and reliable water supply to its customers. Included in the $658.8 million in water system infrastructure improvements is $197.3 million that would be recovered through the Commission's advice letter procedure upon completion of qualified projects. Under the terms of the settlement, the Company would be authorized to increase revenue by approximately $45.0 million in 2017, $17.2 million in 2018, $16.3 million in 2019, and up to $30.0 million upon completion and approval of the Company's advice letter projects. The GRC is being processed according to the adopted schedule which would allow for a decision at the end of 2016. Any rate change as a result of this filing is expected to be effective on January 1, 2017.

Escalation Increase filings

As a part of the decision of the 2012 GRC, Cal Water was authorized to file annual escalation rate increases for 2015 and 2016 for those districts that passed the earnings test. In December 2015, Cal Water filed for escalation rate increases in 17 districts. The annual adopted gross revenue associated with the December 2015 filing was $5.0 million. The new rates became effective on January 1, 2016.

California Drought Memorandum Account

On July 15, 2016, Cal Water filed an advice letter to recover $4.2 million of incremental drought expenses associated with calendar years 2014 and 2015. During the third quarter of 2016, Cal Water discussed the request with interested parties, including the ORA. A revised advice letter was filed on October 12, 2016 by Cal Water to recover $2.9 million in incremental costs related to 2014 and 2015 expenses, which will be recoverable to the extent approved by the CPUC. Cal Water also filed an advice letter on July 15, 2016 to request the elimination of the drought surcharges beginning on July 29, 2016. The advice letter was effective July 29, 2016.

As of September 30, 2016, total incremental costs tracked in the drought memorandum account since inception were $10.4 million, of which $1.5 million was spent on capital. The incremental costs tracked in the drought memorandum account for the three and nine month periods ended September 30, 2016 and 2015 are shown in the tables below:

	Three Months Ended September 30		
	2016	2015	Change
Incremental expenses	$ 767	$ 1,780	$ (1,013)
Incremental capital	19	263	(244)
Total	$ 786	$ 2,043	$ (1,257)

	Nine Months Ended September 30		
	2016	2015	Change
Incremental expenses	$ 3,981	$ 2,735	$ 1,246
Incremental capital	653	439	214
Total	$ 4,634	$ 3,174	$ 1,460

In addition, all monies collected by Cal Water through drought surcharges for exceeding water budgets are recorded in the appropriate WRAM account and used to offset under-collected revenues. Customer drought surcharges were $63.0 million and waste-of-water penalties were less than $0.1 million for the period from July 1, 2015 to September 30, 2016. During the third quarter of 2016, customer drought surcharges were $4.0 million and waste-of-water penalties were less than $0.1 million. For the nine months ended September 30, 2016, customer drought surcharges were $26.1 million and waste-of-water penalties were less than $0.1 million. For the nine months and three months ended September 30, 2015, customer drought surcharges were $23.6 million and waste-of-water penalties were less than $0.1 million.

Federal Income Tax Bonus Depreciation

In 2011, Cal Water filed for and received approval to track the benefits from federal income tax accelerated depreciation in a memorandum account due to the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. Additional federal income tax accelerated depreciation deductions for assets placed in service were $8.9 million, $14.4 million, and $34.0 million in 2013, 2012, and 2011, respectively. The memorandum account may result in a surcredit because of the impact to Cal Water's revenue requirement for changes to working cash estimates, reductions to federal income tax qualified U.S. production activities deductions (QPAD), and changes to contributions-in-aid-of-construction. In 2016, Cal Water worked with the ORA and incorporated a surcredit amount of $0.7 million into the settlement agreement for its 2015 GRC.

WRAM and MCBA filings

In April 2016, Cal Water filed 3 advice letters to true up the revenue over- and under-collections in the 2015 annual WRAMs/MCBAs of its regulated districts. A net under-collection of $20.4 million is being recovered from customers in the form of 12 and 18 month surcharges/surcredits. This surcharge/surcredit is in some cases in addition to surcharges/surcredits authorized in prior years which have not yet expired.

Expense Offset filings

Expense offsets are dollar-for-dollar increases in revenue to match increased expenses, and therefore do not affect net operating income. In December 2015, Cal Water filed advice letters to offset increased purchased water and pump taxes in 6 of its regulated districts, totaling $4.8 million. The new rates became effective on January 1, 2016.

In June 2016, Cal Water filed advice letters to offset increased purchased water and pump taxes in 7 of its regulated districts, totaling $13.9 million. The new rates became effective in the third quarter of 2016.

Ratebase Offset filings

For construction projects that are authorized in GRCs as advice letter projects, companies are allowed to file ratebase offsets to increase revenues after the plant is placed into service. In June 2016, Cal Water filed $0.2 million of annual revenue increase for a ratebase offset in one of its regulated districts. The new rates became effective on August 1, 2016.

Travis Air Force Base

Cal Water has entered into a 50-year agreement with the U.S. Department of Defense to acquire the water distribution assets of, and to provide water utility service to, the Travis Air Force Base beginning in 2018, subject to CPUC approval.

The water system utilizes surface water treated at a water treatment plant and groundwater from five wells, and includes distribution piping, storage tanks, hydrants, and other appurtenances to serve about 15,280 active and reserve personnel and civilians on the 6,400-acre base. Cal Water will also make initial capital improvements of about $12.7 million, with an anticipated capital investment of about $52.0 million over the 50-year term of the utility service contract.

2016 Regulatory Activity—Other States

2015 Ka'anapali (Hawaii) GRC Filing

In December 2015, Hawaii water filed a GRC for its Ka'anapali water system requesting an additional $1.7 million in revenues on an annual basis. The application requested recovery for approximately $3.0 million in capital investments in the system since 2012. During the second quarter of 2016, we achieved a full settlement with all interveners in the amount of $1.1 million. On September 12, 2016, the Hawaii Public Utilities Commission (HPUC) authorized the rate increase.

2014 Kona (Hawaii) GRC Filing

In August 2014, Hawaii Water filed a GRC for Kona water and wastewater requesting $3.3 million. On June 29, 2015, Hawaii Water received a Decision and Order from the HPUC for the Kona water and wastewater rate case approving $2.1 million in additional annual revenues to be phased in over a six month period. Hawaii Water reached a comprehensive and conceptual settlement with the Consumer Advocate which is an independent agency that reviews Hawaii Water's rate case applications. The new rates for the first phase were effective in August 2015 and the new rates for the second phase took effect in February 2016.

2012 Waikoloa (Hawaii) GRC Filings

In August 2012, Hawaii Water filed GRCs for the Waikoloa Village Water, Waikoloa Village Wastewater, and Waikoloa Resort Utilities requesting $6.3 million in additional annual revenues. The GRCs were processed on separate schedules. Hawaii Water and the Consumer Advocate reached settlements on the rate filings for Waikoloa Village Water, Waikoloa Village Wastewater, and Waikoloa Resort Utilities. On June 22, 2015, the HPUC approved a rate increase for the Waikoloa Village Wastewater rate case authorizing annual revenue increase of $0.7 million phased in over two years. The new rates for the first phase were effective in August 2015 and the second phase became effective in August 2016.

2011 Pukalani (Hawaii) GRC Filing

In August 2011, Hawaii Water filed a GRC for Pukalani wastewater system. On January 15, 2014, Hawaii Water received a Decision and Order for the GRC for the Pukalani wastewater system rate case approving $0.6 million in additional annual revenues. Hawaii Water reached a comprehensive and conceptual settlement with the Consumer Advocate. This decision approved an increase of $0.3 million in 2014, another increase of $0.2 million in 2015, and another increase of $0.2 million in 2016. Each increase is separated by one year. The new rates for 2016 took effect in February 2016.

LIQUIDITY

Cash flow from Operations

Cash flow from operations for the first nine months of 2016 was $123.2 million compared to $116.5 million for the same period in 2015. Cash generated by operations varies during the year due to customer billings, timing of contributions to our benefit plans, and timing of estimated tax payments.

During the first nine months of 2016 we made contributions of $20.6 million to our employee pension plan compared to contributions of $22.7 million made during the first nine months of 2015. During the first nine months of 2016 we made contributions of $6.7 million to the other postretirement benefit plans compared to contributions of $7.5 million during the first nine months of 2015. The 2016 estimated cash contribution to the pension plans is $28.3 million and to the other postretirement benefit plans is $9.6 million.

The water business is seasonal. Billed revenue is lower in the cool, wet winter months when less water is used compared to the warm, dry summer months when water use is highest. This seasonality results in the possible need for short-term borrowings under the bank lines of credit in the event cash is not available to cover operating and utility plant costs during the winter period. The increase in cash flows during the summer allows short-term borrowings to be paid down. Customer water usage can be lower than normal in drought years and when more than normal precipitation falls in our service areas or temperatures are lower than normal, especially in the summer months. On April 1, 2015, the Governor of the State of California issued Executive Order B-29-15 due to severe drought conditions. The Executive Order imposed restrictions on urban water suppliers like Cal Water to achieve a statewide 25% reduction through February 2016 as compared with the amount used in 2013, to encourage customers to use less water. Effective June 1, 2016, the state allowed water suppliers to self-certify and, if applicable, reduce conservation targets. The reduction in water usage reduces cash flows from operations and increases the need for short-term bank borrowings. In addition, short-term borrowings are used to finance utility plant expenditures until long-term financing is arranged.

Investing Activities

During the first nine months of 2016 and 2015, we used $166.4 million and $118.3 million, respectively, of cash for utility plant expenditures. The 2016 budget estimates utility plant expenditures to be between $180.0 and $210.0 million. Annual expenditures fluctuate each year due to the availability of construction resources and our ability to obtain construction permits in a timely manner.

Financing Activities

Net cash provided by financing activities was $58.6 million during the first nine months of 2016 compared to $35.1 million for the same period in 2015.

During the first nine months of 2016 and 2015, we borrowed $105.1 million and $82.5 million, respectively, on our unsecured revolving credit facilities. Repayments of unsecured revolving credit facilities borrowings during the first nine months of 2016 were $81.6 million and $25.0 million for the same period in 2015.

The undercollected net WRAM and MCBA receivable balances were $30.5 million and $42.5 million as of September 30, 2016 and September 30, 2015, respectively. The undercollected balances were primarily financed by Cal Water using short-term and long-term financing arrangements to meet operational cash requirements. Interest on the undercollected balances, the interest recoverable from ratepayers, is limited to the current 90-day commercial paper rates which is significantly lower than Cal Water's short and long-term financing rates.

Short-Term and Long-Term Financing

During the first nine months of 2016, we utilized cash generated from operations, borrowings on the unsecured revolving credit facilities, and proceeds from the issuance of long-term debt. We did not sell Company common stock during the first nine months of 2016 and 2015. In future periods, management anticipates funding our utility plant needs through a relatively balanced approach between long term debt and equity.

Short-term liquidity is provided by our unsecured revolving credit facilities and internally generated funds. Long-term financing is accomplished through the use of both debt and equity. On September 23, 2010, the CPUC authorized Cal Water to issue $350.0 million of debt and common stock to finance utility plant projects and operations.

On March 10, 2015, the Company and Cal Water entered into Syndicated Credit Agreements, which provided for unsecured revolving credit facilities of up to an initial aggregate amount of $450.0 million for a term of five years. The Syndicated Credit Facilities amended, expanded, and replaced the Company's and its subsidiaries' credit facilities originally entered into on September 29, 2011. The new credit facilities extended the terms until March 10, 2020 and increased the Company's unsecured revolving line of credit. The credit facilities may each be expanded by up to $50.0 million subject to certain conditions. The Company and subsidiaries that it designates may borrow up to $150.0 million under the Company's revolving credit facility. Cal Water may borrow up to $300.0 million under its revolving credit facility. On May 13, 2016, the CPUC approved additional financing for Cal Water. As part of that decision, Cal Water is now allowed to use its revolving credit facilities for up to 24 months. Previously, Cal Water had to pay down its credit facility every 12 months unless otherwise authorized by the CPUC. The proceeds from the revolving credit facilities may be used for working capital purposes, including the short-term financing of utility plant projects. The base loan rate may vary from LIBOR plus 72.5 basis points to LIBOR plus 95 basis points, depending on the Company's total capitalization ratio. Likewise, the unused commitment fee may vary from 8 basis points to 12.5 basis points based on the same ratio.

As of September 30, 2016, there were short-term borrowings of $57.1 million outstanding on the unsecured revolving credit facilities compared to $33.6 million as of December 31, 2015. The increase in short-term borrowings during the first nine months of 2016 was mostly due to an increase in capital investment.

Given our ability to access our lines of credit on a daily basis, cash balances are managed to levels required for daily cash needs and excess cash is invested in short-term or cash equivalent instruments. Minimal operating levels of cash are maintained for Washington Water, New Mexico Water, and Hawaii Water.

Both short-term credit agreements contain affirmative and negative covenants and events of default customary for credit facilities of this type including, among other things, limitations and prohibitions relating to additional indebtedness, liens, mergers, and asset sales. Also, these unsecured credit agreements contain financial covenants governing the Company and its subsidiaries' consolidated total debt ratio not to exceed 66.7% and an interest coverage ratio of three or more. As of September 30, 2016, we are in compliance with all of the covenant requirements and are eligible to use the full amount of our credit facilities.

On October 13, 2015, Cal Water sold $150.0 million in aggregate principal amount of First Mortgage Bonds in a private placement. Pursuant to the agreement, Cal Water issued $100.0 million of First Mortgage Bonds on October 13, 2015, consisting of $50.0 million of 3.33% series QQQ maturing October 15, 2025 and $50.0 million of 4.31% series RRR maturing October 16, 2045.

In March 2016, Cal Water issued the remaining $50.0 million of First Mortgage Bonds, consisting of $40.0 million of 4.41% series SSS maturing April 16, 2046 and $10.0 million of 4.61% series TTT maturing April 14, 2056. Cash proceeds of approximately $49.7 million, net of $0.3 million debt issuance costs, were received. Cal Water used a portion of the net proceeds from the offering to repay outstanding borrowings on the Company and Cal Water lines of credit of $48.6 million.

Bond principal and other long-term debt payments were $2.9 million during the first nine months of 2016 and the first nine months of 2015.

Long-term financing, which includes senior notes, other debt securities, and common stock, has typically been used to replace short-term borrowings and fund utility plant expenditures. Internally generated funds, after making dividend payments, provide positive cash flow, but have not been at a level to meet the needs of our utility plant expenditure requirements. Management expects this trend to continue given our utility plant expenditures plan for the next five years. Some utility plant expenditures are funded by payments received from developers for contributions in aid of construction or advances for construction. Funds received for contributions in aid of construction are non-refundable, whereas funds classified as advances in construction are refundable. Management believes long-term financing is available to meet our cash flow needs through issuances in both debt and equity instruments.

Dividends

During the first nine months of 2016, our quarterly common stock dividend payments were $0.1725 per share compared to $0.1675 during the first nine months of 2015. For the full year 2015, the payout ratio was 71% of net income. On a long-term basis, our goal is to achieve a dividend payout ratio of 60% of net income accomplished through future earnings growth.

At its October 27, 2016 meeting, the Board declared the fourth quarter dividend of $0.1725 per share payable on November 18, 2016, to stockholders of record on November 7, 2016. This was our 287th consecutive quarterly dividend.

2016 Financing Plan

We intend to fund our utility plant needs in future periods through a relatively balanced approach between long-term debt and equity. The Company and Cal Water have a syndicated unsecured revolving line of credit of $150.0 million and $300.0 million, respectively, for short-term borrowings. As of September 30, 2016, the Company's and Cal Water's availability on these unsecured revolving lines of credit was $92.9 million and $300.0 million, respectively. Cal Water sold $50.0 million of First Mortgage Bonds on March 11, 2016. Cash proceeds of approximately $49.7 million, net of $0.3 million debt issuance costs, were received in March 2016.

Book Value and Stockholders of Record

Book value per common share was $13.59 at September 30, 2016 compared to $13.41 at December 31, 2015. There were approximately 2,033 stockholders of record for our common stock as of August 8, 2016.

Utility Plant Expenditures

During the first nine months of 2016, utility plant expenditures totaled $166.4 million for company-funded and developer-funded projects. The 2016 budget estimates company-funded utility plant expenditures to be between $180.0 and $210.0 million. The actual amount may vary from the budget number due to timing of actual payments related to current year and prior year projects. We do not control third-party-funded utility plant expenditures and therefore are unable to estimate the amount of such projects for 2016.

As of September 30, 2016, construction work in progress was $164.1 million compared to $149.0 million as of September 30, 2015. Work in progress includes projects that are under construction but not yet complete and placed in service.

WATER SUPPLY

Our source of supply varies among our operating districts. Certain districts obtain all of their supply from wells; some districts purchase all of their supply from wholesale suppliers; and other districts obtain supply from a combination of wells and wholesale suppliers. A small portion of supply comes from surface sources and is processed through Company-owned water treatment plants. To the best of management's knowledge, we are meeting water quality, environmental, and other regulatory standards for all company-owned systems.

Historically, approximately 49% of our annual water supply is pumped from wells. State groundwater management agencies operate differently in each state. Some of our wells extract ground water from water basins under state ordinances. These are adjudicated groundwater basins, in which a court has settled the dispute between landowners or other parties over how much annual groundwater can be extracted by each party. All of our adjudicated groundwater basins are located in the State of California. Our annual groundwater extraction from adjudicated groundwater basins approximates 6.7 billion gallons or 13% of our total annual water supply pumped from wells. Historically, we have extracted less than 100% of our annual adjudicated groundwater rights and have the right to carry forward up to 20% of the unused amount to the next annual period. All of our remaining wells extract ground water from managed or unmanaged water basins. There are no set limits for the ground water extracted from these water basins; however, the state or local water management agencies have the authority to regulate the groundwater extraction quantity whenever there are unforeseen large decreases to water basin levels. Our annual groundwater extraction from managed groundwater basins approximates 32.6 billion gallons or 61% of our total annual water supply pumped from wells. Our annual groundwater extraction from unmanaged groundwater basins approximates 13.7 billion gallons or 26% of our total annual water supply pumped from wells. Most of the managed groundwater basins we extract water from have groundwater recharge facilities. We are required to pay well pump taxes to financially support these groundwater recharge facilities. Well pump taxes were $8.2 million and $8.8 million for the nine months ended September 30, 2016 and 2015, respectively. Well pump taxes were $2.8 million and $2.5 million for the three months ended September 30, 2016 and 2015, respectively. In 2014, the State of California enacted the Sustainable Groundwater Management Act of 2014. The law and its implementing regulations will require most basins to select a sustainability agency by 2017, develop a sustainability plan by 2022, and show progress toward sustainability by 2027. We expect that in the future, groundwater will be produced mainly from managed and adjudicated basins.

California's normal weather pattern yields little precipitation between mid-spring and mid-fall. The Washington Water service areas receive precipitation in all seasons, with the heaviest amounts during the winter. New Mexico Water's rainfall is heaviest in the summer monsoon season. Hawaii Water receives precipitation throughout the year, with the largest amounts in the winter months. Water usage in all service areas is highest during the warm and dry summers and declines in the cool winter months. Rain and snow during the winter months replenish underground water aquifers and fill reservoirs, providing the water supply for subsequent delivery to customers. As of September 30, 2016, the State of California snowpack water content and rainfall accumulation during the 2015 - 2016 water year is 116% of normal (per the California Department of Water Resources, Northern Sierra Precipitation Accumulation report). However, the central and southern portions of the state saw below-average rain and snowfall. Management believes that supply pumped from underground aquifers and purchased from wholesale suppliers will be adequate to meet customer demand during 2016 and beyond. Long-term water supply plans are developed for each of our districts to help assure an adequate water supply under various operating and supply conditions. Some districts have unique challenges in meeting water quality standards, but management believes that supplies will meet current standards using current treatment processes.

CONTRACTUAL OBLIGATIONS

During the nine months ended September 30, 2016, there were no material changes in contractual obligations outside the normal course of business.

Item 3.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

Historically, the CPUC's balancing account or offsetable expense procedures allowed for increases in purchased water and purchased power costs to be flowed through to consumers. Traditionally, a significant percentage of our net income and cash flows comes from California regulated operations; therefore the CPUC's actions have a significant impact on our business. See Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Regulatory Matters".

Item 4.

CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(c) under the Exchange Act) that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow for timely decisions regarding required disclosure.

In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Accordingly, our disclosure controls and procedures have been designed to provide reasonable assurance of achieving their objectives.

Our management, with the participation of our CEO and our CFO, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2016. Based on that evaluation, we concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

(b) Changes to Internal Control over Financial Reporting

There was no change in our internal controls over financial reporting that occurred during the quarter ended September 30, 2016, that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II OTHER INFORMATION

Item 1.

LEGAL PROCEEDINGS

From time to time, the Company is involved in various disputes and litigation matters that arise in the ordinary course of business. The status of each significant matter is reviewed and assessed for potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount of the range of loss can be estimated, a liability is accrued for the estimated loss in accordance with the accounting standards for contingencies. Legal proceedings are subject to uncertainties, and the outcomes are difficult to predict. Because of such uncertainties, accruals are based on the best information available at the time. While the outcome of these disputes and litigation matters cannot be predicted with any certainty, management does not believe when taking into account existing reserves the ultimate resolution of these matters will materially affect the Company’s financial position, results of operations, or cash flows. In the future, we may be involved in disputes and litigation related to a wide range of matters, including employment, construction, environmental issues and operations. Litigation can be time consuming and expensive and could divert management’s time and attention from our business. In addition, if we are subject to additional lawsuits or disputes, we might incur significant legal costs and it is uncertain whether we would be able to recover the legal costs from ratepayers or other third parties. For more information refer to footnote 10.

On July 21, 2016, the San Francisco Bay Area Regional Water Quality Control Board (the Water Control Board) approved a settlement between Cal Water and the Water Control Board and California Department of Fish and Wildlife (Fish and Wildlife) to resolve purported complaints from the Water Control Board and Fish and Wildlife alleging Cal Water discharged approximately 8,207,560 gallons of drinking water into Polhemus Creek that was caused by an undetected crack in a large water main located 10 feet below ground in a remote area. The water was disinfected as required to meet all federal and state water quality standards and make it safe for human consumption. Drinking water, however, can be harmful to fish and the environment.

As part of the settlement, Cal Water will replace 2,000 feet of 18-inch cast iron water main with new ductile iron main along Polhemus Road and Polhemus Creek in San Mateo. Cal Water will also conduct a streambed restoration project in San Mateo Creek to improve conditions in the creek for native fish. This work will be performed in coordination with the California Department of Fish and Wildlife. In addition to investing in these improvement projects and as required by the settlement Cal Water paid $0.5 million to the Water Control Board and $0.02 million to Fish and Wildlife during the third quarter of 2016.

Under the terms of the settlement, Cal Water will be released from all claims unless it fails to complete the projects. The agreement contains no admission of wrongdoing.

Item 1A.

RISK FACTORS

There have been no material changes to the Company’s risk factors set forth in Part I, Item 1A of the Company’s Annual Report on Form 10-K for the year-ended December 31, 2015 filed with the SEC on February 25, 2016.

Item 6.

EXHIBITS

Exhibit	Description
4	The Company agrees to furnish upon request to the Securities and Exchange Commission a copy of each instrument defining the rights of holders of long-term debt of the Company
10.1	Credit Agreement dated as of March 10, 2015 among California Water Service Group and certain of its subsidiaries from time to time party thereto, as borrowers, Bank of America, N.A., as administrative agent, swing line lender and letter of credit issuer, Merrill Lynch, Pierce, Fenner & Smith incorporated, as sole lead arranger and sole bookrunner, CoBank, ACB and U.S. Bank National Association, as co-syndication agents, and Bank of China, Los Angeles Branch, as documentation agent, and the other lender parties thereto (Exhibit 10.1 to the Current Report on Form 8-K filed March 11, 2015)
10.2	Credit Agreement dated as of March 10, 2015 among California Water Service Company, as borrower, Bank of America, N.A., as administrative agent, swing line lender and letter of credit issuer, Merrill Lynch, Pierce, Fenner & Smith Incorporated, as sole lead arranger and sole bookrunner, CoBank, ACB and U.S. Bank National Association, as co-syndication agents, and Bank of China, Los Angeles Branch, as documentation agent, and the other lender parties thereto (Exhibit 10.2 to the Current Report on Form 8-K filed March 11, 2015)
31.1	Chief Executive Officer certification of financial statements pursuant to Section 302 of the Sarbanes- Oxley Act of 2002
31.2	Chief Financial Officer certification of financial statements pursuant to Section 302 of the Sarbanes- Oxley Act of 2002
32	Chief Executive Officer and Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes- Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

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

		CALIFORNIA WATER SERVICE GROUP
		Registrant
October 27, 2016	By:	/s/ Thomas F. Smegal III
		Thomas F. Smegal III
		Vice President,
		Chief Financial Officer and Treasurer

Exhibit Index

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Exhibit 31.1

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Martin A. Kropelnicki, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended September 30, 2016, of California Water Service Group;

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

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

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

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

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

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

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

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

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

Date: October 27, 2016	By:	/s/ Martin A. Kropelnicki
		MARTIN A. KROPELNICKI
		President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Thomas F. Smegal III, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended September 30, 2016, of California Water Service Group;

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

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

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

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

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

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

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

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

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

Date: October 27, 2016

By: /s/ Thomas F. Smegal III

THOMAS F. SMEGAL III
Vice President, Chief Financial Officer and Treasurer

Exhibit 32

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

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned certifies that this quarterly report on Form 10-Q for the period ended September 30, 2016 fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of California Water Service Group.

Date: October 27, 2016	By:	/s/ Martin A. Kropelnicki
		MARTIN A. KROPELNICKI
		President and Chief Executive Officer
		California Water Service Group
Date: October 27, 2016	By:	/s/ Thomas F. Smegal III
		THOMAS F. SMEGAL III
		Vice President, Chief Financial Officer and Treasurer
		California Water Service Group