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, 2017

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, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer”, “smaller reporting company,” and "emerging growth 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 ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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, 2017 — 48,015,140

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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, 2017	December 31, 2016
ASSETS		
Utility plant:		
Utility plant	$ 2,892,666	$ 2,717,339
Less accumulated depreciation and amortization	(910,742)	(858,062)
Net utility plant	1,981,924	1,859,277
Current assets:		
Cash and cash equivalents	28,341	25,492
Receivables:		
Customers	46,963	30,305
Regulatory balancing accounts	31,364	30,332
Other	16,438	17,158
Unbilled revenue	38,491	25,228
Materials and supplies at weighted average cost	6,344	6,292
Taxes, prepaid expenses, and other assets	12,544	7,262
Total current assets	180,485	142,069
Other assets:		
Regulatory assets	379,884	355,930
Goodwill	2,615	2,615
Other assets	58,196	51,854
Total other assets	440,695	410,399
TOTAL ASSETS	$ 2,603,104	$ 2,411,745
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stock, $0.01 par value; 68,000 shares authorized, 48,015 and 47,965 outstanding in 2017 and 2016, respectively	$ 480	$ 480
Additional paid-in capital	335,516	334,856
Retained earnings	351,727	324,135
Total common stockholders' equity	687,723	659,471
Long-term debt, less current maturities	519,700	531,745
Total capitalization	1,207,423	1,191,216
Current liabilities:		
Current maturities of long-term debt	36,015	26,208
Short-term borrowings	195,100	97,100
Accounts payable	89,394	77,813
Regulatory balancing accounts	4,545	4,759
Accrued interest	12,763	5,661
Accrued expenses and other liabilities	42,544	38,689
Total current liabilities	380,361	250,230
Unamortized investment tax credits	1,798	1,798
Deferred income taxes	329,506	298,924
Pension and postretirement benefits other than pensions	227,819	222,691
Regulatory liabilities and other	91,006	83,648
Advances for construction	182,820	182,448
Contributions in aid of construction	182,371	180,790
Commitments and contingencies (Note 10)		
TOTAL CAPITALIZATION AND LIABILITIES	$ 2,603,104	$ 2,411,745

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, 2017	September 30, 2016
Operating revenue	$ 211,731	$ 184,268
Operating expenses:		
Operations:		
Water production costs	75,261	70,175
Administrative and general	24,886	23,844
Other operations	21,208	19,561
Maintenance	6,057	5,545
Depreciation and amortization	19,231	15,884
Income taxes	17,348	13,247
Property and other taxes	6,544	5,957
Total operating expenses	170,535	154,213
Net operating income	41,196	30,055
Other income and expenses:		
Non-regulated revenue	3,542	3,397
Non-regulated expenses	(2,576)	(2,517)
Allowance for equity funds used during construction	1,105	—
Income tax expense on other income and expenses	(841)	(349)
Net other income	1,230	531
Interest expense:		
Interest expense	9,284	8,485
Allowance for borrowed funds used during construction	(707)	(774)
Net interest expense	8,577	7,711
Net income	$ 33,849	$ 22,875
Earnings per share:		
Basic	$ 0.70	$ 0.48
Diluted	0.70	0.48
Weighted average shares outstanding:		
Basic	48,017	47,969
Diluted	48,017	47,969
Dividends declared per share of common stock	$ 0.1800	$ 0.1725

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, 2017	September 30, 2016
Operating revenue	$ 504,899	$ 458,440
Operating expenses:		
Operations:		
Water production costs	181,460	168,833
Administrative and general	73,931	75,037
Other operations	55,660	57,766
Maintenance	16,877	17,542
Depreciation and amortization	57,650	47,772
Income taxes	26,099	19,192
Property and other taxes	18,717	17,439
Total operating expenses	430,394	403,581
Net operating income	74,505	54,859
Other income and expenses:		
Non-regulated revenue	10,743	10,589
Non-regulated expenses	(6,244)	(8,306)
Allowance for equity funds used during construction	2,763	—
Income tax expense on other income and expenses	(2,947)	(914)
Net other income	4,315	1,369
Interest expense:		
Interest expense	27,073	24,984
Allowance for borrowed funds used during construction	(1,765)	(2,341)
Net interest expense	25,308	22,643
Net income	$ 53,512	$ 33,585
Earnings per share:		
Basic	$ 1.11	$ 0.70
Diluted	1.11	0.70
Weighted average shares outstanding:		
Basic	48,007	47,949
Diluted	48,007	47,952
Dividends declared per share of common stock	$ 0.5400	$ 0.5175

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, 2017	September 30, 2016
Operating activities:		
Net income	$ 53,512	$ 33,585
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	59,016	48,946
Change in value of life insurance contracts	(1,871)	(915)
Allowance for equity funds used during construction	(2,763)	—
Changes in operating assets and liabilities:		
Receivables and unbilled revenue	(52,951)	(13,352)
Accounts payable	6,712	8,940
Other current assets	(4,643)	(1,743)
Other current liabilities	10,939	13,982
Other changes in noncurrent assets and liabilities	41,837	34,386
Net cash provided by operating activities	109,788	123,829
Investing activities:		
Utility plant expenditures	(180,442)	(166,406)
Life insurance proceeds	1,558	495
Purchase of life insurance contracts	(3,948)	(2,710)
Change in restricted cash	(679)	(685)
Net cash used in investing activities	(183,511)	(169,306)
Financing activities:		
Short-term borrowings	185,000	105,100
Repayment of short-term borrowings	(87,000)	(81,615)
Proceeds from long-term debt, net of issuance costs of $0 for 2017 and $177 for 2016	—	49,823
Repayment of long-term debt	(2,797)	(2,865)
Advances and contributions in aid of construction	14,964	18,186
Refunds of advances for construction	(6,316)	(5,194)
Repurchase of common stock	(1,359)	(637)
Dividends paid	(25,920)	(24,807)
Net cash provided by financing activities	76,572	57,991
Change in cash and cash equivalents	2,849	12,514
Cash and cash equivalents at beginning of period	25,492	8,837
Cash and cash equivalents at end of period	$ 28,341	$ 21,351
Supplemental information:		
Cash paid for interest (net of amounts capitalized)	$ 17,287	$ 13,889
Income tax refund	$ (1,697)	$ —
Supplemental disclosure of non-cash activities:		
Accrued payables for investments in utility plant	$ 31,750	$ 26,767
Utility plant contribution by developers	13,022	12,104

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, 2016, included in its annual report on Form 10-K as filed with the SEC on February 23, 2017.

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 the 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. 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 guidance for regulated operations. The variance amount represents amounts that will be billed or refunded to customers in the future. In addition to volumetric revenues, the revenue requirements approved by the CPUC include service charges, flat rate charges, and other items not subject to the WRAM.

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 assets and liabilities accounts will fluctuate on a monthly basis depending upon the variance between adopted and actual results. The recovery or refund of the WRAM is netted against the MCBA over- or under-recovery for the corresponding district and the deferred net balances are interest bearing at the current 90 day commercial paper rate. Subsequent to calendar year-end, Cal Water files with the CPUC to refund or collect the balance in the accounts. The majority of under-collected net WRAM and MCBA receivable balances are collected over 12 or 18 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 period in which it was recorded. The deferred net WRAM and MCBA revenue and associated costs were determined using forecasts of customer consumption trends in future reporting periods and the estimated timing of when the CPUC will authorize Cal Water's filings to recover unbilled balances. Deferred revenues and associated costs are recorded in the periods when the collection is within 24 months of the respective reporting period.

Customers' meter reads occur on various business days throughout the month. As a result, there are 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 $0.7 million and $0.8 million as of September 30, 2017 and December 31, 2016, respectively. This liability is included in "accrued expenses and other liabilities" on the condensed consolidated balance sheets.

Allowance for Funds Used During Construction

The allowance for funds used during construction (AFUDC) represents the capitalized cost of funds used to finance the construction of the utility plant. In general, AFUDC is applied to Cal Water construction projects requiring more than one month to complete. No AFUDC is applied to projects funded by customer advances for construction, contributions in aid of construction, or applicable state-revolving fund loans. AFUDC includes the net cost of borrowed funds and a rate of return on other funds when used, and is recovered through water rates as the utility plant is depreciated. Cal Water was authorized by the CPUC to record AFUDC on construction work in progress effective January 1, 2017. Prior to January 1, 2017, the CPUC authorized Cal Water to only record capitalized interest on borrowed funds. Cal Water previously reported the amounts authorized as capitalized interest and a reduction to interest expense. The amount of AFUDC related to equity funds and to borrowed funds for the three and nine month periods ended September 30, 2017 and 2016 are shown in the tables below:

	Three Months Ended September 30		
	2017	2016	Change
Allowance for equity funds used during construction	$ 1,105	$ —	$ 1,105
Allowance for borrowed funds used during construction	707	774	(67)
Total	$ 1,812	$ 774	$ 1,038

	Nine Months Ended September 30		
	2017	2016	Change
Allowance for equity funds used during construction	$ 2,763	$ —	$ 2,763
Allowance for borrowed funds used during construction	1,765	2,341	(576)
Total	$ 4,528	$ 2,341	$ 2,187

Cash and Cash Equivalents

Cash equivalents include highly liquid investments with maturities of three months or less. Cash and cash equivalents was $28.3 million and $25.5 million as of September 30, 2017 and December 31, 2016, respectively. Restricted cash was presented on the condensed consolidated balance sheet in “taxes, prepaid expenses and other assets” and was $1.1 million and $0.4 million as of September 30, 2017 and December 31, 2016, respectively.

Adoption of New Accounting Standards

In March 2016, the Financial Accounting Standards Board (FASB) issued updated accounting guidance on simplifying the accounting for share-based payments (Accounting Standards Update (ASU) 2016-09), which includes the accounting for share-based payment transactions, the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The Company adopted and implemented the changes to accounting for share-based payments on January 1, 2017 and applied the requirements retrospectively on the statement of cash flows for all periods presented. The Company's forfeiture policy did not change and the Company continues to account for forfeitures when they occur. For the nine month period ended September 30, 2017, the Company recorded $0.5 million of income tax benefits in excess of compensation costs for share-based compensation which reduced the effective tax rate. The tax-related cash flows resulting from share-based payments were reported as operating activities and the associated cash paid by the company for employee tax withholding transactions were reported as financing activities on the consolidated statement of cash flows.

The following table shows the effect of the accounting change to the Condensed Consolidated Statements of Cash Flows for the nine month period ended September 30, 2016:

	Nine Months Ended September 30, 2016		
Cash Flow Classification	As Reported on Form 10-Q	Adjusted Balance on Form 10-Q	Increase (Decrease) from Retrospective Adoption
Other changes in noncurrent assets and liabilities	$ 33,749	$ 34,386	$ 637
Net cash provided by operating activities	123,192	123,829	637
Repurchase of common stock	—	(637)	(637)
Net cash provided by financing activities	58,628	57,991	(637)

New Accounting Standards

In May 2014, the FASB issued ASU 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. The Company has substantially completed an evaluation of the new revenue standard and intends to implement the standard using the modified retrospective method and does not expect ASU 2014-09 to materially impact the timing or recognition of revenue related to the sale and delivery of water to its customers, which is a significant percentage of the Company's revenue. The Company is in the process of finalizing its evaluation of the impact ASU 2014-09 has on its related revenue disclosures and internal controls.

In February 2016, the FASB issued ASU 2016-02, *Leases*. This update changes the accounting treatment of leases and related disclosure requirements. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018 and early adoption is permitted. The Company will adopt the standard using the modified retrospective method for its existing leases and is currently evaluating the impact of adopting the new lease standard 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.

In March 2017, the FASB issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The update requires employers to present the service cost component of the net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period. The other components of net benefit cost, including interest cost, expected return on plan assets, amortization of prior service cost/credit and actuarial gain/loss, and settlement and curtailment effects, are to be presented as non-operating items. Employers will have to disclose the line(s) used to present the other components of net periodic benefit cost, if the components are not presented separately in the income statement. The standard only allows the service cost component to be eligible for capitalization. ASU 2017-07 is effective for annual periods after December 15, 2017, and early adoption is permitted. The Company is currently evaluating the impact on its consolidated financial statements and related disclosures. The adoption of this guidance will change the Company's financial statement presentation of net benefit costs. However, based on current regulatory authorization, the changes required by the standard are not expected to materially impact the results of operations.

Note 3. Stock-based Compensation

Equity Incentive Plan

During the nine months ended September 30, 2017 and 2016, the Company granted annual Restricted Stock Awards (RSAs) of 48,717 and 72,317, respectively, to officers and directors of the Company. During those same periods, 17,466 and 13,319 RSAs were canceled, respectively. During the three months ended September 30, 2017 and 2016, no RSAs were granted and 3,280 and 2,719 RSAs were canceled, respectively. Employee RSAs granted in 2017 and 2016 vest over 36 months. Director RSAs generally vest at the end of 12 months. During the first nine months of 2017 and 2016, the RSAs granted were valued at $36.75 and $25.17 per share, respectively, based upon the fair value of the Company’s common stock on the date of grant.

During the nine months ended September 30, 2017 and 2016, the Company granted 31,389 and 43,659 performance-based Restricted Stock Unit Awards (RSUs), respectively, to officers. During those same periods, the Company issued 38,709 and 28,424 RSUs, respectively, and canceled 19,735 and 6,602 RSUs, respectively. During the three months ended September 30, 2017 and 2016, 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 2017 and 2016 awards may be earned upon completion of the three-year performance period and are recognized as expense ratably over the period using a fair value of $36.75 per share and $25.17 per share, respectively, and an estimate of RSUs earned during the period. The Company has recorded compensation costs for the RSAs and RSUs in administrative and general operating expenses in the amount of $2.3 million and $2.1 million for the nine months ended September 30, 2017 and 2016, respectively.

Note 4. Equity

The Company's changes in total common stockholders' equity for the nine months ended September 30, 2017 were as follows:

	Total Common Stockholders' Equity
Balance at December 31, 2016	$ 659,471
Common stock issued	—
Share-based compensation expense	660
Common stock dividends declared	(25,920)
Net income	53,512
Balance at September 30, 2017	$ 687,723

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, 2017 and 2016, respectively. All the SARs were dilutive when they were outstanding during the period, as shown in the tables below.

	Three Months Ended September 30	
	2017	2016
	(In thousands, except per share data)	
Net income available to common stockholders	$ 33,849	$ 22,875
Weighted average common shares outstanding, basic	48,017	47,969
Dilutive SARs (treasury method)	—	—
Weighted average common shares outstanding, dilutive	48,017	47,969
Earnings per share - basic	$ 0.70	$ 0.48
Earnings per share - diluted	$ 0.70	$ 0.48

	Nine Months Ended September 30	
	2017	2016
	(In thousands, except per share data)	
Net income available to common stockholders	$ 53,512	$ 33,585
Weighted average common shares outstanding, basic	48,007	47,949
Dilutive SARs (treasury method)	—	3
Weighted average common shares outstanding, dilutive	48,007	47,952
Earnings per share - basic	$ 1.11	$ 0.70
Earnings per share - diluted	$ 1.11	$ 0.70

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$22.2 million and $20.6 million for the nine months ended September 30, 2017 and 2016, respectively. Cash contributions by the Company related to other postretirement benefit plans were $2.3 million and $6.7 million for the nine months ended September 30, 2017 and 2016, respectively. The total 2017 estimated cash contribution to the pension plans is $29.8 million and to the other postretirement benefit plans is $9.0 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	
	2017	2016	2017	2016
Service cost	$ 6,122	$ 5,594	$ 2,169	$ 1,045
Interest cost	5,861	5,764	1,491	625
Expected return on plan assets	(6,031)	(5,462)	(1,218)	(1,005)
Amortization of prior service cost	1,445	1,555	11	10
Recognized net actuarial loss	1,881	1,743	649	(482)
Net periodic benefit cost	$ 9,278	$ 9,194	$ 3,102	$ 193

	Nine Months Ended September 30			
	Pension Plan		Other Benefits	
	2017	2016	2017	2016
Service cost	$ 17,851	$ 15,728	$ 6,207	$ 5,653
Interest cost	17,442	16,670	4,472	4,225
Expected return on plan assets	(18,090)	(16,370)	(3,653)	(3,097)
Amortization of prior service cost	4,336	4,664	32	32
Recognized net actuarial loss	5,386	4,329	1,947	2,041
Net periodic benefit cost	$ 26,925	$ 25,021	$ 9,005	$ 8,854

Note 7. Short-term and Long-term Borrowings

In March 2016, Cal Water issued $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 $55.1 million and $57.1 million as of September 30, 2017 and December 31, 2016, respectively. There were $140.0 million and $40.0 million borrowings on the Cal Water lines of credit as of September 30, 2017 and December 31, 2016, respectively. The average borrowing rate for borrowings on the Company and Cal Water lines of credit during the nine months ended September 30, 2017 was 1.97% compared to 1.30% for the same period last year.

Note 8. Income Taxes

The Company accounts for income taxes under the provisions of ASU 2009-06, *Income Taxes* (Topic 740). The Company adjusts its effective tax rate each quarter to be consistent with the estimated annual effective tax rate. The Company also records the tax effect of unusual or infrequently occurring discrete items.

The provision for income taxes consists of the following:

	Three Months Ended September 30	
	2017	2016
Income tax provision	$ 18,189	$ 13,595

	Nine Months Ended September 30	
	2017	2016
Income tax provision	$ 29,046	$ 20,105

The $4.6 million increase in the income tax provision for the three months ended September 30, 2017 as compared to the three months ended September 30, 2016 was due primarily to an increase in the Company's operating income in 2017 as compared to 2016.

The $8.9 million increase in the income tax provision for the nine months ended September 30, 2017 as compared to the nine months ended September 30, 2016 was due primarily to an increase in the Company's operating income in 2017 as compared to 2016, which was partially offset by a $0.5 million tax benefit associated with the settlement of equity awards in 2017. The Company's fiscal year 2017 effective tax rate is estimated to be 37%.

The Company had unrecognized tax benefits of approximately $10.2 million and $10.5 million as of September 30, 2017 and December 31, 2016, respectively. Included in the balance of unrecognized tax benefits as of September 30, 2017 and December 31, 2016 is approximately $1.9 million and $2.2 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.

Note 9. Regulatory Assets and Liabilities

Regulatory assets and liabilities were comprised of the following as of September 30, 2017 and December 31, 2016:

	September 30, 2017		December 31, 2016	
Regulatory Assets				
Pension and retiree group health	$	188,386	$	188,880
Property-related temporary differences (tax benefits flowed through to customers)		94,144		92,099
Other accrued benefits		26,540		27,503
Net WRAM and MCBA long-term accounts receivable		34,735		16,148
Asset retirement obligations, net		16,832		15,812
Interim rates long-term accounts receivable		4,616		4,605
Tank coating		10,114		8,452
Health care balancing account		412		1,000
Pension balancing account		1,684		—
Other regulatory assets		2,421		1,431
Total Regulatory Assets	$	379,884	$	355,930
Regulatory Liabilities				
Future tax benefits due to customers	$	33,375	$	33,231
Health care balancing account		6,006		—
Conservation program		2,312		584
Pension balancing account		383		695
Net WRAM and MCBA long-term payable		710		611
Other regulatory liabilities		1,251		3,614
Total Regulatory Liabilities	$	44,037	$	38,735

Short-term regulatory assets and liabilities are excluded from the above table. The short-term regulatory assets were $31.4 million as of September 30, 2017 and $30.3 million as of December 31, 2016. As of September 30, 2017, the short-term regulatory assets were primarily net WRAM and MCBA accounts receivable, 2012 General Rate Case (GRC) health cost balancing account receivable, 2014-2015 drought expense recovery, and East Los Angeles Memorandum Account receivable. As of December 31, 2016, the short-term regulatory assets were primarily net WRAM and MCBA accounts receivable, 2012 GRC health cost balancing account receivable, 2014-2015 drought expense recovery, interim rate memorandum account receivable, and East Los Angeles Memorandum Account receivable.

The short-term portions of regulatory liabilities were $4.5 million as of September 30, 2017 and $4.8 million as of December 31, 2016. As of September 30, 2017, the short-term regulatory liabilities were primarily net WRAM and MCBA liability balances, refund balance from an interim rates true up authorized prior to the 2009 GRC, and net refund balances to customers for the pension and conservation programs from the 2012 GRC. As of December 31, 2016, the short-term regulatory liabilities were primarily net WRAM and MCBA liability balances and net refund balances to customers for the pension and conservation programs from the 2012 GRC.

Note 10. Commitments 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, 2016. As of September 30, 2017, there were no significant changes from December 31, 2016.

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.

Other Legal Matters

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, 2017 and December 31, 2016, the Company recognized a liability of $6.1 million and $6.0 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.

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, 2017					
		Fair Value				
	Cost	Level 1	Level 2	Level 3	Total
Long-term debt, including current maturities	$ 555,715	—	$ 631,447	—	$ 631,447
Advances for construction	182,820	—	75,717	—	75,717
Total	$ 738,535	$ —	$ 707,164	$ —	$ 707,164

	December 31, 2016				
		Fair Value			
	Cost	Level 1	Level 2	Level 3	Total
Long-term debt, including current maturities	$ 557,953	$ —	$ 630,510	$ —	$ 630,510
Advances for construction	182,448	—	74,460	—	74,460
Total	$ 740,401	—	$ 704,970	$ —	$ 704,970

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, 2017 and December 31, 2016, the condensed consolidating statements of income for the three and nine months ended September 30, 2017 and 2016, and the condensed consolidating statements of cash flows for the nine months ended September 30, 2017 and 2016 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 statement of cash flows for the nine months ended September 30, 2016 reflects the retrospective adoption of ASU 2016-09 (refer to Note 2 Summary of Significant Accounting Policies for more details).

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING BALANCE SHEET
As of September 30, 2017
(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS					
Utility plant:					
Utility plant	$ 1,321	$ 2,695,106	$ 203,435	$ (7,196)	$ 2,892,666
Less accumulated depreciation and amortization	(896)	(858,386)	(53,448)	1,988	(910,742)
Net utility plant	425	1,836,720	149,987	(5,208)	1,981,924
Current assets:					
Cash and cash equivalents	2,722	17,851	7,768	—	28,341
Receivables and unbilled revenue	—	127,858	5,398	—	133,256
Receivables from affiliates	22,568	703	261	(23,532)	—
Other current assets	184	17,665	1,039	—	18,888
Total current assets	25,474	164,077	14,466	(23,532)	180,485
Other assets:					
Regulatory assets	—	376,041	3,843	—	379,884
Investments in affiliates	693,766	—	—	(693,766)	—
Long-term affiliate notes receivable	24,677	—	—	(24,677)	—
Other assets	217	56,886	3,912	(204)	60,811
Total other assets	718,660	432,927	7,755	(718,647)	440,695
TOTAL ASSETS	$ 744,559	$ 2,433,724	$ 172,208	$ (747,387)	$ 2,603,104
CAPITALIZATION AND LIABILITIES					
Capitalization:					
Common stockholders' equity	$ 687,723	$ 620,892	$ 78,143	$ (699,035)	$ 687,723
Affiliate long-term debt	—	—	24,677	(24,677)	—
Long-term debt, less current maturities	—	518,802	898	—	519,700
Total capitalization	687,723	1,139,694	103,718	(723,712)	1,207,423
Current liabilities:					
Current maturities of long-term debt	—	35,606	409	—	36,015
Short-term borrowings	55,100	140,000	—	—	195,100
Payables to affiliates	—	1,257	22,275	(23,532)	—
Accounts payable	—	86,374	3,020	—	89,394
Accrued expenses and other liabilities	154	55,607	4,091	—	59,852
Total current liabilities	55,254	318,844	29,795	(23,532)	380,361
Unamortized investment tax credits	—	1,798	—	—	1,798
Deferred income taxes	1,582	325,619	2,448	(143)	329,506
Pension and postretirement benefits other than pensions	—	227,819	—	—	227,819
Regulatory liabilities and other	—	87,714	3,292	—	91,006
Advances for construction	—	182,298	522	—	182,820
Contributions in aid of construction	—	149,938	32,433	—	182,371
TOTAL CAPITALIZATION AND LIABILITIES	$ 744,559	$ 2,433,724	$ 172,208	$ (747,387)	$ 2,603,104

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING BALANCE SHEET
As of December 31, 2016
(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS					
Utility plant:					
Utility plant	$ 1,318	$ 2,519,785	$ 203,433	$ (7,197)	$ 2,717,339
Less accumulated depreciation and amortization	(826)	(805,992)	(53,163)	1,919	(858,062)
Net utility plant	492	1,713,793	150,270	(5,278)	1,859,277
Current assets:					
Cash and cash equivalents	5,216	13,215	7,061	—	25,492
Receivables and unbilled revenue	—	98,850	4,173	—	103,023
Receivables from affiliates	19,566	3,608	8	(23,182)	—
Other current assets	80	12,442	1,032	—	13,554
Total current assets	24,862	128,115	12,274	(23,182)	142,069
Other assets:					
Regulatory assets	—	352,139	3,791	—	355,930
Investments in affiliates	666,525	—	—	(666,525)	—
Long-term affiliate notes receivable	25,744	—	—	(25,744)	—
Other assets	376	50,361	3,765	(33)	54,469
Total other assets	692,645	402,500	7,556	(692,302)	410,399
TOTAL ASSETS	$ 717,999	$ 2,244,408	$ 170,100	$ (720,762)	$ 2,411,745
CAPITALIZATION AND LIABILITIES					
Capitalization:					
Common stockholders' equity	$ 659,471	$ 595,003	76,833	$ (671,836)	$ 659,471
Affiliate long-term debt	—	—	25,744	(25,744)	—
Long-term debt, less current maturities	—	530,850	895	—	531,745
Total capitalization	659,471	1,125,853	103,472	(697,580)	1,191,216
Current liabilities:					
Current maturities of long-term debt	—	25,657	551	—	26,208
Short-term borrowings	57,100	40,000	—	—	97,100
Payables to affiliates	—	539	22,643	(23,182)	—
Accounts payable	—	74,998	2,815	—	77,813
Accrued expenses and other liabilities	88	47,232	1,789	—	49,109
Total current liabilities	57,188	188,426	27,798	(23,182)	250,230
Unamortized investment tax credits	—	1,798	—	—	1,798
Deferred income taxes	1,340	296,781	803	—	298,924
Pension and postretirement benefits other than pensions	—	222,691	—	—	222,691
Regulatory and other liabilities	—	80,518	3,130	—	83,648
Advances for construction	—	181,907	541	—	182,448
Contributions in aid of construction	—	146,434	34,356	—	180,790
TOTAL CAPITALIZATION AND LIABILITIES	$ 717,999	$ 2,244,408	$ 170,100	$ (720,762)	$ 2,411,745

CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATING STATEMENT OF INCOME
For the three months ended September 30, 2017
(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
Operating revenue	$ —	$ 199,002	$ 12,729	$ —	$ 211,731
Operating expenses:					
Operations:					
Water production costs	—	73,061	2,200	—	75,261
Administrative and general	—	22,362	2,524	—	24,886
Other operations	—	18,979	2,356	(127)	21,208
Maintenance	—	5,729	328	—	6,057
Depreciation and amortization	21	18,115	1,117	(22)	19,231
Income tax (benefit) expense	(136)	16,190	1,028	266	17,348
Property and other taxes	—	5,680	864	—	6,544
Total operating (income) expenses	(115)	160,116	10,417	117	170,535
Net operating income	115	38,886	2,312	(117)	41,196
Other income and expenses:					
Non-regulated revenue	505	3,218	450	(631)	3,542
Non-regulated expenses	—	(2,151)	(425)	—	(2,576)
Allowance for equity funds used during construction	—	1,105	—	—	1,105
Income tax expense on other income and expenses	(206)	(885)	(7)	257	(841)
Total other income	299	1,287	18	(374)	1,230
Interest:					
Interest expense	313	8,951	525	(505)	9,284
Allowance for borrowed funds used during construction	—	(684)	(23)	—	(707)
Net interest expense	313	8,267	502	(505)	8,577
Equity earnings of subsidiaries	33,748	—	—	(33,748)	—
Net income	$ 33,849	$ 31,906	$ 1,828	$ (33,734)	$ 33,849

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 nine months ended September 30, 2017
(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
Operating revenue	$ —	$ 473,518	$ 31,381	$ —	$ 504,899
Operating expenses:					
Operations:					
Water production costs	—	175,339	6,121	—	181,460
Administrative and general	—	65,985	7,946	—	73,931
Other operations	—	50,108	5,931	(379)	55,660
Maintenance	—	16,144	733	—	16,877
Depreciation and amortization	70	54,328	3,320	(68)	57,650
Income tax (benefit) expense	(362)	24,344	1,331	786	26,099
Property and other taxes	(4)	16,407	2,314	—	18,717
Total operating (income) expenses	(296)	402,655	27,696	339	430,394
Net operating income	296	70,863	3,685	(339)	74,505
Other income and expenses:					
Non-regulated revenue	1,482	9,822	1,300	(1,861)	10,743
Non-regulated expenses	—	(5,326)	(918)	—	(6,244)
Allowance for equity funds used during construction	—	2,763	—	—	2,763
Income tax expense on other income and expenses	(604)	(2,958)	(143)	758	(2,947)
Net other income	878	4,301	239	(1,103)	4,315
Interest:					
Interest expense	823	26,216	1,516	(1,482)	27,073
Allowance for borrowed funds used during construction	—	(1,702)	(63)	—	(1,765)
Net interest expense	823	24,514	1,453	(1,482)	25,308
Equity earnings of subsidiaries	53,161	—	—	(53,161)	—
Net income	$ 53,512	$ 50,650	$ 2,471	$ (53,121)	$ 53,512

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 CASH FLOWS
For the nine months ended September 30, 2017
(In thousands)

	Parent Company	Cal Water	All Other Subsidiaries	Consolidating Adjustments	Consolidated
Operating activities:					
Net income	$ 53,512	$ 50,650	$ 2,471	$ (53,121)	$ 53,512
Adjustments to reconcile net income to net cash provided by operating activities:					
Equity earnings of subsidiaries	(53,161)	—	—	53,161	—
Dividends received from affiliates	25,920	—	—	(25,920)	—
Depreciation and amortization	70	55,623	3,392	(69)	59,016
Changes in value of life insurance contracts	—	(1,871)	—	—	(1,871)
Allowance for equity funds used during construction	—	(2,763)	—	—	(2,763)
Changes in operating assets and liabilities	(38)	(40,941)	1,036	—	(39,943)
Other changes in noncurrent assets and liabilities	2,420	37,125	2,263	29	41,837
Net cash provided by operating activities	28,723	97,823	9,162	(25,920)	109,788
Investing activities:					
Utility plant expenditures	(4)	(175,234)	(5,204)	—	(180,442)
Changes in affiliate advances	(334)	2,905	(287)	(2,284)	—
Issuance of affiliate short-term borrowings	(2,610)	—	—	2,610	—
Reduction of affiliates long-term debt	1,010	—	—	(1,010)	—
Life insurance proceeds	—	1,558	—	—	1,558
Purchase of life insurance contracts	—	(3,948)	—	—	(3,948)
Changes in restricted cash	—	(679)	—	—	(679)
Net cash used in investing activities	(1,938)	(175,398)	(5,491)	(684)	(183,511)
Financing Activities:					
Short-term borrowings	—	185,000	—	—	185,000
Repayment of short-term borrowings	(2,000)	(85,000)	—	—	(87,000)
Changes in affiliate advances	—	718	(3,002)	2,284	—
Proceeds from affiliate short-term borrowings	—	—	2,610	(2,610)	—
Repayment of affiliates long-term borrowings	—	—	(1,010)	1,010	—
Repayment of long-term debt	—	(2,336)	(461)	—	(2,797)
Advances and contributions in aid of construction	—	14,900	64	—	14,964
Refunds of advances for construction	—	(6,311)	(5)	—	(6,316)
Repurchase of common stock	(1,359)	—	—	—	(1,359)
Dividends paid to non-affiliates	(25,920)	—	—	—	(25,920)
Dividends paid to affiliates	—	(24,760)	(1,160)	25,920	—
Net cash (used in) provided by financing activities	(29,279)	82,211	(2,964)	26,604	76,572
Change in cash and cash equivalents	(2,494)	4,636	707	—	2,849
Cash and cash equivalents at beginning of period	5,216	13,215	7,061	—	25,492
Cash and cash equivalents at end of period	$ 2,722	$ 17,851	$ 7,768	$ —	$ 28,341

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	387	24,726	9,297	(24)	34,386
Net cash provided by operating activities	27,607	112,393	8,636	(24,807)	123,829
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 for construction	—	18,096	90	—	18,186
Refunds of advances for construction	—	(5,172)	(22)	—	(5,194)
Repurchase of common stock	(637)	—	—	—	(637)
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	(23,459)	37,425	(3,639)	47,664	57,991
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

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;
- housing and customer growth trends;
- the impact of opposition to rate increases;
- our ability to recover costs;
- availability of water supplies;
- issues with the implementation, maintenance or security of our information technology systems;
- 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, climate, natural disasters, and diseases on water quality, water availability, water sales and operating results;
- the risks set forth in "Risk Factors" included in the Company's annual report on 2016 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 2016 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, 2017, 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 2017 OPERATIONS COMPARED TO THIRD QUARTER 2016 OPERATIONS

Dollar amounts in thousands unless otherwise stated

Overview

Net income for the three month period ended September 30, 2017, was $33.8 million or $0.70 per diluted common share compared to net income of $22.9 million or $0.48 per diluted common share for the three month period ended September 30, 2016, an increase of $10.9 million. The increase in net income was primarily the result of rate increases authorized in Cal Water's 2015 General Rate Case (GRC). Also increasing net income was an increase in unbilled revenue, increases resulting from the adoption of allowance for equity funds used during construction (equity AFUDC) in 2017, and a decrease in emergency drought incremental expenses over the same period last year. These factors were partially offset by increases in administrative and general, other operations, maintenance, depreciation and amortization, and interest expenses. The increase in accrued unbilled revenue resulted from higher water usage 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 $27.5 million, or 14.9%, to $211.7 million in the third quarter of 2017 as compared to the third quarter of 2016. The factors that impacted the operating revenue for the third quarter of 2017 as compared to the third quarter of 2016 are as follows:

Net change due to rate changes, usage, and other (1)	$	20,703
MCBA Revenue (2)		865
Other balancing account revenue (3)		2,048
Deferral of revenue (4)		3,847
Net operating revenue increase	$	27,463

1. The net change due to rate changes, usage, and other in the above table was mainly driven by rate increases. There also was a $3.4 million increase in accrued unbilled revenue. The components of the rate increases are as follows:

General rate case	$	10,900
Purchased water and pump tax offset increases		2,359
Ratebase offset increases		1,137
Total increase in rates	$	14,396

2. The MCBA revenue increase resulted from an increase in actual water production costs relative to adopted water production costs in the third quarter of 2017 as compared to the third quarter of 2016. The actual water production costs increased in 2017 as a result of an increase in customer consumption in the third quarter of 2017 as compared to the third quarter of 2016. As required by the MCBA mechanism, the increase in actual water production costs relative to adopted water production costs in California also increased operating revenue for the same amount.

3. The other balancing account revenue 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 increase in revenue was mainly due to an increase in actual health care, pension, and conservation expenses relative to adopted in the third quarter of 2017 as compared to the third quarter of 2016.

4. The deferral of revenue 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 decreased in the third quarter of 2017 as compared to the third quarter of 2016 due to a decrease in the balancing account revenue expected to be collected beyond 24 months.

Total Operating Expenses

Total operating expenses increased $16.3 million, or 10.6%, to$170.5 million in the third quarter of 2017, as compared to$154.2 million in the third quarter of 2016.

Water production costs consists of purchased water, purchased power, and pump taxes. It represents the largest component of total operating expenses, accounting for approximately 44.1% of total operating expenses in the third quarter of 2017, as compared to 45.5% of total operating expenses in the third quarter of 2016. Water production costs increased 7.3% as compared to the same period last year mainly due to a 5.5% increase in purchased water production and an average increase of 0.8% in wholesale supplier rates.

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

	Three Months Ended September 30	
	2017	2016
Well production	48 %	48 %
Purchased	48 %	48 %
Surface	4 %	4 %
Total	100 %	100 %

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

	Three Months Ended September 30					
	2017		2016		Change	
Purchased water	$	62,041	$	58,075	$	3,966
Purchased power		9,658		9,255		403
Pump taxes		3,562		2,845		717
Total	$	75,261	$	70,175	$	5,086

Administrative and general and other operations expenses increased $2.7 million to $46.1 million in the third quarter of 2017, as compared to $43.4 million in the third quarter of 2016. The increase was mostly due to an increase in expenses of $3.2 million from the reversal of prior year deferred WRAM revenue and associated deferred expenses, increases in health care costs of $2.0 million, $1.1 million of costs previously capitalized, and uninsured loss expense of $0.3 million which were partially offset by the write-off of $3.2 million of capital costs in the third quarter of 2016 and a decrease in incremental drought expense of $0.9 million. Changes in employee pension and other postretirement benefit costs, and employee health care costs for regulated California operations do not affect net income, because the Company tracks these costs in balancing accounts for future recovery, which creates a corresponding change to operating revenue. At September 30, 2017, there were 1,165 employees and at September 30, 2016, there were 1,157 employees.

Maintenance expense increased $0.5 million, or 9.2%, to $6.1 million in the third quarter of 2017, as compared to $5.5 million in the third quarter of 2016, mostly due to increases in transmission and distribution mains repairs.

Depreciation and amortization expense increased $3.3 million, or 21.1%, to $19.2 million in the third quarter of 2017, as compared to $15.9 million in the third quarter of 2016, due to 2016 capital additions.

Income taxes increased $4.1 million, or 31.0%, to $17.3 million in the third quarter of 2017, as compared to $13.2 million in the third quarter of 2016. The increase was mainly due to an increase in operating income in the third quarter of 2017 as compared to the third quarter of 2016.

Property and other taxes increased $0.6 million, or 9.9%, to $6.5 million in the third quarter of 2017, as compared to $6.0 million in the third quarter of 2016, mostly due to an increase in assessed property values in 2016 and increased local franchise taxes.

Other Income and Expenses

Net other income and expenses increased $0.7 million to $1.2 million in the third quarter of 2017, as compared to $0.5 million in the third quarter of 2016, principally due to the implementation of equity AFUDC in 2017.

Interest Expense

Net interest expense increased $0.9 million, or 11.2%, to $8.6 million in the third quarter of 2017, as compared to $7.7 million in the third quarter of 2016. The increase was due primarily to an increase in short-term financing for capital investments as well as increased short-term interest rates.

RESULTS OF THE NINE MONTHS ENDED SEPTEMBER 30, 2017 OPERATIONS
COMPARED TO THE NINE MONTHS ENDED SEPTEMBER 30, 2016 OPERATIONS
Dollar amounts in thousands unless otherwise stated

Overview

Net income for the nine months ended September 30, 2017, was $53.5 million or $1.11 per diluted common share compared to a net income of $33.6 million or $0.70 per diluted common share for the nine months ended September 30, 2016, an increase of $19.9 million. The increase in net income was primarily the result of increased rates adopted in the recent California GRC and decreases in emergency drought incremental costs, and maintenance expenses, as well as increases resulting from the implementation of equity AFUDC in 2017 and unrealized gains on certain benefit plan investments. These factors were partially offset by increases in depreciation and amortization, interest, and employee wage expenses.

Operating Revenue

Operating revenue increased $46.5 million, or 10.1%, to $504.9 million in the first nine months of 2017 as compared to the first nine months of 2016. The factors that impacted the operating revenue for the first nine months of 2017 as compared to 2016 are as follows:

Net change due to rate changes, usage, and other (1)	$	52,025
MCBA Revenue (2)		(4,757)
Other balancing account revenue (3)		(578)
Deferral of revenue (4)		(232)
Net operating revenue increase	$	46,458

1. The net change due to rate changes, usage, and other in the above table was mainly driven by rate increases. There also was a $2.7 million increase in accrued unbilled revenue. The components of the rate increases are as follows:

General rate case	$	31,720
Purchased water and pump tax offset increases		10,015
Ratebase offset increases		2,193
Total increase in rates	$	43,928

2. The MCBA revenue decrease resulted from an increase in adopted water production costs relative to actual water production costs in the first nine months of 2017 as compared to the first nine months of 2016. The adopted water production costs increased in 2017 as a result of Cal Water's 2015 GRC. As required by the MCBA mechanism, the increase in adopted water production costs relative to actual water production costs in California also decreased operating revenue for the same amount.

3. The other balancing account revenue 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 mainly due to a decrease in actual health care and conservation expenses relative to adopted in the first nine months of 2017 as compared to the first nine months of 2016. This was partially offset by an increase in actual pension expenses relative to adopted in the first nine months of 2017 as compared to the first nine months of 2016.

4. The deferral of revenue 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 first nine months of 2017 as compared to the first nine months of 2016 due to an increase in the balancing account revenue expected to be collected beyond 24 months.

Total Operating Expenses

Total operating expenses increased $26.8 million, or 6.6%, to$430.4 million in the first nine months of 2017, as compared to$403.6 million in the first nine months of 2016.

Water production costs consists of purchased water, purchased power, and pump taxes. It represents the largest component of total operating expenses, accounting for approximately 42.2% of total operating expenses in the first nine months of 2017, as compared to 41.8% of total operating expenses in the first nine months of 2016. Water production costs increased 7.5% as compared to the same period last year mainly due to a blended 3.0% increase in purchased water wholesaler rates and an increase of 3.8% in purchased water production.

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

	Nine Months Ended September 30	
	2017	**2016**
Well production	48 %	48 %
Purchased	48 %	48 %
Surface	4 %	4 %
Total	100 %	100 %

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

	Nine Months Ended September 30		
	2017	2016	Change
Purchased water	$ 149,731	$ 139,514	$ 10,217
Purchased power	22,168	21,123	1,045
Pump taxes	9,561	8,196	1,365
Total	$ 181,460	$ 168,833	$ 12,627

Administrative and general and other operations expenses decreased $3.2 million, or 2.4%, to $129.6 million in the first nine months of 2017, as compared to $132.8 million in the first nine months of 2016. The decrease was due primarily to a decrease in California drought program incremental costs of $3.8 million, the write-off of $3.2 million of capital costs in the third quarter of 2016, decreases in health care benefit costs of $0.6 million and conservation program expenses of $0.9 million, and $0.4 million of insurance proceeds to recover 2016 wild fire damages in our southern California District, and a deferral of $0.4 million costs associated with the deferral of operating revenue. The decreases were partially offset by employee wage cost increase of $1.7 million, pension benefit cost increase of $1.1 million, $1.1 million of costs previously capitalized, a software maintenance and licensing cost increase of $1.0 million, and additional uninsured loss expenses of $0.8 million. Changes in employee pension and other postretirement benefit costs, water conservation program costs, and health care costs for regulated California operations do not affect net income, because the Company tracks these costs in balancing accounts for future recovery, which create corresponding changes to operating revenue.

Maintenance expense decreased $0.7 million, or 3.8%, to$16.9 million in the first nine months of 2017, as compared to$17.5 million in the first nine months of 2016, mostly due to decreases in transmission and distribution mains repair costs.

Depreciation and amortization expense increased $9.9 million, or 20.7%, to $57.7 million in the first nine months of 2017, as compared to$47.8 million in the first nine months of 2016, mostly due to 2016 utility plant additions.

Income taxes increased $6.9 million, or 36.0%, to $26.1 million in the first nine months of 2017, as compared to$19.2 million in the first nine months of 2016. The increase was due primarily to an increase to operating income in the first nine months of 2017 as compared to the first nine months of 2016, which was partially offset by a $0.5 million tax benefit associated with the settlement of equity awards in 2017.

Property and other taxes increased $1.3 million, or 7.3%, to $18.7 million during the first nine months of 2017, as compared to$17.4 million in the first nine months of 2016, due primarily to an increase in assessed property values in 2016 and increased local franchise taxes.

Other Income and Expenses

Net other income increased $2.9 million to $4.3 million in the first nine months of 2017, as compared to $1.4 million in the first nine months of 2016, due primarily to the implementation of allowance for equity funds used during construction in 2017 and a $1.0 million increase in unrealized gains on certain benefit plan investments.

Interest Expense

Net interest expense increased $2.7 million, or 11.8%, to $25.3 million in the first nine months of 2017, as compared to$22.6 million in the first nine months of 2016. The increase was due primarily to an increase in short-term financing for capital investments as well as increased short-term interest rates.

REGULATORY MATTERS

2017 California Regulatory Activity

California GRC filing

On December 15, 2016, the CPUC voted to approve Cal Water's 2015 GRC settlement agreement. The approved decision, which was proposed by the presiding Administrative Law Judge in November 2016, authorized Cal Water to increase gross revenue by approximately $45.0 million starting on January 1, 2017, up to $17.2 million in 2018, up to $16.3 million in

2019, and up to $30.0 million upon completion and approval of the Company's advice letter projects. The 2018 and 2019 revenue increases are subject to the CPUC's earnings test protocol.

The CPUC's decision also authorized Cal Water to invest $658.8 million in water system improvements throughout California over the three-year period of 2016-2018 in order to continue to provide safe and reliable water to its customers. This figure includes $197.3 million of water system infrastructure improvements that will be subject to the CPUC's advice letter procedure.

Cost of Capital Application

In April of 2017, Cal Water, along with three other water utilities, filed an application to adopt a new cost of capital and capital structure for 2018. Cal Water requested a return on equity of 10.75% and a 53.4% equity capital structure as well as a water cost of capital adjustment mechanism similar to that last adopted for the company. The California Office of Ratepayer Advocates and other parties submitted testimony and the CPUC held evidentiary hearings in September 2017. The schedule for the application anticipates a decision on the matter by the end of 2017.

School Lead Testing Memorandum Account (SLT MA)

In March of 2017, Cal Water submitted an advice letter that established the SLT MA, which gives Cal Water the opportunity to recover costs related to lead monitoring and testing required by the State Water Resources Control Board's Division of Drinking Water. The SLT MA will track all incremental expenses associated with lead testing conducted at the request of K-12 schools within Cal Water's service territory.

California Drought Memorandum Account

The incremental costs tracked in the drought memorandum account for the nine month period ended September 30, 2017 were $0.2 million, of which less than $0.1 million was spent on capital. For the nine month period ended September 30, 2016, incremental costs were $4.6 million, of which $0.6 million was spent on capital. During the three months ended September 30, 2017, incremental costs were less than $0.1 million. During the three months ended September 30, 2016, incremental costs were $0.8 million, of which less than $0.1 million was spent on capital.

On December 15, 2016, the CPUC approved a resolution to allow Cal Water to begin recovering $2.9 million of incremental costs related to 2015 and 2014 through a surcharge which became effective on January 1, 2017.

In 2017, Cal Water expects to submit an advice letter to request recovery of 2016 and 2017 incremental drought expenses.

WRAM and MCBA filings

In March of 2017, Cal Water submitted an advice letter to true up the revenue over- and under-collections in the 2016 annual WRAMs/MCBAs of its regulated districts. A net under-collection of $25.8 million is being recovered from customers in the form of 12, 18, and greater-than-18-month surcharges/surcredits. The new rates became effective April 15, 2017. This surcharge/surcredit in some cases is 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 October of 2016, Cal Water submitted advice letters to offset increased purchased water and pump taxes in four of its regulated districts, totaling $1.9 million. The new rates became effective on January 1, 2017.

In March of 2017, Cal Water submitted an advice letter to offset increased purchased water in one of its regulated districts, totaling $1.0 million. The new rates became effective on April 15, 2017.

In June of 2017, Cal Water submitted advice letters to offset increased purchased water and pump taxes in four of its regulated districts, totaling $2.7 million. The new rates became effective on July 1, 2017.

In July of 2017, Cal Water submitted an advice letter to offset increased purchased water and pump taxes in one of its regulated districts, totaling $0.2 million. The new rates became effective on August 1, 2017.

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 November of 2016, Cal Water submitted an advice letter to recover $2.6 million of annual revenue increase for ratebase offsets in five of its regulated districts. The new rates became effective on January 1, 2017.

In April of 2017, Cal Water submitted advice letters to recover $0.9 million of annual revenue increase for ratebase offsets in two of its regulated districts. The new rates became effective on April 15, 2017.

In May of 2017, Cal Water submitted an advice letter to recover $0.4 million of annual revenue increase for a ratebase offset in one of its regulated districts. The new rates became effective on July 1, 2017.

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. On May 31, 2017, Cal Water submitted an application to the CPUC seeking approval to provide water service to the base and to establish rates for its service.

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. If approved, Cal Water will 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.

2017 Regulatory Activity—Other States

2016 Pukalani (Hawaii) GRC Filing

In December of 2016, Hawaii water filed a GRC for its Pukalani wastewater system requesting an additional $1.3 million in revenues on an annual basis. This revenue increase is proposed to be implemented over five years. The application requested recovery for increases in operating expenses since the previous rate case. Additionally, the application requested recovery of the balance of the cost of the wastewater treatment plant that was not approved to be included in customer rates in the previous rate case among other capital investments. On September 15, 2017, the Hawaii Public Utilities Commission issued a proposed decision authorizing a $0.8 million increase in revenues on an annual basis. Pursuant to a settlement agreement between Hawaii Water and the Consumer Advocate, the revenue increase will be phased-in over 4 years ($0.2 million per year). The first phase of the increase was effective on October 18, 2017.

LIQUIDITY

Cash flow from Operations

Cash flow from operations for the first nine months of 2017 was $109.8 million compared to $123.2 million for the same period in 2016. Cash generated by operations varies during the year due to customer billings, and timing of collections and contributions to our benefit plans.

During the first nine months of 2017, we made contributions of $22.2 million to our employee pension plan compared to contributions of $20.6 million made during the first nine months of 2016. During the first nine months of 2017, we made contributions of $2.3 million to the other postretirement benefit plans compared to contributions of $6.7 million during the first nine months of 2016. The total 2017 estimated cash contribution to the pension plans is $29.8 million and to the other postretirement benefit plans is $9.0 million.

Cal Water customer drought surcharges were discontinued on July 29, 2016. As such there were no drought surcharge billings during the first nine months of 2017 as compared to $26.1 million in the first nine months of 2016.

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. 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 2017 and 2016, we used $180.4 million and $166.4 million, respectively, of cash for company-funded and developer-funded utility plant expenditures. The 2017 budget estimates utility plant expenditures to be between $200.0 and $220.0 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 $76.6 million during the first nine months of 2017 compared to $58.0 million for the same period in 2016.

During the first nine months of 2017 and 2016, we borrowed $185.0 million and $105.1 million, respectively, on our unsecured revolving credit facilities. Repayments of unsecured revolving credit facilities borrowings during the first nine months of 2017 were $87.0 million and $81.6 million for the same period in 2016.

The undercollected net WRAM and MCBA receivable balances were $61.6 million and $30.5 million as of September 30, 2017 and September 30, 2016, 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 2017, we utilized cash generated from operations and borrowings on the unsecured revolving credit facilities to fund operations and capital investments. We did not sell Company common stock during the first nine months of 2017 and 2016. 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, 2017, there were short-term borrowings of $195.1 million outstanding on the unsecured revolving credit facilities compared to $57.1 million as of September 30, 2016. The increase in short-term borrowings during the first nine months of 2017 was mostly to fund general operations and 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 capitalization ratio not to exceed 66.7% and an interest coverage ratio of three or more. As of September 30, 2017, we are in compliance with all of the covenant requirements and are eligible to use the full amount of our credit facilities.

In March 2016, Cal Water issued $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 $2.8 million during the first nine months of 2017 and $2.9 million during the first nine months of 2016. In addition, Cal Water has $20.0 million of First Mortgage Bonds maturing during the fourth quarter of 2017.

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 2017, our quarterly common stock dividend payments were $0.1800 per share compared to $0.1725 during the first nine months of 2016. For the full year 2016, the payout ratio was 68% 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 the October 25, 2017 meeting, the Board declared the fourth quarter dividend of $0.1800 per share payable on November 17, 2017, to stockholders of record on November 6, 2017. This was our 291st consecutive quarterly dividend.

2017 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, 2017, the Company's and Cal Water's availability on these unsecured revolving lines of credit was $94.9 million and $160.0 million, respectively.

Book Value and Stockholders of Record

Book value per common share was $14.32 at September 30, 2017 compared to $13.75 at December 31, 2016. There were approximately 1,928 stockholders of record for our common stock as of August 7, 2017.

Utility Plant Expenditures

During the first nine months of 2017, utility plant expenditures totaled $180.4 million for company-funded and developer-funded projects. The 2017 budget estimates company-funded utility plant expenditures to be between $200.0 and $220.0 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 2017.

As of September 30, 2017, construction work in progress was $195.3 million compared to $164.1 million as of September 30, 2016. 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 6.8 billion gallons or 15% 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 28.1 billion gallons or 59% of our total annual water supply pumped from wells. Our annual groundwater extraction from unmanaged groundwater basins approximates 12.2 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. Our well pump taxes were $9.6 million and $8.2 million for the nine months ended September 30, 2017 and 2016, respectively. Well pump taxes were $3.6 million and $2.8 million for the three months ended September 30, 2017 and 2016, 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, 2017, the State of California snowpack water content and rainfall accumulation during the 2016 - 2017 water year was 189% of normal (per the California Department of Water Resources, Northern Sierra Precipitation Accumulation report). In January of 2014, California's Governor Brown proclaimed a drought emergency and directed State officials to take all necessary actions to make water immediately available. On April 7, 2017, the Governor declared an end to the drought emergency in 54 of California's 58 counties. Two of Cal Water's districts remain under a declared drought; these were areas where groundwater was impacted by five years of drought conditions. Management believes that supply pumped from underground aquifers and purchased from wholesale suppliers will be adequate to meet customer demand during 2017 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, 2017, 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, 2017. 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, 2017, 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.

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, 2016 filed with the SEC on February 23, 2017.

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 26, 2017	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, 2017, 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 26, 2017	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, 2017, 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 26, 2017	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, 2017 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 26, 2017

By: /s/ Martin A. Kropelnicki
MARTIN A. KROPELNICKI
President and Chief Executive Officer
California Water Service Group

Date: October 26, 2017

By: /s/ Thomas F. Smegal III
THOMAS F. SMEGAL III
Vice President, Chief Financial Officer and Treasurer
California Water Service Group